Have Indonesians’ Shopping Patterns Shifted Towards Digital?

The high penetration rate of the internet in Indonesia has enabled e-commerce to develop quite quickly today. How does the development of e-commerce relate to people’s spending patterns?

Deloitte Southeast Asia conducted a consumer survey in 2018, and the following are the results!
The opening of several new stores in Jakarta’s shopping malls appears to be a sign that the retail sector in Indonesia is currently not as depressed as is the case in the United States. According to Business Insider Singapore, it is estimated that more than 3,800 stores in the country of Uncle Sam closed down in 2018, including Walgreens, Toys R Us and The Gap. Toys R Us closed all its stores in the United States after going bankrupt following a failed attempt to restructure its business, while The Gap, Inc. ceased operations of 200 outlets. In addition, the famous fashion store, Guess, also closed 25 stores, as shown in the following chart:

How about in Indonesia? For some retail businesses, the opposite is true: spring in the retail industry has been continuing; up to the end of 2018 PT Trans Retail Indonesia had opened 120 new stores. The number of its outlets continued to increase until May 2019, when Transmart Carrefour opened its 130th outlet in Jambi. Conversely in 2018, PT Hero Supermarket Tbk. closed down 26 outlets and in mid-2019 they shut an additional six GIANT supermarkets.

According to the General Chairman of Indonesian Retail Merchants Association (Aprindo), Roy Mande, the retail industry experienced sluggish conditions from 2015 to 2017, with high inflation recorded in 2016 (7-8%), despite the disbursement of special allocation funds (DAK) and other government policies, which were intended to support economic growth in the country and leverage consumers’ purchasing power. However, in 2018, after Eid, economic growth in the second quarter was estimated to have been as much as 10%. Roy also said that inflation in November 2018 could be kept stable at the level of 0.27%, only slightly down compared to the previous month. This condition reflects that the coordination between the Ministry of Trade (representing the government) and retail industry players went well. In addition, prices were successfully monitored continuously through HET (Highest Retail Price), so that product choices were increasingly varied. INDEF economist, Bhima Yudhistira Adinegara, said that retail still grew slightly in 2018, and this should continue in 2019. On a macro basis, INDEF has a positive outlook that retail will continue to grow and develop throughout 2019. According to Aviliani, another INDEF economist, the first sector that will develop is the retail sector, because 70 percent of the Indonesian population is of productive age.

In an uncertain retail business environment, Deloitte Southeast Asia conducted a retail consumer survey and published its results in 2018. This retail business survey is the fourth survey held by Deloitte Southeast Asia on the same topic. Do you want your retail business to flourish? Check the results to see and study the current picture of consumer behavior in Indonesia in order to adopt the right strategy.

Consumers in Five Large Cities Determine Retail Sector Trends

To obtain a comprehensive picture of the retail industry in Indonesia in 2018, Deloitte Southeast Asia’s consumer retail team conducted this survey in five major cities, namely Jakarta, Bandung, Surabaya, Medan and Makassar. Makassar was chosen to represent eastern Indonesia, because it is the largest metropolitan city in the region. As many as 2,000 respondents were interviewed face-to-face. Of these, 40% of respondents were from Jakarta, 15% of respondents were from Bandung, 15% of respondents came from Surabaya, 15% of respondents were from Medan and the remaining 15% of respondents were from Makassar. To ensure the number of respondents was balanced and they represented the general community, in this survey the number of female respondents was the same as that of male respondents. In addition they came from different age groups.

Of the total respondents, 26% were aged 15-24 years, while another 26% represented the age group of 25-34 years, then 32% of respondents were from the 35-64 years age group. Respondents came from seven different income levels: (1) 38% of respondents earned less than IDR 1 million; (2) some 32% of respondents earned between IDR 1 million and IDR 2 million; (3) 14% of respondents earned between IDR 2 – IDR 3 million; (4) 10% of respondents earned between IDR 3 – IDR 5 million; (5) 4% of respondents had income of between IDR 5 – IDR 7.5 million; (6) 1% of respondents had income of more than IDR 10 million. The varied picture of respondents who participated in the survey adequately represents Indonesian consumers in general.
Is the Indonesian Economy in Good Enough Shape?

One of the factors measured in this consumer survey pertains to Indonesia's macroeconomic condition, because the economic health of a country will definitely affect people's purchasing and therefore economic indicators need to be identified. So, did Indonesian consumers' positive sentiments towards the economy increase or decline?

