

THE IMPACTS OF MODERN MARKET TO TRADITIONAL TRADERS (A CASE IN MALANG CITY - INDONESIA)

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ABSTRACT: The retail industry has grown rapidly in Indonesia and it has brought new soul to the development of the industry. Some modern retailers have the capital power to conduct their activities and create mini-marts, supermarkets and hypermarkets, spread across the big cities in Indonesia. However, the presence of those modern market has cornered the existence of traditional markets in urban areas. Using both quantitative and qualitative methods, this study tries to measure the impact of the presence of modern markets to traditional traders in Malang city. The quantitative methods were conducted using Difference in Difference (DiD), while qualitative method were using in-depth interviews with key informants. The findings from quantitative methods revealed that the presence of modern markets in the city of Malang caused revenues and profits of the traditional traders decrease significantly. While findings from qualitative methods showed that the major cause of lost traditional markets when competing with modern markets is poor management and poor traditional market infrastructure, not solely because of the existence of the modern market

Keywords: retail industry, traditional trader, modern market, supermarkets, hypermarkets, traditional market

1. INTRODUCTION

The retail industry is a strategic industry in Indonesia. The retail industry has grown rapidly and it has brought new soul to the development of industry in Indonesia. The Association of Indonesian Retailers (Aprindo) claims that the retail sector creates the second-highest number of jobs. There are about 18.9 million employees in this sector, compared to 41.8 million in the agriculture sector. The growing number of mini and supermarket resulted in the existence of traditional markets in Indonesia began to shift. People prefer to shop their basic needs at the modern market rather than at traditional traders. That is why the retail problem in Indonesia is complex.

Information obtained from the website Data Consult (Business Research Studies Report), in the 5-years period (2007-2011) the number of modern retail outlets in Indonesia experienced significant growth by 17.57% per year. The number of modern retail outlets in 2007 only amounted to 10,365, while in the year 2011 has reached 18,152 spread across major cities in Indonesia (1). While the form of hypermarket outlets grew more than 50% from 99 outlets to 154 outlets (2007-2011). Growth in the number of those outlets is of course followed by the growth of sales.

A. Modern Market Expansion

One trigger of the rapid growth of the modern market in Indonesia is Presidential Decree No. 118/2000 (2) which lifted a ban on the retail business for Foreign Direct Investment (FDI). This means that since then foreign investors (FDI) can freely carry out various forms of trade in Indonesia. As a result, the competition in the retail business has changed completely. Foreign investors began to invest their capital in retail trade in Indonesia (including a Carrefour, Makro, Belhaize, Ahold and Giant etc.). With the combination of its many advantages such as comfort, safety, ease of access and large parking area, long opening hours service, competitive prices and quality and choice of products which have made many of the modern market has a better competitive advantage compared to the traditional market. So it is not wrong if they can evolve and captivate the public so quickly.

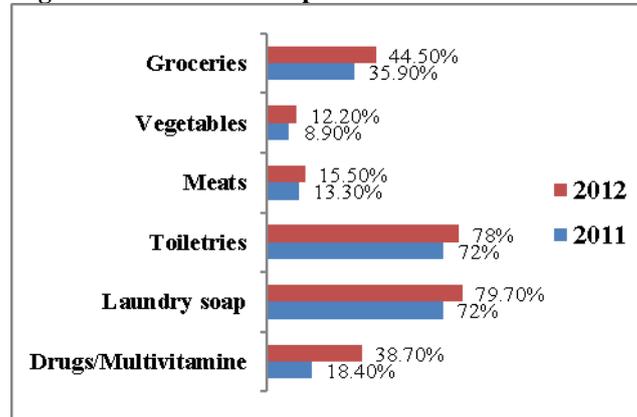
When viewed from the Indonesian economic growth which reached an average of 6% per year, then the prospects for the development of retail business is considered better with domestic consumption reached up to 54.56% of the Gross Domestic Product (GDP). The amount of domestic consumption is driven by the large number of Indonesian population of 250 million people with the structure of the population aged under 39 years to reach 60% and the middle class population reached 50 million in 2014 (3). Result of AC Nielsen survey showed that 48% of the total expenditure of fast moving consumer goods (FMCG) came from this middle-class society.

