



# The Impact of Modern Markets on Traditional Markets in Indonesia

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## **Abstract:**

*This study emphasises the rapid spread of modern markets in developing countries, and the powerful economic advantages of modern markets as economies of scale, ability to coordinate supply chains, diversity of products, convenience. It has emerged as a major challenge to traditional retailers and a challenge and opportunity to suppliers. A heated debate has recently emerged, as the modern market revolution has reached a critical point in the past few years, as to what policy measures are best in order to reduce tensions and conflicts among the players and provide the greatest equal opportunity to the competitors. The qualitative findings suggest that the decline in traditional markets is mostly caused by internal problems from which modern markets benefit. To ensuring the sustainability of traditional markets would require the traditional market management system, enabling to compete with and survive alongside modern markets. Finally, this conditions uncovered in this study point to the need for the regulation of modern markets, including the rights and responsibilities. National and regional governments should have control mechanisms and monitoring systems in place to ensure fair competition amongst traditional and modern retailers.*

**Keywords:** *modern market, traditional market, survive, regulation, Indonesia*

## **INTRODUCTION**

Modern markets (supermarkets) are spreading quickly in developing countries. The power and dominance of supermarkets is already felt in the food markets of many developing countries and tensions between supermarkets and traditional retailer, and supermarkets and their suppliers, are emerging as key policy and political debates (Reardon & Hopkins, 2006). Over the past decade there has been a supermarket revolution in developing countries. While there were domestic supermarket chains occupying a tiny retail niche among upper-income consumers in large urban areas in many developing countries.

Indonesia as one of developing country in East Asia also most advanced in this trend. According to AC Nielsen Research, Indonesia there are 13.450 pieces in traditional markets as fast growing middle class population many were built modern markets in some big cities. Modern market grew by 31.4% per year, while the traditional market grew by minus 8% per year. If the management of traditional markets are not improved, the traditional market will lose visitors because most

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middle group prefer to shop in the modern market for reasons of hygiene, safety, and comfortable.

The objective of the study is to describe Indonesia's traditional and modern market. This study also develop a natural competitive advantage of traditional markets compared to the of the modern market. This phenomenon needs to be examined, given that the traditional markets contribute to the national economy, especially for the lower middle class in rural areas and villages. Traditional markets increasingly displaced by the presence of modern markets such as hypermarkets, supermarkets and mini that the distance is not far apart. In addition modern markets offers comfort, cleanliness, and security products neat and easy to find as the added value received by the consumers.

The development strategy of the traditional market opportunity not only to maintain, but can be an alternative model of tourism that the region can strengthen national connectivity locally integrated and globally connected. The study uses the traditional market development approach to improving the economy in Yogyakarta. The study is divided into three main components of the problems that can be described as follows: 1) The high growth of the modern market is part of the construction of social and lifestyle-oriented universality 2) Identify the customers of traditional markets and natural competitive advantages that have specific uniqueness; 3) the development of a potential alternative to traditional market to have a quality that is equivalent to the modern market.

## **MODERN MARKETS**

Modern markets is defined as modern store. Modern stores consist of retails and wholesales. Definition of terms as stated in President Regulation No. 112/2007 "Independent self-service store that retails a large variety of goods through minimarkets, supermarkets, department stores, hypermarkets or grocers that constitute grocery stores". According to this regulation, modern retail is part of modern markets". The results survey conducted by AC Nielsen in Indonesia, the existence of modern markets has increased by 31,4 percent from late 1990's to early 2000's.

**Modern market** is not much different from traditional markets, but the market sellers and buyers of this type are not directly transaction but buyers see the price tag listed in item (barcode), located in the building and the ministry conducted independently (supermarkets) or be served by a salesman. The goods are sold, other food ingredients like food, fruits, vegetables, meat, most of the other items sold are items that can last a long time, such as plates, cups, knives, fans, and others. Unlike traditional market which is identical with a dirty environment, the opposite of modern markets. Therefore, people now tend to choose modern markets as places to shop in

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order to meet daily needs. An example of a modern market are supermarkets, hypermarkets, supermarkets, and mini market.