In this survey it was found that in 2017 positive sentiment decreased by four points year-on-year from 85% in 2016 to 81% in 2017. However, in 2018 there was a significant increase of eight points, to 89%, which was the highest positive sentiment during the past three years, as shown in the following graph:
With these encouraging results about consumer sentiments, it appears that we should be optimistic about the future of the retail sector. Especially if we look more closely at the following graph, there was a significant increase in the proportion of respondents who clearly indicated positive sentiment, compared to those respondents who indicated their preference for a moderately optimistic sentiment.

A majority of survey respondents indicated optimism in all five cities. The most striking levels of optimism were in Makassar, with an optimism rate of 83%, and a pessimism rate of only 3%; and in Bandung, where the optimism rate was 74% while the pessimism rate was 2%. It is probable that optimism in those cities was boosted by an increase in large-scale direct investments in infrastructure spurred by both domestic and foreign capital, such as the Makassar Trans Railway project and the construction of the New Port at Makassar; these are believed to have contributed to improved consumer sentiment in Makassar. Meanwhile, Kertajati Airport is expected to contribute to improved tourism opportunities in the future. In addition, the success of the 2018 Asian Games in Jakarta and Palembang for the first time also provided positive optimism among various circles in other cities.

However, we can see that consumer sentiment varies greatly across income segments; respondents in middle and high income groups show a higher level of optimism, while in low income families, the respondents expressed moderate and pessimistic sentiment levels.

In this 2018 consumer study, education levels played an important role in shaping economic sentiment. Consumers with higher education indicated greater optimism than those with low education. In the graph below, it appears that those with masters and doctoral degrees have 100% optimism; in contrast, only 5% of those who did not attend school at all have optimism, 48% have moderate attitudes and 47% are pessimistic about current economic conditions.
Overall, a majority of the community, or 52%, suggested that they plan to keep shopping as usual, while 33% are planning to increase spending, and only 15% plan not to increase their spending.

**General Willingness of Consumers to Increase Spending**

In the 2018 survey there was a significant reduction in the level of household monthly expenditure at each income level. This reflects a decline in consumer sentiment found in the consumer survey in the previous year, 2017. In this survey, monthly expenditure fell by between 6% to 35% based on consumer income level. The lowest decline occurred at the income level of between IDR 5 million and below IDR 7.5 million, as shown in the table below. Meanwhile, the largest decrease as shown in the graph, namely 35% occurred in the level of income between IDR 3 and under IDR 5 million.

More disciplined financial management was also found in the highest income group whose percentage of expenditure on welfare and savings was 12.2%.

In terms of expenditure on basic needs such as food and packaged food, consumers who earn more than IDR 10 million spend the lowest percentage (14.8%) compared to respondents from other income levels, significantly lower than the percentage spent by consumers earning less than IDR 1 million, which is 24.6%. Meanwhile, for other basic needs, such as clothing and footwear, the consumer group with the highest income also has the highest expenditure percentage at 7.2%, while the lowest income group spends the smallest portion (3.7%). More disciplined financial management was also found in the highest income group whose percentage of expenditure on welfare and savings was 12.2%, which is the largest compared to other income groups. Meanwhile, for the lowest income group, who earn IDR 1 million, it was found that expenditure on electronic products was quite high, or the second highest after spending on food and packaged foods; expenditure percentage on electronic products was 11.6%.
In this survey, consumers' willingness to increase expenditures was also reviewed based on their locations. The proportion of consumers in Bandung who tend to increase spending by less than 10% is quite large, at 65% for basic needs and 83% for personal hygiene and household cleaning products.

Willingness of Consumers to Increase Expenditure by City

<table>
<thead>
<tr>
<th>City</th>
<th>Basic Necessities</th>
<th>Personal and Household Care</th>
<th>Housing and Transportation</th>
<th>Welfare and Leisure</th>
<th>Electronic Products</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bandung</td>
<td>65%</td>
<td>35%</td>
<td>83%</td>
<td>17%</td>
<td>71%</td>
<td>29%</td>
</tr>
<tr>
<td>Jakarta</td>
<td>56%</td>
<td>44%</td>
<td>76%</td>
<td>24%</td>
<td>72%</td>
<td>28%</td>
</tr>
<tr>
<td>Makassar</td>
<td>22%</td>
<td>78%</td>
<td>56%</td>
<td>44%</td>
<td>45%</td>
<td>55%</td>
</tr>
<tr>
<td>Medan</td>
<td>62%</td>
<td>38%</td>
<td>62%</td>
<td>38%</td>
<td>53%</td>
<td>47%</td>
</tr>
<tr>
<td>Surabaya</td>
<td>49%</td>
<td>51%</td>
<td>51%</td>
<td>49%</td>
<td>42%</td>
<td>58%</td>
</tr>
</tbody>
</table>

Source: Deloitte Consumer Insights survey (2018)
Consumer Love for Local Products

In this survey it was found that local products continued to dominate the market, although when monthly income increases there is a tendency to prefer imported products especially drinks (alcoholic), clothing and footwear, cosmetics and beauty care products.

