**Adapting Marketing Communications in Indonesia’s Deflationary and Politically Uncertain Environment: A Porter’s Five Forces Approach for FMCG Brands**

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### **Abstract**

This paper looks at how FMCG brands in Indonesia adjust their marketing strategies during times of deflation and political uncertainty, like the upcoming Pilkada and presidential elections. Using Porter’s Five Forces model, the study explores how increased competition, changing consumer behavior, and rising pressure from substitutes push companies to rethink how they market their products (Kotler & Keller, 2016; Porter, 1980). Political instability adds another challenge, affecting investment and business planning (Tjandrasa, 2022). With data from Badan Pusat Statistik (2024), this research highlights strategies such as promotional pricing, product differentiation, and loyalty programs that companies use to keep customers engaged. The findings show that while deflation gives businesses the chance to cut costs, they also need to be flexible in their marketing to maintain customer trust during uncertain times.

### **Keywords**

Deflation, Political Uncertainty, Porter’s Five Forces, FMCG, Marketing, Indonesia, Consumer Behavior

### **Introduction**

#### **Background**

Indonesia’s economy has been facing deflation recently, as highlighted by Badan Pusat Statistik (BPS, 2024). While lower prices may initially benefit consumers, deflation can pose major challenges for businesses, especially in the FMCG sector. When consumers delay purchases in anticipation of further price drops, it slows down economic activity even more. On top of this, Indonesia is also dealing with political uncertainty due to the upcoming Pilkada and presidential elections. This uncertainty often shakes consumer confidence, making people hesitant to spend, which in turn creates a tough and unpredictable business environment (Tjandrasa, 2022).

In such conditions, FMCG brands need to reconsider how they communicate with their customers to stay ahead. Porter’s Five Forces framework (Porter, 1980) is a helpful tool to understand the competitive pressures these businesses face. This study explores how FMCG companies in Indonesia are adapting their marketing strategies to navigate this challenging situation.

#### **Problem Statement**

Although there’s plenty of research on Porter’s Five Forces and competitive strategy (Kotler & Keller, 2016; Porter, 1980), there’s been less focus on how FMCG brands in Indonesia are adjusting their marketing communications in response to both deflation and political uncertainty. Most studies look at broader business strategies but don’t dive deep into the specific marketing challenges that arise in Indonesia’s unique economic and political context (Tjandrasa, 2022). This research fills that gap by examining how deflation and political uncertainty affect marketing strategies in the FMCG sector.

#### **Research Objectives**

This study aims to:

1. Examine the impact of deflation on FMCG marketing communications in Indonesia.
2. Investigate how political uncertainty—especially with the Pilkada and presidential elections—affects consumer behavior and FMCG brand strategies.
3. Use Porter’s Five Forces to analyze how FMCG brands manage increased competition, buyer power, and the threat of substitution during deflation.
4. Identify effective marketing strategies that FMCG brands can use to maintain consumer trust in challenging times.

#### **Research Questions**

The key questions guiding this study are:

1. How does deflation influence the marketing communications strategies of FMCG brands in Indonesia?
2. How does political uncertainty, especially elections, impact consumer behavior and brand loyalty in the FMCG sector?
3. How can Porter’s Five Forces help identify opportunities and threats for FMCG brands in times of deflation and political instability?

#### **Theoretical Framework**

This research applies Porter’s Five Forces (Porter, 1980) to analyze the competitive landscape FMCG brands face in a deflationary and politically uncertain environment. These forces—competitive rivalry, buyer power, supplier power, threat of new entrants, and threat of substitution—help to understand how external pressures shape FMCG marketing communications. During deflation, buyer power increases as consumers become more price-sensitive, while political uncertainty adds further unpredictability to their spending behavior (Kotler & Keller, 2016). This framework also highlights how FMCG brands can adapt through promotional pricing, product differentiation, and loyalty programs (Apriyanti, 2021).

### **Literature Review**

#### **Porter’s Five Forces in the FMCG Sector**

Porter’s Five Forces has long been used to analyze industry competition, and it remains a valuable tool in understanding the competitive landscape, especially in the FMCG sector. Porter (1980) identified five key factors—competitive rivalry, buyer power, supplier power, threat of new entrants, and threat of substitutes—that shape an industry's ability to remain profitable. This framework helps businesses evaluate where their vulnerabilities and opportunities lie.