Nowadays, a significant part of investments in modern stores comes from foreign investors, for example Carrefour, Lotte, Macro, Circle-K, 7-eleven, etc. For Modern markets, the regulation on the location to establish modern stores are similar to that for traditional markets, except for the road location. In establish a modern market, there are additional provisions on the size of retail space:

- Minimarket, the size must be less than 400 m<sup>2</sup>.
- Supermarket, the size is 400 m<sup>2</sup> to 5.000 m<sup>2</sup>.
- Hypermarkets, the size is above 5.000 m<sup>2</sup>.
- Department store, the size is above 400 m<sup>2</sup>.
- Grocery stores, the size is above 5.000 m<sup>2</sup>.

Number of Retail Companies in Indonesia (2011)

Type of Business	Number of Retail
▪ Department store	17
▪ Mini market	5
▪ Grocery stores	1
▪ Hypermarket	1
▪ Supermarket	21
▪ Specialty store	15
▪ others	18
Total	78

Source: [www.aprindo.net](http://www.aprindo.net)

The existence of a modern market in Indonesia has experienced rapid growth. According to Euromonitor (2004), hypermarket retailer with the highest growth rate (25%), cooperatives (14.2%), mini or convenience stores (12.5%), independent groceries (8.5%), and supermarkets (3.5%). In addition to growth in terms of quantity and sales figures, modern retailer's market share grew by 2.4% per year on traditional markets. Based on a survey conducted by AC Nielsen (2006), shows that the market share of modern market increased by 11.8% over five years. If the modern market's market share in 2001 of 24.8%, the share of the market to 32.4% in 2005 It shows that 11.8% during the five years Indonesia has left the retail consumer market and the traditional switched to the modern market.

The profile of the five largest supermarket chains in Indonesia is discussed below. Carrefour and Superindo chains have a foreign company as majority shareholder (Suryadarma *et al.*,2007). These large chains operate in large urban



centers in Indonesia. Carrefour exclusively operates hypermarkets and Superindo only operates supermarkets. The major retailers in a descending order based on their sales.

1. Matahari, the largest retailer in Indonesia. Its supermarket was opened in 1995. Matahari created two separate business entities, one managing department stores, the other supermarkets. At the end of 2005, it had 37 supermarkets and 17 hypermarkets, named Hypermart, more planned in the future.
2. Carrefour, the second largest retailer in Indonesia that entered in 1998. Carrefour was the pioneer of hypermarkets in Indonesia.
3. Hero is the third major player in Indonesia. By 2005 it had 99 supermarkets. Around 30% of Hero's shares are owned by Dairy Farm International (DFI).
4. Alfa began operation in 1989 and by 2004 it had 35 supermarkets.
5. Superindo began trading in 1997 and in 2003 had 38 supermarkets.

The goods sold by supermarkets are mostly relatively high quality, properly price-tagged, competitively priced, and are sometimes offered on bulk discounts. Moreover, they offer multiple payment options, ranging from cash and credit cards to financing for larger items. The modern stores are bright, clean and have functioning amenities such as toilets and food courts.

In India, the modern retail formats are showing very interesting trends due to changing lifestyles of consumers. Indian consumers now prefer modern retail formats for shopping as it provides more value in form of improved quality, pleasant shopping environment, entertainment facilities, trial rooms for clothing products, return and exchange policies and competitive pricing (Jhamb & Kiran, 2012). Mishra (2008) exposes that mall space, demography, rising young population, availability of brands, rising retail finance, changing lifestyle, modern retail formats and foreign direct investment are the strengths and opportunities for modern retail model.

Urbanavicius & Ivanauskas (2005) study is based on evaluation on image attributes importance for customers. The study illustrates that buyers indicated a number of image attributes of multiple retailers, which are important for them and make impact on store selection. Some image attributes are most important than others, included product quality, product assortment variety and product prices. Lather & Kaur study uncovered six main indicators namely, price, sales personnel, quality of merchandise, assortment of merchandise, advertising services and

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convenience services that play key role for retailers in choosing the type of retail formats that may help them to cope up with th changing preference of consumers.