Brand preferences based on product categories and monthly income levels

Products such as non-alcoholic beverages, food including snacks and packaged food, household cleaning products and locally branded cigarettes continue to dominate consumer choices for all income groups in all the cities surveyed.

What are the results if consumer behavior is looked at on a city by city basis? The results in this consumer survey are unique. Bandung consumers have a certain kind of “fanaticism” for local products. This can be seen from the results of the survey below that almost all Bandung respondents chose local products, except for only less than 5% who chose imported clothing and footwear, audio and video products and large household appliances, while another 14% chose foreign branded digital products and accessories. Truly extraordinary! Such phenomena are not found in other cities where consumers generally tend to choose foreign products for audio and video electronic products, both large and small electronic household appliances, as well as computer devices, mobile phones and accessories, except 92% of consumers in Makassar and 69% of consumers in Medan who chose domestic brands for everyday electronic household appliances.

The survey also suggests that as many as 15% of Indonesian consumers choose products that are expensively priced. This does not mean that most consumers tend to choose cheaper products. 18% of respondents stated that price was a primary consideration. But most consumers (68%) prefer to choose similar prices as they used to pay for the products they purchase.

As for the possibility of future purchases, as revealed in the graph above on the right, as many as 55% of consumers stated that they are willing to choose goods with higher prices in the expectation that they are also of higher quality.
Indonesian Consumers and Their Choices of Cosmetics

Local products in this survey were found to dominate consumer preferences in the market, even for the highest-income consumers (more than IDR10 million). 83% of respondents chose local products, and only 9% chose products from western countries, while 6% chose Korean products and 1% choose Japanese products, as shown in the graph below:

Korean cosmetics and beauty products are among those items that have started to become popular with consumers. The growth of market trends in these products seems quite significant, and most likely have been triggered by public interest, especially among young people, in Korean pop music (K-pop) and Korean drama (K-drama). Competition in cosmetics products between South Korean and Japanese manufacturers in Indonesia has indeed been felt in recent years, and Korean cosmetics brands have experienced significant market growth over time. The graph below indicates that consumer confidence in Korean products is quite high (7%), compared to Japanese products (3%). As in the previous graph, middle-income consumers believe in Korean products, because they are considered to contain innovations (18% in the chart below). Some unique products have the advantage of including natural ingredients from the mountains, such as in face masks and serums some of which contain snail ingredients. Coupled with the strength of marketing strategies, these have strengthened brand positioning.

Reasons for Purchasing Cosmetic and Beauty Products

For local products, it seems that halal-certified products (i.e. those that do not contain gelatin or collagen) are strongly preferred by many consumers. An example is Wardah cosmetics, skin and hair care products, which are still preferred even though they sell at higher prices than other local products and are even more expensive than imported products, such as Ponds, Biore and Garnier.
Chinese products dominate the market
In terms of competing against local products, Chinese products are generally positioned as items that are attractive to consumers who are price sensitive. In both low- and high-income consumer categories, 20% to 30% indicated a preference for buying Chinese products, which are generally chosen because of price (30%), and, second, because of trust (17%). Some well-known Chinese mobile products are Huawei, Xiaomi, Vivo and Oppo, which currently use the Android operating system (OS).

Drivers for Purchase of Cellphones, Computers and Accessories

This survey also examined the choice of outlets for purchasing products, and it was found that mini-markets are the main choice for Indonesian consumers (21%), with the second choice being warung (19%), with hypermarkets in third place (19%).

Purchase Outlet Preferences

Looking at the comparison for the last two years - 2017 and 2018 - in the table below, the tendency of consumers to prefer purchasing products in modern stores has risen, whereas the choice of buying goods in traditional outlets has reduced correspondingly.
Consumer Shopping Choices - Modern Markets vs. Traditional Markets

Although most consumers in all the cities surveyed prefer modern markets, traditional markets still continue to be quite attractive to consumers. Shopping preferences also vary by location. In Bandung, for example, shopping preferences are fairly balanced, 46%, or almost half of respondents, prefer shopping in traditional markets. This is the highest percentage of traditional market fans. In Medan and Surabaya the figures were roughly 40%; when explored further, it turns out that the reason consumers like to shop in traditional markets pertains to reasonably good prices.

