



Deloitte Indonesia Business and Industry Updates

The pivotal role of trust: Impact of COVID-19
on the food and beverage sector in Indonesia



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Amidst the COVID-19 pandemic, the food and beverage sector has emerged as one of the more resilient pockets of growth in Indonesia's economy. Despite the plunge in demand during the annual Ramadan period as a result of the outbreak, the sector was able to record positive year-on-year growth rates of 3.94% and 0.22% for the first and second quarter of 2020 respectively¹.

Looking ahead, however, the sector will need to adapt to some of the new realities that have emerged as a result of changing consumer preferences and consumption habits. These include, but are not limited to, food safety issues, including some recent concerns that have emerged around packaging materials used for online food delivery services.

With COVID-19 accelerating some of the trends already in motion in the pre-pandemic era, such as the growing health-consciousness amongst Indonesian consumers, and the rise of e-commerce, food and beverage players will also need to keep a finger on the pulse of these trends to deliver timely offerings to their consumers.

In this update, we discuss some of the key impacts of COVID-19 on the food and beverage sector in Indonesia, and highlight the pivotal role of trust in future-proofing businesses and ensuring that they thrive in the new normal.



¹ "Tumbuh 0,22% di kuartal II 2020, Industri Makanan Tahan Banting Menghalau Resesi". Kontan. 11 August 2020.

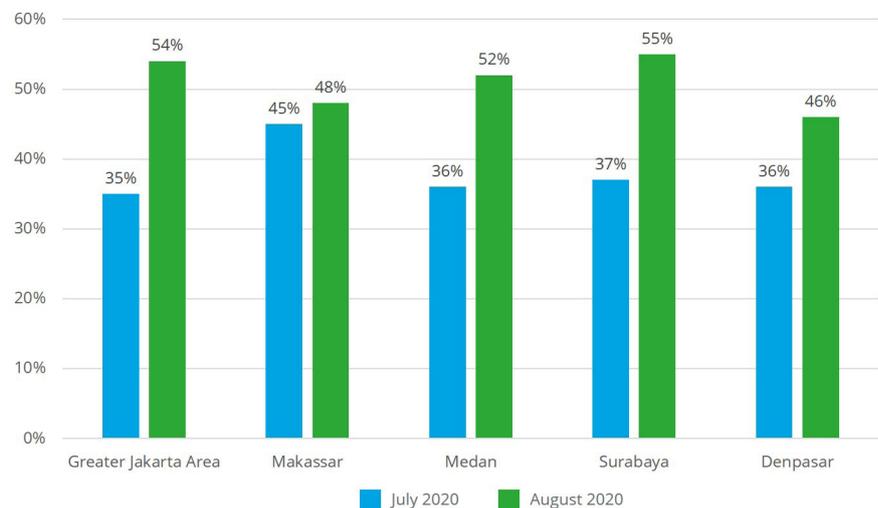
Impact of COVID-19 on the food and beverage sector in Indonesia

From an investor's perspective, Indonesia's food and beverage sector has long been perceived to be an attractive target. Over the last five years, the sector has recorded the largest investment realisation amongst secondary sectors, totalling some IDR 293 trillion – higher than other sectors such as base metals and pharmaceuticals².

Unlike many other sectors, domestic investment continues to dominate the food and beverage sector, recording about USD 495 million worth of investments in the first quarter of 2020. This is in contrast to foreign investment levels, which came in at USD 298 million. According to Indonesia's investment coordinating board, *Badan Koordinasi Penanaman Modal* (BKPM), such strong domestic investment levels also suggests a greater resilience from global economic shocks³.

Indeed, the sector has managed to rebound quickly from the impacts of COVID-19 during brief windows of opportunity. Since the easing of large-scale social restrictions or *Pembatasan Sosial Berskala Besar* (PSBB) in mid-June 2020 which permitted consumers to dine in at restaurants, restaurants in the Greater Jakarta Area saw their number of visits soar by 35% and 54% in July and August respectively⁴. A similar trend can also be observed in other large cities across Indonesia, such as Makassar, Medan, Surabaya, and Denpasar (see Figure 1).