### **TRADITIONAL MARKETS**

Traditional markets is defined as modern store. Modern stores consist of retails and wholesales. The Definition of traditional markets stated in President Regulation No. 112/2007 “A market that is built and managed by the Government, the Regional Governments, private entities and region-owned entities, including through cooperation with private entities with such places of business as stores, kiosks, stalls and tents owned/managed by small or medium traders, community self-reliance or cooperative with small scale enterprises, small capital and dealing with commodities through bargaining”. Based on data from the Ministry of Trade and Ministry of Industry, there are 12,000. Traditional markets with the amount of 12.6 million merchants in Indonesia.

**Traditional markets** are a meeting place for sellers and buyers and sellers are marked with the transaction the buyer directly and there is usually a process of bargaining that occurred. Most selling daily necessities such as food ingredients in the form of fish, fruit, vegetables, eggs, meat, fabrics, garments, electronic goods, services and others. In addition, some are selling cakes and other items. Markets like these are still commonly found in Indonesia, and are generally located near residential areas and villages to facilitate buyers to reach the market. The negative side of traditional markets is a situation that tends to dirty and shabby so many people are reluctant to shop there. The traditional markets in Indonesia continue to try to survive the "attack" of the modern market.

Some legendary traditional markets in Java corridor is Beringharjo in Yogyakarta, Solo Klewer Market, Johar Market, Semarang. The majority of this traditional market sell daily necessities, such as food ingredients such as vegetables, eggs, meat, fish, a wide range of cakes, cloth, clothing, and even electronic goods, various other services. Traditional markets are generally located near residential areas and villages making it easier for buyers to reach the market. But the negative side traditional markets are also clearly visible, where the circumstances which tend to be dirty, shabby, so many people who are less interested in shopping there. Especially for housewives who work outside the home office prefers modern market as a place they shop.

Management and development of traditional markets in Yogyakarta conducted by the City Government through the Department of Market Management Yogyakarta Yogyakarta city (there are 32 traditional markets). Beringharjo Yogyakarta as the largest market in the city of Yogyakarta. Traditional markets in Yogyakarta activity

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involving stakeholders. The stakeholders include the market managers, traders, consumers, suppliers, and other communities in the traditional market. In addition, as a trade, as well as the market place main livelihood for many people. Therefore, Yogyakarta Market Management Department should maintain and develop the traditional markets in Yogyakarta. The following are rules Mayor of Yogyakarta on the traditional market management:

- Regional Regulation No. 2 of 2009 of Yogyakarta on the market
- Regulation of the city of Yogyakarta number 5 in 2012 on the general service levies.
- Rule mayor of Yogyakarta number 13 of 2010 on the implementation of the instructions of local regulations Yogyakarta No. 2 of 2009 on the market.
- Rule mayor of Yogyakarta number 20 in 2012 on the implementation of the instructions of local regulations Yogyakarta number 5 in 2012 on the general service levies.

### **THE IMPACT OF MODERN MARKETS ON TRADITIONAL MARKETS**

Cadilhon et al. (2006) has shown the significance of the rise of supermarkets and modern distribution businesses in the food marketing systems of developing countries. The same trend has also been documented more specifically in South-East Asia that modern distribution outlets like department stores, supermarkets and hypermarkets are appearing in the region, taking food market shares from traditional retailers.

The diffusion of supermarkets also occurs in waves, from large cities, to small cities and even rural towns and from richer consumers group to the middle class, to the lower middle class and the working poor in urban area. In the first and second wave countries supermarkets have already spread beyond the middle class into the food markets of the urban poor and the rural towns (Reardon & Hopkins, 2006). The impact of the spread of supermarkets is the decline of the traditional retail sector. The fastest decline in the traditional sector is small general stores selling broad lines and processed foods and dairy products.

In Indonesia, sales of supermarkets rise 15 percent a year, those of traditional retail decline at 2 percent a year while nearly all Indonesians except a tiny pocket of rich consumers and expatriates shopped only in small shops and wet markets in 1990, by 2005, 30 percent of overall food is bought in supermarkets and 15 percent of produce.

