

# POLICY BRIEF

## IMPACT OF SUPERMARKET ON TRADITIONAL MARKETS AND RETAILERS IN INDONESIA'S URBAN CENTERS

### I. Background

Since the deregulation of the retail industry in 1998, the number of supermarkets, hypermarkets, and minimarkets (collectively coined "modern markets") in Indonesia has skyrocketed. Several groups claim that the resulting intense competition with modern markets has caused the decline of the traditional market. In 2006, SMERU conducted a study on the impact of supermarkets on traditional markets in Indonesia's urban centers. The study was conducted in Depok and Bandung, and used a combination of qualitative and quantitative methods. Traditional traders in seven traditional markets (five treatment and two control markets) were interviewed using a questionnaire, and in-depth interviews were conducted with traditional market managers, supermarket officials, officials from relevant local government agencies, and representatives from the Traditional Traders' Association (APPSI) and the Modern Retailers' Association (Aprindo).

### II. Findings

While the quantitative findings show that supermarkets have a statistically significant impact on the number of employees in traditional markets, no statistically significant impact on either earnings or profit of traditional traders was found. The qualitative findings suggest that the decline in traditional markets is mostly caused by internal problems, from which supermarkets benefit.

The majority of traders in both treatment and control markets have experienced a decline in business since 2003. In-depth interviews reveal four main issues that explain the causes for the downturn in business in both treatment and control markets: first, the lack of basic infrastructure in the markets; second, the intense competition with street vendors occupying areas around the market; third, lack of funds for business expansion; fourth, the decline in their customers' purchasing power due to the fuel price increase in 2005. In addition, some traditional traders in the treatment markets also say that the supermarkets have contributed to the decline in business.

The study also finds that almost 90% of traditional traders pay their suppliers in cash, and 88% use their own funds for working capital. Most do not have any form of business insurance. Traditional traders are thus highly susceptible to any fluctuation in earnings, and fully bear the risk for any loss of their merchandise. Poor access to alternative sources of capital also acts as a major constraint for any traditional traders wishing to expand their business.

### III. Recommendations

#### 1. Improve Market Management Systems

In order to properly address the specific issues that plague traditional markets, market management systems must be improved. Due to pressures to reach retribusi (market services fees) targets, the majority of market managers currently occupy their time with the sole task of retribusi collection. The Office of Market Management (OMM) should thus ensure that retribusi targets are realistic, and that the task of retribusi collection is delegated appropriately. Moreover, market managers must be sufficiently qualified and be given the authority to make market management decisions. Market managers should also be encouraged to consult and coordinate with traders in order to achieve better market management. A joint venture between local government and the private sector such as that in the Bumi Serpong Damai area may help to facilitate improvements in market management and infrastructure.

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### 2. Improve Traditional Market Infrastructure

In order to attract more customers, the general environment within traditional markets must be improved. Ample ventilation and lighting, adequate garbage disposal facilities for traders, and the monitoring and maintenance of hygiene and general cleanliness levels must all be ensured. Health and safety regulations must be met and regular compliance monitoring should be conducted by local governments in order to restore consumer confidence. In addition, sufficient and easily accessible parking facilities are required. Public transportation routes should also service traditional markets.

The current multi-storied market building design is not popular among traders, as customers are unwilling to go to either upper or basement levels. However, markets already located in multi-story buildings can be improved by ensuring that stairways are not too steep, are well lit, and are clear of obstacles. Each floor should be dedicated to particular types of goods, which will increase customer flow to the basement and upper floors.

### 3. Organize Street Vendors

Organizing street vendors, by enforcing regulations banning street vendors from opening stalls around a traditional market, and moving them instead to kiosks inside the market building will have a significant positive impact on trade levels at traditional markets. This will ensure a fairer system, whereby all traders are subject to the same retribusi regulations, and will mean that shoppers are required to enter the market buildings in order to make their purchases.

### 4. Provide Support to Traditional Traders

#### a. Examining business insurance options

Local government should support the examination of suitable business insurance options for traditional traders, to cover loss of stock and assets. Any option under consideration must be accessible and affordable for traditional market traders. Information regarding insurance and how it helps to protect traditional traders against loss should also be disseminated within traditional markets.

#### b. Capital assistance for traditional traders

While some commercial banks currently offer loans for traders, the interest is high and the requirements are difficult for traditional traders to fulfill. Local governments, through the OMM, should ensure that traditional traders have access to microfinance options, to enable them to expand their business.

### 5. Thorough Regulation of Modern Markets

National and local governments must have control mechanisms and monitoring systems in place to ensure fairer competition amongst traditional and modern retailers. Regulation of modern markets should cover such issues as the rights and responsibilities of modern market operators and the local administration, and also sanctions for breaching the regulations. While some administrations may deem it necessary to have a separate bylaw, the improvement of the current bylaw should be sufficient.

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