Modern retail growth mainly occurs in mini-format, convenience stores, and hypermarkets. The data reported by Media Data-APRINDO (2013) showed that the mini market grew with the highest turnover an average of 38% per year, followed by 21.5% of hypermarkets and supermarkets are only grow at 6% per annum (3). Mini format, including convenience stores, has developed very rapidly, driven by business expansion of Indomaret and Alfamart which controls approximately 88% market share in this format (4). The Indonesian Retailers Association (APRINDO) estimates that in line with the projected growth in the domestic economy, in 2014, the modern retail turnover is expected to grow by 10% - 11%, with total sales reached Rp166 trillion (USD 13.8 billion).

B. Shifting Shopping Behavior

Currently, the GDP (Gross Domestic Product) per capita of Indonesia is expected to reach USD 4,500 by 2014. With the large region, the population (\pm 250 million) and increasing purchasing power, it is not surprising that Indonesia will become a lucrative market for foreign retailers. Moreover, the shopping behavior of the population of Indonesia has begun to shift, from shopping at the traditional to modern retail market. The following is the percentage of residents who shop at modern retail market for a variety purposes. From the figure, it can be seen that the percentage of people who shop at the modern market tends to increase. Significant increase occurred primarily for the purchase of daily necessities such as soap, laundry soap and staples products.

Fig. 1: The percentage of residents who shop at modern retail market for a variety purposes.



Source: Industry Update, 2012

With the increasing number of modern retailers established in Indonesia combined with an economic growth in the coming years, the old players are also becoming more expansive to work on any existing market potential. As a result, competition is getting tougher lead all players trying hard to run a variety of strategies to beat the competition. This has encouraged a local retailer that already dominate the market, such as the Matahari Group previously strong department store business, developing a business to enter the hypermarket business. Likewise, the previously powerful Hero in the supermarket business, eventually running in the hypermarket business format. This is done in addition to winning the competition with foreign retailers as well as in the construction of a mall or shopping center, the presence of large retailers such as hypermarkets and department stores are a must as they become anchor tenants that can attract visitors to come. This is due to the aggressive behavior of hypermarkets in various strong and attractive promotional activities, supported by the availability of products.

The emergence of "retail business" such as mini markets, supermarkets, hypermarkets as part of the modernization of the traditional markets, allow people to shop with better facilities, comfort and at affordable price. According to AC Nielsen (6), Indonesia is very attractive market for retail business for two fundamental reasons: a population of 250 million people, and a consumption habit or pattern. This phenomenon then has attracted foreign companies to enter Indonesian market. The emergence of foreign retailers in the business shows that the business is very profitable.

However, the rapid development of modern market these days often led to protests several parties who feel aggrieved as the traditional market or even by fellow modern retail. When global retailers enter Indonesian market, they can kill off traditional retail markets because the growth of modern retail will stimulate changes in the share of traditional retailers against modern retailers. Result of a study conducted by A.C. Nielsen revealed that modern market in Indonesia grew by 31.4% per year, while the traditional market shrunk to 8% per year (6). This is an indication that the presence of modern market has cornered the existence of traditional markets in urban areas.

There are 13,450 traditional markets with approximately 12.6 million small traders. This means that every year approximately 1 million traditional traders lose their source of livelihoods. If this condition is allowed to happen, thousands and even millions of traditional traders will lose their livelihoods. And if the government does not do something to protect the traditional retail industry and aggressively push for the growth of modern retail, slowly but surely, the role of traditional traders will get damaged. Why? Because in this competition, traditional traders are in a very poor condition because they are let to compete directly with global retailers who have different capital structures, sources and abilities to access capital resources and of course better quality management. Meanwhile, based on a survey conducted by the Ministry of Trade (Ministry of Trade) in 12 provinces, there were approximately 3,900 traditional markets and 91% of which was built approximately 30 years ago. (7). So, it is not wrong if many people said that in the process of liberalization of the retail sector, traditional traders are the main victims of competition between traditional and modern markets.