Modern retailing is growing fast. While figures differ depending definitions used for the latest industry trends, it is clear that the number of modern outlets is

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growing substantially, and that the modern-to-total ratio will continue to climb as it closes in on the 100% mark, as it has done in the more advanced Asian markets. Still, the rise of modern trade has been resisted for years, and while the sector has expanded recently, it is possible that resistance could again increase (Irianto, 2006). Concerns about the dangers of modern retailing to traditional retailing and to the social fabric in general could result in further restrictions.

Moreover, supermarket chains trend towards charging lower prices to consumers than do traditional retailers. This trend is correlated with the stage of diffusion of supermarkets, the type of product and degree of modernization of the chains procurement system which modernization drives down costs (Reardon & Hopkins, 2006).

#### Types of Retailers in Indonesia

<b>Retail Store</b>	<b>Physical Definition</b>	<b>Goods Available</b>
Minimarket– convenience store	<ul style="list-style-type: none"><li>▪ Employ 2-6</li><li>▪ Less than 350 square meters</li></ul>	<ul style="list-style-type: none"><li>▪ Package food</li><li>▪ Basic hygiene goods</li></ul>
Supermarket	<ul style="list-style-type: none"><li>▪ 350-8000 square meters</li><li>▪ 3+ cash registers</li></ul>	<ul style="list-style-type: none"><li>▪ Food</li><li>▪ Household goods</li></ul>
Hypermarket	<ul style="list-style-type: none"><li>▪ Free standing</li><li>▪ Over 8000 square meters</li><li>▪ Cash register for every 1000 square meters</li><li>▪ Employ 350-400</li></ul>	<ul style="list-style-type: none"><li>▪ Food</li><li>▪ Household goods</li><li>▪ Electronics</li><li>▪ Clothing</li><li>▪ Sports goods</li></ul>
Cash and Carry	<ul style="list-style-type: none"><li>▪ Over 500 square meters</li><li>▪ Requires membership to enter</li></ul>	<ul style="list-style-type: none"><li>▪ Food</li><li>▪ Household goods</li></ul>
Small Full Service Store	<ul style="list-style-type: none"><li>▪ Family owned</li><li>▪ Less than 200 square meters</li><li>▪ Independent</li></ul>	<ul style="list-style-type: none"><li>▪ Limited selection of food</li><li>▪ Limited selection of household goods</li></ul>
Traditional Market	<ul style="list-style-type: none"><li>▪ Multiple vendors</li><li>▪ Small stall of 2-10 square meters</li></ul>	<ul style="list-style-type: none"><li>▪ Fresh produce</li><li>▪ Homemade goods</li><li>▪ Basic household goods</li></ul>



The development of a modern market in Indonesia is very fast, in the future will suppress the existence of traditional markets. The modern market is largely owned by foreign retailers and local businesses will gradually replace the traditional market which is majority owned by the community. Therefore, it should be anticipated by the government to make appropriate policies to maintain traditional markets by developing a strategic plan to meet the needs and demands of consumers as has been done by the modern market. The battle between traditional merchants with world giant retailer is a common phenomenon in the era of globalization. If governments do not carefully maintain traditional markets and modern markets in order to be a synergy, then Presidential Regulation, Modern Market will actually make traditional traders destroyed systematically. Presidential Regulation No. 112 of 2007 on the Management and Development of Traditional Market, a shopping center, as well as modern stores (in Pepres described as Modern Market), finally approved by President Susilo Bambang Yudhoyono on December 27, 2007.

Six main issues set out in the zoning Presidential Regulation, partnerships, licensing, trading term, institutional and regulatory sanctions. Problem zoning or layout of traditional markets and modern markets, according Presidential Regulation, compiled by the Regional Government. The layout is a crucial issue because it has not been done consistently. For example, the presence of Carrefour in Ciledug were initially rejected by all the traditional traders in the surrounding environment, but it will eventually be operating in 2007 without any significant problems. The transfer of authority to issue a business license to the Local Government Modern Market, causing traditional markets sacrificed for various reasons. Indications that occurs is largely a modern market does not have a business license from the central government Modern Market.