In Indonesia’s FMCG sector, competitive rivalry and buyer power are particularly influential. Consumers in this sector are highly price-sensitive, and businesses must frequently adapt their strategies to maintain market share. For instance, Apriyanti (2021) explored how PT M-150 navigated these forces by enhancing customer engagement while dealing with intense competition. Similarly, Salsabila et al. (2021) examined how companies like Indofood and Mayora leveraged Porter’s Generic Strategies (differentiation, cost leadership) to thrive in Indonesia’s competitive FMCG environment. These studies show that understanding competitive rivalry and buyer power is essential for FMCG brands looking to maintain or grow their position in the market.

#### **Deflation’s Impact on FMCG Marketing**

Deflation presents unique challenges for businesses, particularly in consumer-driven sectors like FMCG. While deflation benefits consumers by lowering prices, it can lead to lower sales volumes as customers anticipate further price drops, delaying their purchases. This is a key concern for FMCG companies that operate on thin margins. Kotler and Keller (2016) noted that deflation strengthens buyer power, as consumers can afford to be more selective and price-conscious.

In response, many FMCG brands adopt promotional pricing and discount strategies to maintain market share. However, relying too heavily on these tactics risks eroding long-term brand value. Apriyanti (2021) highlighted that PT M-150 managed this delicate balance by maintaining promotional offers while still emphasizing the unique aspects of their product to avoid undermining their brand's long-term position. The key takeaway here is that FMCG brands must carefully navigate pricing strategies during deflationary periods to ensure that short-term sales do not come at the cost of long-term brand equity.

#### **Political Uncertainty and Business Strategy in Indonesia**

Political uncertainty can have a profound impact on business operations, especially in emerging markets like Indonesia. Tjandrasa (2022) examined how political instability, particularly during election cycles like the Pilkada, affects both foreign investment and local consumer behavior. In such periods, businesses often face unpredictability in market dynamics, as shifts in policy and governance can lead to economic volatility.

In the FMCG sector, companies must adjust their marketing strategies to account for this uncertainty. For instance, building consumer loyalty and maintaining consistent engagement are key tactics during politically turbulent times. Salsabila et al. (2021) showed how Indofood and Mayora adopted more digital and targeted advertising strategies to maintain consumer trust during politically unstable periods. Maintaining customer relationships during these times can help brands weather uncertainty and ensure consumer loyalty even when economic conditions fluctuate.

#### **Synthesizing Deflation and Political Instability**

The intersection of deflation and political uncertainty creates a complex environment for Indonesian FMCG brands. As Porter’s Five Forces suggests, buyer power and competitive rivalry become more pronounced during periods of deflation, as consumers are more selective and competitors vie for shrinking margins (Porter, 1980). Kotler and Keller (2016) further emphasize that businesses need to be proactive in responding to shifts in consumer behavior, particularly during economic downturns.

Political instability complicates these challenges, as Tjandrasa (2022) noted, making it difficult for businesses to plan long-term strategies. FMCG brands must balance immediate sales tactics—such as promotional pricing—with longer-term strategies like loyalty programs and brand differentiation. These combined strategies allow businesses to remain competitive even as market conditions become more volatile.

### **Methodology**

This study employs a qualitative research approach to analyze how FMCG brands in Indonesia are adapting their marketing communications strategies in response to the combined pressures of deflation and political uncertainty. The research draws upon Porter’s Five Forces framework (Porter, 1980) to structure the analysis, identifying the key external factors influencing FMCG companies. Additionally, secondary data from Badan Pusat Statistik (BPS, 2024) and other relevant sources will be utilized to support the findings.