While the competition between both markets is theoretically beneficial to consumers, and perhaps to the economy as a whole, relatively little is known about the impact of modern markets on traditional traders. Measuring the impact is especially crucial given that modern markets are now directly competing with traditional markets, which used to cater to a different market segment. This study analyzes the impact of modern markets on traditional traders in Malang city, Indonesia. In this study, the respondents were traders in traditional markets as they make up the majority of traditional traders in Indonesia. Moreover, since goods normally sold by these traders are also available in the supermarkets and hypermarkets, they are the main competitors. There-

fore, this study looks at the impact of supermarkets and hypermarkets on traders in traditional markets in Malang city.

Accordingly, the central question that will be answered in this study is whether the modern market is the major cause of reduced performance of traditional traders? To answer these questions and see the impact of the presence of modern market on traditional markets and retail trader in Malang, a study conducted on the issue. The study is expected to be input for the formulation of policies that will strengthen the capacity of the traditional markets in the globalization era in Malang.

2. LITERATURE REVIEW

A. Definition

Modern retail formats have evolved a lot in accordance with the market situation in the country as well as the impact of changes in the world market. Retail business operations in general are selling a range of goods or services to be consumed directly or indirectly. Retail business is the last part of the distribution process of goods or services and connect directly to consumers. Retail business in Indonesia is divided into 2, traditional retail and modern retail. But with the development era, the modern retail business in Indonesia has soared. This is because traditional retail has been abandoned by many consumers over time. The traditional market is traditionally built and managed by the Government, Local Government, Private, State-Owned Enterprises and Regional-Owned Enterprises including cooperative with private businesses such as shops, kiosks and tents owned and managed by small traders, medium, non-governmental or cooperative with a small-scale business, small capital, and the buying and selling process bargaining example of traditional markets, grocery stores etc. While modern retail business based on the definition set forth in Presidential Decree No. 112 / 2007 (8) are:

Minimarket:

- Product sold: Needs household, food
 - Number of products: <5000 item
 - Area stores: Maximum 400 m²
 - Parking: Limited
 - Sales Potential: A maximum of IDR 200 million
- Supermarket:
- Product sold: Needs household, food
 - Number of products: 5000-25000 item
 - Area stores: 400-5000 m²
 - Parking: Moderate or adequate
 - Potential sales: IDR 200 million to 10 billion

Hypermart:

- Product sold: Needs household, food, textile, fashion, furniture
- Number of products:> 25000 items
- Area stores:> 5000 m²
- Parking: Very large
- Sales Potential:> IDR 10 billion

Several studies on the impact of supermarkets that have been done in developing countries, including by Reardon and Berdegue (9), Reardon et al (10), and Reardon and Hopkins (11), found a negative impact on traditional retail merchants with the proliferation of supermarkets.

B. Previous Studies

Competition between traditional retail and modern retail includes both internal factors and external factors. In his study on the impact of the presence of hypermarkets traditional retail, Indef (12) uses the performance aspect (internal factors) and, aspects consumer preferences and regulatory (external factors). The results of his studies states, conditions effort and performance of a traditional traders showed a decrease after the operation of hypermarket. It concerns the performance of: assets, turnover, turnover of merchandise, and margin rates.

Similar research conducted by Tambunan et al (13). From interviews with traditional traders at traditional market in Mampang (Jakarta), they noted that since the presence of modern retail Hero Supermarket (in front of the intersection of Market Mampang) and Golden Truly Supermarket which later became Alfa, the traders felt that their income declined from year to year. The decrease in revenue was because many of their customers preferred to shop in the modern market rather than in traditional markets. The fact that the traditional market is getting squeezed - seen from the erosion of the share of traditional market turnover and the quieter of the traditional markets, making government issued resolutions governing the harmonization between the modern with the traditional market (14)

3. METHODOLOGY

To measure the impact of supermarkets on traditional markets in the city of Malang, the researcher combine both quantitative and qualitative methods. The quantitative methods utilize the difference-in-difference (DiD) and econometric methods.