Local government policies that allow the modern market penetration to the region in the long run will bring the impact of the existence of the traditional market. The lack of regulations that limit the existence of the modern market and the establishment of a modern market without a valid permit will result in free competition without rules. Therefore, government policy required a fair and healthy not just to the existence of the traditional market as a populist economic strength is maintained. Furthermore, traditional markets need to be developed a unique competitive advantage and natural. Even the traditional market can be an asset development of the tourism potential of regional governments for the excellence of the many competing causes of domestic or foreign tourists to visit the traditional markets.

Increasing number of modern market without control will create a capital outflow or at least will not happen backwash effect from the center to the regions. In

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this context, government policy is necessary to create programs that empower traditional market competitiveness. Thus the dynamics of the market is not monopolized by large employers, otherwise people still have a variety of places to shop for alternative options to meet their daily needs.

The lack of supporting infrastructure and the ability of traditional traders in the product package the main triggers of consumer transition to a modern market. So there is a tendency of traditional markets could not compete with the modern market. Although the price is relatively more expensive, consumers have a preference of shopping at the mall because they feel more comfortable, safer, structuring merchandise neat and easy to find. In addition, other facilities such as parking lots, elevators or escalators add consumer convenience.

Because of these problems, the government should position the traditional markets as the economic backbone to improve the welfare of society. Thus, the revitalization of the market is very important in order to trade in traditional markets can compete with modern market. Local Government needs to develop a natural competitive advantage of traditional markets that have special characteristics, both specifications merchandise (such as animal markets, batik Beringharjo, a variety of vegetables in the market Giwangan) or culinary specialties. In other provinces there is also a traditional market is unique because of its place, such as the floating market in Banjarmasin. It became a major destination for the majority of people visit the city to experience the experiential floating market.

So the revitalization of traditional markets should include infrastructure and competence merchant. Infrastructure facilities such as parking, water, landfills, including waste management, fire suppression, the arrangement of the market stalls. In addition, always kept clean and laying garbage waste so that visitors feel comfortable. Human resources necessary to improve the ability of the traders in the buyer including structuring, storage, packaging products and start the habit of throwing garbage in its place. With revitalization, quality of traditional markets is expected to be better and have a competitive advantage that can be marketed to visitors from other cities as an alternative to the development of regional tourism destination.

In essence, traditional markets have a naturally competitive advantage that is not owned by the modern market. As a strategic location, extensive sales area, complete diversity of goods, the price is relatively low, the bargaining system that shows the intimacy between the seller and the buyer are hallmarks of traditional markets. However, this advantage turns into a bad image of traditional markets in the market. Suspected that there are some market traders who use hazardous chemicals as well as relatively easy to obtain in traditional markets, the practice of selling the

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meat mixture, and other fraud in the sale and trade has weakened consumer trust in the traditional market.

Another fact that has further weakened the traditional markets, Indonesia as a consumer society the majority of the middle to lower class. This resulted Indonesian consumers to be very sensitive to price. When factors were initially relatively low price of the strengths of traditional markets challenged directly by the excellence of the attributes of the modern market. Even consumers from the middle to lower also began to prefer contribute to the modern market shopping and leave the traditional market. Modern markets, such as the mini market is almost always can be encountered within the short distance at competitive rates.

## **CONCLUSION**

Although traditional markets outnumber the modern markets and the majority of consumers in Indonesia still prefer traditional markets, the number of modern markets is increasing in rural areas. With more than 238 million people, Indonesia is a good market for both national and international retailers. Along with the development of modern markets, such as minimarkets, supermarkets and hypermarkets, many problems have arisen which are putting small traditional retailers in a difficult position. The solution is in the hands of government through regulation of market allocation or placement; determining how many modern markets are permitted in a certain area; the distance from existing traditional markets; market rehabilitation. Despite the competition, the traditional markets have several advantages which enable them to compete. There is also a belief that the quality of the fresh produce in traditional markets is safer than that in modern markets.

The results of this study are expected to be useful for government policy in making public policies that empower the middle and lower class. Besides traditional markets spatial models that meet suitability as a potential alternative tourism will boost the economy of the region as an alternative community-based business opportunity in the area of local wisdom.

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