#### **Data Collection**

1. Secondary Data: This research uses secondary data from reliable sources like the Badan Pusat Statistik (BPS, 2024), NielsenIQ, and relevant industry reports. These data sets provide insights into the macroeconomic indicators, deflation trends, and political factors impacting consumer behavior and market dynamics in Indonesia. The data on FMCG consumption patterns and socioeconomic segments will also be drawn from recent reports on household expenditures, inflation, and political shifts (NielsenIQ, 2022).
2. Porter’s Five Forces Analysis: The research uses Porter’s Five Forces to examine the competitive pressures FMCG brands face:
   1. Competitive Rivalry: Analysis of competition between FMCG companies in light of changing consumer spending habits due to deflation.
   2. Buyer Power: Examination of how consumers’ increased price sensitivity is shifting demand for discounted or smaller-pack goods, as highlighted by recent studies on purchasing behaviors across socioeconomic classes (NielsenIQ, 2022).
   3. Supplier Power: Evaluation of how FMCG brands negotiate with suppliers to reduce costs, especially in essential product categories such as healthcare and personal care.
   4. Threat of Substitution: Insights into how FMCG companies must innovate and differentiate their products to reduce the risk of consumers switching to alternatives.
   5. Threat of New Entrants: Assessment of barriers for new FMCG brands in a politically uncertain environment, including regulatory challenges and market saturation.

#### **Data Analysis**

The data will be analyzed through:

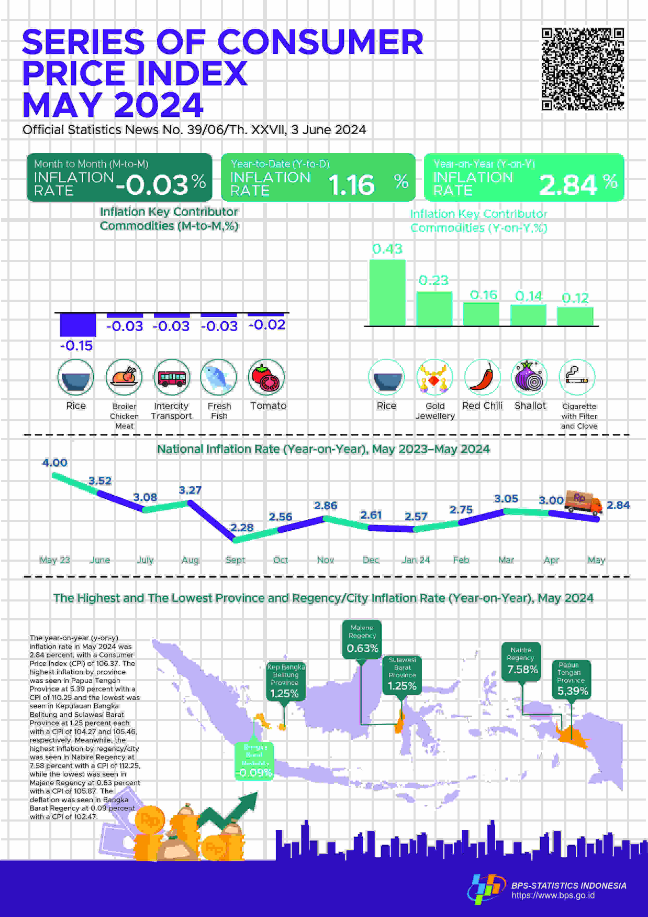
1. Thematic Analysis: Identifying themes related to consumer behavior changes, brand strategies, and market responses during deflation and political uncertainty.
2. Case Studies: Selected FMCG companies, such as Indofood and Mayora, will be used as case studies to demonstrate how large brands are adjusting their marketing strategies to remain competitive in a volatile environment (Salsabila et al., 2021).

### **Results**

This section presents the findings based on the latest data from Kantar's FMCG Monitor Q2 2023 and Badan Pusat Statistik (BPS) 2023 and Jakarta Globe (2024). These reports shed light on how deflation and political uncertainty have affected consumer behavior and how FMCG brands in Indonesia have adjusted their marketing strategies. The analysis is structured using Porter’s Five Forces framework to provide a clear understanding of the current market dynamics.