A. Difference-in-Difference (DiD)

DiD method requires recording the state of the two time periods - before and after treatment. In this case, the treatment is the booming of a modern market in Malang city. Furthermore, there should also be a control group

(eg traders in traditional markets without a modern market close by), and the characteristics of the treatment and control groups should be similar. Framework DiD method is shown by the equation below.

$$Impacts = (T2 - T1) - (C2 - C1) \quad (1)$$

Where T1 and T2 are conditions of traders in traditional markets before and after the presence of a modern market near traditional markets, while C1 and C2 is a state traders in traditional markets where there are no modern markets nearby during the same period as the treatment group.

B. Econometric Methods

This study uses two forms of econometric models which can be directly estimated (reduced forms). The first is simply to use the ex-ante conditions (conditions prior to the intervention) as a control variable, while others use both ex-ante conditions and changes between 2010 and 2013. The models commonly used are shown in equations 2 and 3.

$$\Delta Ci = \alpha + \beta Xi + \gamma Si + \epsilon_i \quad (2)$$

$$\Delta Ci = \alpha + \beta Xi + \theta \Delta Xi + \gamma Si + \epsilon_i \quad (3)$$

Where,

ΔCi is the proportional change in performance indicators trader

i. Performance indicators used is profit and turnover.

Xi is the control variable,

ΔXi is a change in the control variable, and

Si is the variable that distinguishes the control group than the treatment group, which used two different indicators: dummies and the distance to the nearest modern market.

C. In-depth Interviews

To assess the impact of modern markets to traditional traders qualitatively, the researcher use an in-depth interview with stakeholders in the retail sector:

selected traditional market traders; traditional market managers; relevant government officials, district trade and industry office, and Modern Retailers' Association (APRINDO); and Traditional Traders' Association (APPSI) in Malang. In total, 17 key informants were interviewed

4. DISCUSSION

Growth in the retail sector is still recorded high, despite the high growth experienced by modern retail only, which is probably the opposite of traditional retail, which it declared on several occasions as part of the most disadvantaged as a result of the developments of modern markets occurring today. Data from various sources show that in terms of the actual quantity of modern retail is nothing, when compared to traditional retail. The number of traditional traders in the traditional markets is far above the number of modern retail with a very significant difference in quantity. However, when comparing to turnover in the range of Rp 166 trillion (US \$ 13.8 Billion) of about 15,000 modern retail, with turnover of around Rp 550 trillion (US \$ 45.8 Billion) of over 1,500,000 traders so obviously modern retail turnover is far above traditional retail. The growth of modern retail, will obviously continue to drive changes in the retail market share of traditional markets towards the modern market. Slowly but surely the retail market share will be controlled by modern retail. As can be seen from the following that the retail sales in Indonesia is getting year each year.

Table 1: Retail Sales in Indonesia

	2010	2011	2012	2013	2014*	2015*
Sales (US\$ bn)	292	341	379	419	464	513
Vol growth (%)	5.1	4.5	4.8	5	4.8	4.8
Consumers inflation (%)	5.1	6	5.8	6	6.3	6.4
* Forecasts						

Source: Industry Update, 2012

The rapid flow of information provide a very significant influence on the change in lifestyle of the people. Shopping is no longer just browse and buy goods, but shopping is also considered as an activity for recreation or remove the daily routine. Safety, comfort, convenience and prestige factors have shifted the behavior of people to shop. Who would not be interested in entering the modern wholesale centers like Giant and Carrefour, Superindo or any other hypermarkets which provide comfort and safety, adequate parking facilities, air-conditioned rooms, more choices of items etc? Which one is more prestigious when someone, especially teens were asked which outfit she wore was purchased, at market or at a department store? The following are the findings of the research:

A. Impact of Modern Market in Malang.

Malang is a city located in the province of East Java, Indonesia. The town has a population of 820 243 (2010) is in a pretty cool highlands, located 90 km south of Surabaya. The total area is 252.10 km, the second largest city in East Java after Surabaya, and known as the city of students. From the survey revealed that shopping at a traditional market in Malang are said to be less convenient because there is no air-conditioning facili-