Figure 1: Increase in dine-in activities in big cities during transitional period in July and August 2020



Source: Mandiri Institute, 2020

Nevertheless, the full extent of the impact of the re-implementation of PSBB in Jakarta in early September 2020 – which allows restaurants and cafes to serve takeaways only – on the sector remains to be seen. According to Indonesia's Hotel and Restaurant Association, or *Perhimpunan Hotel dan Restoran Indonesia* (PHRI), takeaways contribute to only 10% of restaurant sales⁵.

With dine-in activities prohibited, it may no longer be sustainable for many restaurant businesses to continue operations by relying solely on takeaway and online delivery demand. Limited mobility and other movement restrictions may also discourage consumers from further purchases. As a consequence, some 400,000 restaurant workers in Jakarta – the city accounts for about 40% of Indonesia's food and beverage sales – have been furloughed since the re-implementation of PSBB measures⁶.

²"Food Industry Can Weather Global Economic Shock: BKPM". The Jakarta Post. 27 May 2020.

³"Food Industry Can Weather Global Economic Shock: BKPM". The Jakarta Post. 27 May 2020.

⁴"Ritel dan Restoran dalam Dinamika Kenormalan Baru". Mandiri Institute. 2020

⁵"Pengusaha Hotel dan Restoran Resah dengan PSBB Total Anies". CNN Indonesia. 10 September 2020.

⁶"Pilih Tutup Gerai, Restoran Rumahkan 400 Ribu Karyawan". CNBC Indonesia. 18 September 2020.

The pivotal role of trust

With the number of COVID-19 cases continuing to surge nationwide – the highest daily record of more than 4,000 confirmed cases was recently recorded on 21 September 2020, with most cases concentrated in the Greater Jakarta area⁷ – its economy is expected to continue to face challenges in the months ahead.

Amidst the rise in COVID-19 cases, food safety concerns are increasingly coming under the spotlight. In response, Indonesia's Food and Beverage Association or *Gabungan Pengusaha Makanan dan Minuman Indonesia* (GAPMMI) has highlighted the need for comprehensive guidance to be issued to help promote and foster consumer trust in the food and beverage sector. Indonesia's Ministry of Industry is also reportedly formulating a set of specific guidelines for food and beverage players, in addition to other policies to support the sector (see "Supporting the food and beverage sector in Indonesia").

Although there has been no official evidence on the transmission of COVID-19 through food supply chains, consumers are growing increasingly concerned about various food safety aspects. Furthermore, the recent rise of food delivery services adds another layer of complexity and possible transmission link: according to recent estimates, about one million

micro, small and medium enterprise (MSME) merchants have joined the digital environment as a result of the COVID-19 outbreak, largely to offer online delivery services to consumers⁸. Indeed, the fastest-growing e-commerce category is now the online retail of food and beverages⁹.

In particular, food packaging has emerged as a key area of concern. With the ban on single-use plastics in Jakarta and other cities on the back of sustainability concerns, many food and beverage merchants and delivery partners are using alternative packaging materials, such as paper bags or reusable bags, that in many ways are less suitable for food products¹⁰, and consumers are becoming increasingly concerned over the possibility of virus transmission through this medium.

At the same time, other food safety aspects not directly related to virus transmission also coming into play. Even before the outbreak, Indonesian consumers have been observed to have become increasingly health-conscious over the last few years. This trend is particularly pronounced in consumers from Tier 1 cities, such as Bandung, Jakarta, Makassar, Medan, and Surabaya, who are willing to pay for healthier choices even if they come with a more expensive price tag¹¹.

With the COVID-19 outbreak increasing their scrutiny on health aspects and promoting the rise of online grocery retail purchasing behaviours, there has also been an acceleration in the shift in consumer preference towards healthier food and beverage options, including unprocessed or minimally processed foods, such as fresh produce and ingredients.