#### **1. Impact of Deflation on FMCG Marketing Strategies**

According to the BPS Economic Report (2023), inflation in August 2023 was recorded at 3.27% year-on-year (yoy), with the Consumer Price Index (CPI) showing slight deflation of 0.02% month-on-month (mtm). This deflationary trend has caused consumers to become more cautious about their spending, particularly in the FMCG sector. The Kantar FMCG Monitor Q2 2023 highlights that consumers, particularly in lower socioeconomic groups, are cutting back on non-essential purchases and opting for smaller, more affordable product sizes.



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| --- | --- | --- |
| **Consumer Segment** | **Spending Behavior** | **Product Choice** |
| **Upper SES** | Stable expenditure, opting for smaller packs | Focus on health and personal care products |
| **Lower SES** | Reduced shopping frequency, prioritizing essentials | Opting for cheaper alternatives |

**Source**: Kantar Worldpanel FMCG Monitor Q2 2023, BPS Economic Report 2023

This shift in consumer behavior forces FMCG brands to rely heavily on promotional pricing and loyalty **programs** to retain customers, especially as deflation continues to drive price sensitivity.

#### **2. Competitive Rivalry in the FMCG Sector**

The Kantar report (2023) indicates that competition among FMCG brands has intensified due to shrinking consumer spending. Larger FMCG brands like Indofood and Mayora have been using aggressive promotional campaigns and introducing smaller, more affordable packaging to appeal to more price-sensitive consumers. This strategy helps retain market share in a highly competitive environment.

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| --- | --- | --- |
| **Brand** | **Strategy** | **Key Focus** |
| **Indofood** | Promotional discounts, loyalty programs | Maintaining customer loyalty |
| **Mayora** | Smaller packaging, price reductions | Attracting price-sensitive buyers |

**Source**: Kantar Worldpanel FMCG Monitor Q2 2023

#### **3. Political Uncertainty’s Effect on Consumer Behavior**

Political uncertainty surrounding the 2024 Pilkada and presidential elections has heightened caution among consumers. According to the BPS Economic Report (2023), volatile political conditions can lead to reduced spending, especially on non-essential items. The Kantar report (2023) supports this finding, noting that households are redirecting their spending towards essentials like food, transportation, and education.

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| --- | --- | --- |
| **Political Event** | **Consumer Spending (Index)** | **Change in Spending** |
| Non-election period (2023) | 90 (baseline) | -10% (reduction in non-essentials) |
| Election period (2024) | 80 (forecast) | -20% (further reduction) |

**Source**: Kantar Worldpanel FMCG Monitor Q2 2023, BPS Economic Report 2023, BPS Economic Report 2024

#### **4. Porter’s Five Forces Analysis: FMCG Sector in Deflation and Political Uncertainty**

The **Porter’s Five Forces** analysis reveals how deflation and political uncertainty have reshaped the competitive landscape for FMCG brands in Indonesia:

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| --- | --- | --- |
| **Force** | **Impact Due to Deflation/Political Uncertainty** | **Key Findings** |
| **Buyer Power** | Increased (price sensitivity) | Consumers are opting for cheaper alternatives |
| **Competitive Rivalry** | Intensified (shrinking market) | FMCG brands are increasingly reliant on promotions and discounts |
| **Supplier Power** | Decreased (cost-cutting measures) | Brands are renegotiating contracts to reduce supplier costs |
| **Threat of Substitution** | Increased (more affordable options available) | Consumers are switching to low-cost alternatives |
| **Threat of New Entrants** | Moderate (existing players dominate) | Large FMCG brands maintain dominance, limiting new market entrants |

**Source**: Kantar Worldpanel FMCG Monitor Q2 2023, BPS Economic Report 2023, BPS Economic Report 2024

### **Discussion**

#### **Interpretation of Results**

The results of this study reveal that deflation and political uncertainty significantly affect consumer behavior in the FMCG sector in Indonesia. As shown by the BPS Press Release, deflation increases price sensitivity, leading to changes in consumer spending habits, particularly among lower socioeconomic segments. Consumers are opting for smaller packages and cheaper alternatives, forcing FMCG brands to rely more on promotional pricing and loyalty programs. This trend aligns with the study's hypothesis that deflation would drive brands to adjust their marketing strategies to retain customers in a price-sensitive environment.