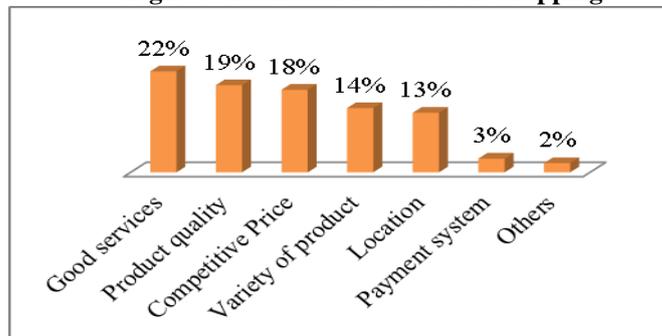
ties (AC), narrow passageways and jostling, and merchants tend to be less friendly and less trained to serve the buyers. Generally, a traditional market does not provide a payment system using a card (credit card or debit card).

a) Consumers Preference

The impact of the presence of modern market (mini markets, supermarkets, hypermarkets etc.) on traditional markets become a hot topic in the community. This is because the modern and traditional markets competing in the same market, the retail market. Almost all products sold in traditional markets all can be found in the modern market, especially hypermarkets. On the one hand, the modern market is professionally managed with self-contained facilities; on the other hand, the traditional market is still struggling with the classic problem, both internally and externally. Internally, the low factor of human resources, quality management, business strategy, the ability to master information technology as well as style and social care becomes obstacles for local retail to grow and develop. While the external side, the lack of support from both government policies that sometimes are not in favor of the employer or the creation of a business climate that is not conducive helped add to the burden for local retail development. Nevertheless, the argument that the presence of the modern market is the main cause of the removal of the traditional market is not entirely true.

When go for a shopping, buyers in Malang put good service is in top priority (22%), followed by the quality of goods (19%) and price (18%). While completion of goods, locations and payment system gets priority after the price. Details of consumers preferences can be seen in the chart below.

Fig.2: Consumers Preference in Shopping



Source: Processed data

b) Impact on sales turnover

From the results of the studies conducted in the city of Malang was found that the traditional traders who are directly affected by the existence of supermarkets or hypermarkets are traders who sells the same products as those sold in both places. However, traders selling fresh food (meat, chicken, fish, vegetables, fruits, etc.) can still compete with supermarkets and hypermarkets considering many buyers still prefer to go to the traditional market for the product. Since the presence of hypermarkets in the city of Malang, traditional markets experienced reduced revenues and profits significantly as shown in the table below.

Table 2: Sales Before and After The Existence of Modern Market (in Thousands of IDR)

	Before	After
Sales < 100	2.1%	6%
100 - 499	25%	36%
500 - 999	19%	24%
1,000 - 2,999	30%	17%
3,000 - 4,999	15%	6%
> 5,000	2%	5%

Source: Processed data

It can be seen from the above table that the existence of modern markets caused the sales of traditional traders decrease.

c) Impact on Profits

The advantages of modern market advantage over traditional markets is that they can sell the same product at a relatively cheaper price, plus the convenience of shopping environment and a variety of payment options. Modern markets (Supermarkets and hypermarkets) also cooperate with major suppliers and usually for a considerable period of time. That is why they can operate efficiently by leveraging large economies of scale. Modern markets do some price and non-price strategies to attract buyers. They perform a variety of pricing strategies such as limit price strategy, the strategy of prey by trimming prices (predatory pricing), and price discrimination over time (inter-temporal price discrimination). For example, give a discount price on weekends and at certain times. While the non-price strategies, among others, in the form of advertising, open stores longer, especially on the weekends, bundling/ tying strategy (combined purchases), and free parking.