Inducements to Purchase in Traditional Markets vs. Modern Markets

Shopping Programs and Impacts on Consumers
Loyalty and membership programs are commonly offered by retailers. However, 42% of consumers feel that loyalty programs are only used to get benefits, not because they are loyal to certain producers. Meanwhile, 58% do choose shopping in certain places because of the loyalty programs they have, as shown in the graph below.

The loyalty program also encourages 59% of consumers to take advantage of program benefits actively. This proves that the implementation of the program has been quite effective, although in this survey it was found that the effectiveness of the program appears to be particularly large at low income levels and less apparent in the city of Jakarta (and also Makassar). This fact is certainly a challenge for producers to create a loyalty program that is more targeted at high income groups and in the city of Jakarta (and Makassar).

Effective Communication with Consumers

What communication media are most preferred by Indonesian consumers for obtaining product information? It turns out that television is still a source of information that consumers like (24%), besides that, friends and colleagues are the second choice (21%), and family members are the third choice (20%). What about social media in this digital era? The main choices of social media that consumers use are from Facebook (67%), and a smaller portion from Instagram (20%).

Social Media as a Product Communication Channel

Online shopping is an unavoidable phenomenon. Based on this research report there was a declining trend of online shopping use of 1% in 2018 compared to 2017, but the increase in young people as consumers and per consumer purchases indicates e-commerce growth opportunities. Three main drivers of the rise of e-commerce were found, namely practical experience (26%), price (17%), and also promotions (14%). Meanwhile, the three causes of reluctance to online shopping comprise, first, security factor (36%), second, unfamiliarity (33%), and third, product limitations (20%).
Various E-commerce Products

Clothing and footwear products are the items most desired by all income levels in e-commerce. In addition, other liked products are tickets, such as airplane tickets and cinema tickets, cosmetics and beauty care products, and digital products, such as mobile, computer and accessory categories, as shown in the table below.

In the field of e-commerce, consumer behavior can be explored based on income levels, as follows:

1. Consumers in the lowest income segment (less than IDR 1 million) actually spend almost 70% of their available income, after purchasing food and other necessities directly at physical stores, buying clothes and footwear, digital products, computers and accessories.

2. Meanwhile online shopping for monthly household needs has not become a habit in Indonesia, but some consumers in certain income groups are starting to develop this; they are middle-income consumers with incomes ranging from IDR 2 to 7.5 million. Usually they shop for food, packaged food and beverages.

3. The third factor is that online shoppers for cosmetics and hygiene products generally are those who have an income of IDR 2 million and above. When comparing consumers with these different income levels, consumers with incomes above IDR 7.5 million per month are more likely to spend more of their money on cosmetics and beauty care products than consumers from lower income levels.

In addition, consumers' characteristics can also be presumed, namely that, in terms of electronic products (except cellphones, computers and accessories), around 29%-41% of consumers expect to check products at a physical store before making an online purchase.

Meanwhile, 14-16% of consumers who purchase cosmetics, beauty care, clothing and footwear products prefer to check the items before making an online purchase. Checking is done more to see the color, design and size. In terms of purchasing food and packaged foods, as many as 27% of consumers feel obliged to see products directly before making a purchase online. This is mainly because consumers usually visit shopping malls regularly to view goods. This is one unique fact about Indonesian consumers.

With regard to payment methods, ATM is a service that continues to be an option for all age groups, although among young consumers, they are increasingly encouraged to do so, whereas for older consumers, a preference for making payments using internet banking services is actually rising.