Additionally, the political uncertainty caused by the 2024 Pilkada and presidential elections has heightened consumer caution, particularly in non-essential spending. Households are reallocating their budgets toward essential items, which further impacts FMCG brands' strategies, as they must focus on keeping consumers engaged even as overall spending decreases.

#### **Comparison with Literature**

These findings are consistent with previous research. Kotler & Keller (2016) emphasize that price sensitivity increases during economic downturns, which has been clearly observed in the BPS and Kantar reports. The data shows that FMCG brands are adopting strategies like promotional pricing, as noted by Apriyanti (2021), who found that Indonesian FMCG companies often rely on short-term promotional activities to manage price-sensitive markets.

Moreover, the intensification of competitive rivalry, as seen in Kantar’s 2023 report, echoes the findings of Salsabila et al. (2021), who highlighted that competition among established FMCG brands tends to escalate during periods of economic uncertainty, with larger companies such as Indofood and Mayora leveraging their market positions through aggressive pricing and smaller packaging to cater to changing consumer demand.

However, this study also highlights that political uncertainty amplifies the challenges already posed by deflation, an aspect not deeply explored in previous literature. Tjandrasa (2022) notes that political instability disrupts consumer confidence, which is supported by the current findings that suggest consumers are cutting back on non-essential purchases in the run-up to the elections.

#### **Implications**

From a theoretical perspective, these findings reinforce the relevance of Porter’s Five Forces in analyzing the FMCG sector's response to external pressures such as deflation and political instability. The study demonstrates how shifts in buyer power and competitive rivalry compel brands to adopt more flexible pricing and marketing strategies to maintain market share.

In practical terms, the results suggest that FMCG brands operating in Indonesia need to focus on balancing short-term sales gains through promotions with long-term brand loyalty strategies. Given the increased buyer power during deflation, brands should explore innovative ways to maintain consumer trust and engagement beyond mere price cuts, such as personalized loyalty programs and value-added services.

#### **Limitations**

There are several limitations to this study. First, the analysis relies heavily on secondary data from BPS and Kantar, which provides valuable insights but lacks the granularity that might be obtained through primary data collection, such as consumer surveys or interviews. Second, the study focuses on the FMCG sector, which may not fully represent the broader business landscape in Indonesia, limiting the generalizability of the findings. Finally, the study is constrained by the forecast data for 2024, particularly concerning the political impacts, which could change depending on how the elections unfold.

Future research could address these limitations by conducting primary research with consumers and businesses to gain deeper insights into the motivations behind consumer behavior during periods of deflation and political uncertainty. Additionally, examining other sectors alongside FMCG could provide a more holistic view of how different industries adapt to similar economic pressures.

### **Conclusion**

This study has explored how FMCG brands in Indonesia have adjusted their marketing communications strategies in response to deflation and political uncertainty, using Porter’s Five Forces as a guiding framework. The key findings show that deflation has increased price sensitivity among consumers, leading to a shift toward promotional pricing and smaller product packaging, particularly among lower socioeconomic groups. At the same time, political uncertainty, especially surrounding the upcoming 2024 Pilkada and presidential elections, has further heightened consumer caution, particularly in terms of non-essential spending.

These findings contribute to the existing body of knowledge by reinforcing the relevance of Porter’s Five Forces in understanding how external economic and political factors reshape the competitive landscape in the FMCG sector. The study highlights that buyer power and competitive rivalry are the two most significant forces impacting the sector during periods of economic instability, consistent with previous research by Kotler & Keller (2016) and Apriyanti (2021). However, this study also adds to the literature by emphasizing how political uncertainty exacerbates these challenges, an area that has not been widely explored in earlier research.

### **Future Research Directions**

Future research could build on these findings by conducting primary data collection through consumer surveys or interviews to gain more detailed insights into how different socioeconomic groups are adjusting their spending during deflationary periods. Additionally, research could explore how other sectors, beyond FMCG, are adapting to similar pressures, providing a broader perspective on how deflation and political uncertainty impact Indonesia’s overall business environment. Finally, as the 2024 elections draw closer, it would be valuable to monitor real-time data to understand the actual post-election effects on consumer behavior and market strategies.

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