Table 3: Profit Before and After the Existence of Modern Market (in Thousands of IDR)

	Before	After
Profit < 25	4.8%	4.7%
25 - 99	11%	30%
100 - 299	31%	35%
300 - 499	26%	14%
500 - 999	16.2%	9%
> 1,000	6%	4%

Source: Processed data

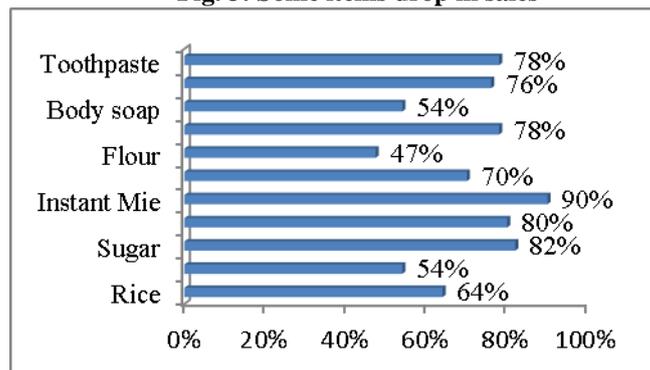
The modern market is actually taking advantage of the poor conditions that exist in the traditional market. Traders, the head of the market, and all stakeholders in the traditional market said that the main steps that should be taken to maintain the sustainability of traditional markets is to improve the infrastructure of traditional markets, address the problem of street vendors around the market, and improve the management system, both in the service sector marketing and the traditional market itself.

d) Conditions of Competition in Traditional Markets

Findings from qualitative methods showed that the major cause of lost traditional markets when competing with modern markets is poor management and poor traditional market infrastructure, not solely because of the existence of the modern market. The location of the retail industry is one of the weak points of traditional retail. The lack of clarity regarding the regulation of the retail industry, especially concerning distance retail location, or violation of government officials who sanctioned the retail business even break the rules, adding to the weight of the effort to protect traditional retailers. Actually, the problem of traditional market is very complex, not only about the existence of street vendors and market traders but also many others, such as the building market that is less well maintained, leaking, narrow, dark, stuffy, in addition to the muddy and dirty environments, it is unresolved until now. All of these problems lead to weaken the traditional market management.

In the results of the research also revealed that the existence of the modern market (mini) around the market town of Malang have a negative impact to traditional traders, especially to traders that the majority of merchandise sold is also available in the modern market (mini). From a total of 150 respondents (traditional traders), 96 traders (64%) experienced a reduction in income of rice, 81 traders (54%) experienced a decline in revenues on selling eggs, 123 traders (82%) experienced a decline in revenue on sales of sugar, 120 traders (80%) experienced a decline in revenue on the sale of cooking oil, 105 traders (70%) experienced a decline in revenue on sales of instant noodles, 135 traders (90%) experienced a decline in revenue on the sale of milk, 71 traders (47.4%) experienced a decline in revenue sales of wheat flour, 117 traders (78%) experienced a decline in revenue in the soap / detergent, 81 traders (54%) experienced a decline in revenues on selling soap, 114 traders (76%) experienced a decline in revenues on selling shampoo, 117 traders (78 %) experienced a decline in revenues on selling toothpaste.

Fig. 3: Some items drop in sales



Source: Processed data

5. CONCLUSION

The development of modern retail in Indonesian retail industry as a whole is fairly high. However, the growth of modern retail is even brings its own problems, namely the removal of the traditional market business. The elimination of the traditional market has been caused by several factors. First, the traditional low market infrastructure maintenance. Based on the survey, it can be said that models of institutional development is still done in an unclear pattern, tend to use the government bureaucracy approach. Traders and market are treated as objects, they are not invited to involve in the development process. Second, the lack of legal protection in the form of legislation that raises and forceful sanctions against violators of the regulation of the retail industry. Third, the lack of political will of the local government to develop the traditional markets. It appears from the lack of support and concern of the government in the area of physical development of traditional markets.

Besides those three factors, the real root of the problem of the retail industry in Malang is the absence of local regulation governing zoning that determines the distance between modern retailers with traditional retailers. Therefore, in the future, the government should aggressively support traditional traders -one of the generators of Indonesia's economy, through its policies and regulations. A protection policy for traditional traders is a must to strengthen national competitiveness. Without protection, a number of social costs will emerge such as unemployment, poverty and crime. The traditional traders need advocacy and should be protected for capital structure reasons, to enhance community welfares and definitely to compete in the globalization era.

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