Online Spending Based on Monthly Income Levels

<table>
<thead>
<tr>
<th>Monthly household income level, IDR million</th>
<th>Clothing and Footwear</th>
<th>Personal Hygiene Products</th>
<th>Major Household Appliances</th>
<th>Food and Packaged Food</th>
<th>Household Cleaning Products</th>
<th>Household Appliances</th>
<th>Confectionery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1</td>
<td>20%</td>
<td>8%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>28%</td>
<td>8%</td>
</tr>
<tr>
<td>1-2</td>
<td>15%</td>
<td>5%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>28%</td>
<td>8%</td>
</tr>
<tr>
<td>2-3</td>
<td>15%</td>
<td>5%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>28%</td>
<td>8%</td>
</tr>
<tr>
<td>3-5</td>
<td>15%</td>
<td>5%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>28%</td>
<td>8%</td>
</tr>
<tr>
<td>5-7.5</td>
<td>15%</td>
<td>5%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>28%</td>
<td>8%</td>
</tr>
<tr>
<td>7.5-10</td>
<td>15%</td>
<td>5%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>28%</td>
<td>8%</td>
</tr>
<tr>
<td>More than 10</td>
<td>27%</td>
<td>5%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>28%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: Deloitte Consumer Insights survey (2018)
Payment Methods
Indonesian banking access is currently limited to 36.06% of the population, but e-commerce payment preferences are generally banking-based, such as ATM payments, which still dominate consumer preferences, followed by internet bank transfers (22%), and bank transfers via mobile banking.

Making payments via ATM tends to be increasingly in demand among young people (65%), while older consumers, in addition to liking ATM payments (58%), also make payments through internet banking (26%).

Payment Methods Preferred by Various Age Groups
The results of this survey show that, among other countries in Southeast Asia, Indonesia is still a large, attractive market. Although it is still not very visible, e-commerce is likely to become more prevalent in the future. In this summary of survey results, there are three important points to note:

1. There has been a decrease in consumer spending at various levels of income despite positive economic indications. It seems that consumers are prioritizing their spending on certain product categories again. This survey also indicates that growth opportunities vary quite significantly by region, product category and income level. Further, companies have also shown greater interest in improving their analytical capabilities to drive growth; this highlights the importance of sustainable growth and market share.

2. E-commerce is a hot topic for future growth expectations, although there are indications of a decrease in interest among new consumers in using e-commerce. Players in this field need to have clear priorities to strengthen their market growth platforms, for example in increasing the frequency of visits or use, and increasing cross-selling capabilities, as well as investing in e-commerce models, such as auctions.

3. There are greater challenges in face-to-face and digital trades, with the concentration of attention on consumers being increasingly prevalent. Loyalty programs are often not clear in their direction, whether to get an advantage or simply provide subsidies to consumers. Therefore, companies need to evaluate the effectiveness of their loyalty programs so that they can truly fit the needs of consumers and also generate a balanced business advantage.

With this 2018 consumer survey conducted by Deloitte Southeast Asia, the retail sector has the confidence to continue to grow by adopting the right strategies based on the monitoring Indonesian consumer behavior, as presented in the survey report.

Sources:
1. Deloitte Consumer Insight, Managing evolving shifts in Indonesia, Deloitte Southeast Asia, September 2018
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Predictions has been published annually since 2001. In the latest edition, Deloitte Southeast Asia’s TMT practice has once again included its “Southeast Asia perspectives” alongside with four of the global TMT predictions. Through a series of focus group discussions conducted by Deloitte Southeast Asia with 77 millennials across the three regional markets of Indonesia, Philippines and Singapore, we offer some insight into how global developments may take a different course or growth trajectory within the region due to its unique characteristics. This year’s prediction theme is evolution rather than stasis. The high data speeds and low latency 5G provides could spur the evolution of mobility, health care, manufacturing, and nearly every industry that relies on connectivity. In the report, there is a discussion about eSport with big implications for media companies and advertisers. In this report predictions about 5G networks that will be launching in 2019. Please contact us if you are interested to receive a copy of this report.

Indonesia, the most populous country in Southeast Asia, has always been a core market of interest for retail business. In this fifth edition of the Deloitte Consumer Insights report, we reflect on some of the latest consumption patterns among Indonesian consumers that we identified from the results of a survey conducted in 2018. Our survey indicates that there are potential shifts in the Indonesian market as compared to previous years. A decline in personal spending has influenced products in the Basic Necessities cluster, particularly the Fresh Food and Packaged Food category. There are also signs that Chinese brands may be successfully positioning themselves across different income levels with certain Electronic Products. Please contact us if you are interested in obtaining a copy of this report.

This eHealth thought leadership paper aims to deliver an outlook and recommendations for Indonesian regulators, policy makers, academics, business owners and users about future trends in the Indonesian healthcare system. As a developing country, Indonesia continues to experiencing relatively rapid economic growth. However, rapid growth brings with it certain increasingly complex challenges. Currently, Indonesia is in the midst of several transitions; ranging from demographic, epidemiological, in information systems to technological changes. With all of these changes, stakeholders are required to review and renew existing policies and systems in order to be respond to the potential changes in macro-economic conditions which are likely to arise in the near future. Please contact us if you are interested in receiving a copy of this important report.
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