Ultimately, trust will play a pivotal role in enabling food and beverage players to recover and rebuild in the near term, and thrive in the long term. This presents a set of complex challenges as end-to-end supply chains consist of many different players, including MSME merchants who may lack an adequate understanding of the required hygiene standards and food handling methods¹².



⁷"COVID-19: Indonesia logs record single-day infection spike of 4,176". The Jakarta Post. 21 September 2020.

⁸"Startup Digitalisasi Toko Diburu Jutaan UMKM saat Pandemi Corona". Katadata. 16 September 2020.

⁹"Food & Beverages – Indonesia". Statista. Retrieved on 28 September 2020.

¹⁰"Promoting Food Safety in Indonesia's Online Food Delivery Services". Centre for Indonesian Policy Studies.

¹¹"Deloitte Consumer Insights: Dawn of the digital age in Indonesia". Deloitte. 2020.

¹²Interview with Felippa Amanta, Head of Research, Centre for Indonesian Policy Studies (CIPS). September 2020

Supporting the food and beverage sector in Indonesia

With several high-profile COVID-19 incidents taking place across Indonesia's food manufacturing sector, such as the closure of a facility producing tea-based beverages in Bekasi, West Java, the government is facing the unprecedented challenge of enforcing health and food safety regulations and fostering trust while ensuring the continuity of the essential sector.

Apart from efforts to ensure the availability of raw materials to meet food production needs, some of the current initiatives that it has put in place also include the requirement for industry players to hold an operational and mobility permit (IOMKI) if they wish to continue operations during the PSBB period. In addition to abiding by strict health protocols, IOMKI holders will need to submit weekly reports to the Ministry of Industry through the National Information and Industry System (SIINas)¹³. Furthermore, the Ministry of Industry also encourages industry players to pay greater attention to their employees' activities outside food production facilities, as transmission outside the work environment is also possible¹⁴.

Several other measures rolled out by the government to support the economy are also expected to have significant positive knock-on effects for players in the food and beverage sector. These include:

- Direct cash transfers and thirteenth month bonuses for civil servants, which are expected to increase consumer's ability and willingness to purchase products, especially in the food and beverages sector.
- A capital aid program, known as *Bantuan Produktif Usaha Mikro* (BPUM), targeting micro and small enterprises – the majority of whom are in the food and beverage sector – who are unable to receive banking credits. Under this program, each business will receive IDR 2.4 million between August and September 2020, as an extension of the initial National Economic Recovery (PEN) that was first launched at the start of the outbreak.

¹³"Kemenperin: Industri Manufaktur Siap Masuki New Normal". Tempo. 8 June 2020.

¹⁴"Menperin Pantau Sektor Strategis, Kinerja Industri Mamin Terus Dipermanis". Kementerian Perindustrian. 19 September 2020.

Looking ahead

Until a vaccine is ready – or at least until the number of COVID-19 cases stabilises – players in the food and beverage sector in Indonesia will need to get used to operating under various degrees of restrictions, and remain responsive to constant fluidity in their environment, including rapid changes in policy direction and development.

To become future-proof, it is essential for companies to take action within three key themes. Firstly, they will need to be prepared for a variety of different scenarios to ensure business continuity, while ensuring that health protocols, sanitation, and food safety are prioritised across the supply chain from production to preparation and delivery to the end consumer. Delivering this requires collaborations amongst all players within the value chain, including providing better education for MSME merchants who may lack the requisite knowledge.

Secondly, players will need to find ways to foster high levels of trust with consumers through the use of strategic communications and other outreach methods, such as product health cards, to reassure consumers and demonstrate that hygiene and food safety are their utmost priority.

Lastly, they will also need to remain in touch with dynamic and changing consumer preferences, including the shift towards healthier food options and greater reliance on e-commerce and online delivery services. In the long-term horizon, this would enable them to develop the right product offerings, and ultimately position themselves to win mind-share in an increasingly competitive landscape.



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