

# TRADITIONAL RETAILER'S PERCEPTION ON THE IMPACT OF MODERN RETAIL GROWTH IN BANDUNG

(Case Study in Pasar Cibogo, Pasar Ancol, and Pasar Saeuran Bandung)

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## ABSTRAK

Pertumbuhan modern ritel yang sangat cepat di Indonesia menimbulkan perdebatan mengenai bagaimana pertumbuhan yang cepat ini mempengaruhi sektor ritel tradisional. Tujuan dari tulisan ini menitikberatkan kepada persepsi para peritel tradisional mengenai dampak dari pertumbuhan modern ritel terhadap pendapatan peritel tradisional. Studi ini menggunakan pendekatan analisis deskriptif. Data primer diperoleh berdasarkan wawancara mendalam dengan 45 peritel tradisional yang berlokasi di 3 pasar tradisional di Bandung. Hasil studi menunjukkan bahwa: (1) Bertolak belakang dengan pandangan pada umumnya, peritel tradisional (yang menjual sayur dan buah segar) percaya bahwa keberadaan ritel modern di sekitar lokasi penjualan mereka memiliki dampak yang kecil terhadap pendapatan mereka. (2) Penurunan pendapatan peritel tradisional yang terlibat dalam studi ini disebabkan terutama karena adanya kompetisi dengan para pedagang kaki lima (PKL) dan permasalahan yang berkaitan dengan manajemen internal dari pasar tradisional itu sendiri seperti misalnya peningkatan harga sewa jongko dan keterbatasan infrastruktur pendukung lainnya. (3) Diferensiasi produk (dalam kualitas dan jenis produk) yang diperjualbelikan di pasar tradisional dan pasar modern serta perbedaan segmen pasar diantara keduanya, membuat kedua jenis pasar ini saling melengkapi satu sama lain.

**Kata kunci:** persepsi peritel, dampak, pertumbuhan ritel modern, ritel tradisional, Bandung

## ABSTRACT

*Rapid rise of modern retails in Indonesia raised a debate on how this rapid rise affects traditional retail sectors. This study highlights traditional retailer's perception on the impact of modern retail growth to their income. Descriptive analysis is used in this study. Primary data was gained from in depth interview with 45 traditional retailers in 3 traditional markets in Bandung. This study shows that: (1) On the contrary with the conventional wisdom, traditional retailers (who sell FFV) believe that the existence of modern retails nearby their selling locations has little impact on their income. (2) Decreasing income of traditional retailers in our study is mostly caused by competition with illegal street vendors and internal traditional market management issues such as increasing rental price of stalls and limited infrastructures. (3) Product differentiation (in quality and type of goods) that are sold in traditional and modern retails and market segmentation, make these two types of markets complement to each other.*

**Keywords:** retailer's perception, impact, modern retail growth, traditional retail, Bandung.

## OBJECTIVE AND SCOPE OF THE STUDY

The aim of this paper is to describe the impact of modern retail (hypermarket, supermarket, minimarket) growth to traditional retailers in Bandung from traditional retailer's perspective. The study is limited to traditional retailers who sell fruits and vegetables.

## INTRODUCTION

Increases in income, urbanization, market liberalization and privatization through foreign direct investment (FDI) are believed to be the factors that induce agrifood transformation in developing countries in the past 50 years (Reardon et al, 2009). The agrifood transformation includes restructuring of

wholesale, processing, and restructuring of retail sector. For the retail sector, the expansion of modern food retailing in developing countries is believed to be driven by growing consumer demand for non price characteristics (primarily convenience, quality, and product diversity) and lower prices arising from efficiency and economic of scale (Minten & Reardon, 2008). It is believed that the restructuring was started in the early 1990s. Reardon & Timmer (2007) named this phase as the starting point of “supermarket revolution” in developing countries. Supermarket revolution is characterized by the rapid rise of modern retail in format (various types of modern retail) as well as in their coverage (spread from big cities to small cities, from upper level consumers to middle or lower level consumers).

Agrifood transformation with supermarket revolution also occurs in Indonesia. Removal of FDI restriction on retail sector in 1998 is believed to be the catalyst for the rapid rise of modern retail in Indonesia (Natawidjaja et al, 2007; Suryadarma et al, 2008). All income level target market, spread through the country, business consolidation, business format development, multinasionalization, rapid development and market expansion are things that characterized this transformation.

Suryadarma et al (2008) shows that the number of hypermart (such as Carrefour, Giant, etc) from 1998 to 2003 increased 27% per year; supermarket growth was 85% per year in average. Indonesia Commercial Newsletter (2011) also shows that the asset of retail business in the country has increased rapidly to follow the growing number of the outlets to reach 18,152 units in 2011 from 10,365 units in 2007. In accordance with the fact above, Damayanti et al (2014) also shows that in the past ten years, the number of minimarket grew 17.4% per year, and hypermarket 17.9% per year. However, the number of supermarket relatively decreased by 3% per year.

In terms of share of retail sales, AC. Nielson shows that although traditional retail still dominates the market, the growth of modern retail (grocery retailing) in Indonesia increased very rapidly from 25% in 2002 to 44% in 2012. The most growth occurred in the minimarket format.

In line with the national level data, the same condition can also be found in West Java. The growth of modern retail in West Java has significantly increasing. In 2008, the number of

minimarket was 279 stores and hypermarket was 9 stores. In 2010, the number of minimarket and hypermarket were increasing to 500 and 59 stores consecutively. While the number of minimarket and hypermarket were increasing by 79% and 190%, the number of supermarket was decreasing by almost 70% (APRINDO Jabar, 2011).

Similar to the national and province level, the rapid growth of modern retail market in Bandung (the capital city of West Java with 8.6 million populations in 2011 thus the country's third largest city by populations) was also notably increasing. In 2010, the number of modern retail (minimarket, supermarket, and hypermarket) was 253 stores (APRINDO Jabar, 2011). Thus, approximately 60% of modern retail in West Java was located in Bandung. On the other hand, Bandung also has approximately 35 traditional local retails in 2011 while it was 40 traditional retails in 2010 (AC Nielson, 2011). This situation, hypothetically, gives much pressure for local traditional retail around Bandung.

Several studies have been done to respond this condition. However, a study that focuses on how the traditional retailers perception on the growth of modern retails in their neighboring location has not been done. Thus, this study is done to fill in the gap. It focuses to describe on how traditional retailer's perception on the impact of modern retail rapid growth to their business particularly and traditional retailers in general.

## METHOD

This study highly emphasis on descriptive analysis. Primary data that is used in this case study were collected by in-depth interview and field observation in May to June 2015. 45 traditional retailers from three traditional markets in Bandung were selected as respondents using a purposive sampling procedure. The respondents that were selected are limited to fruits and vegetables seller and have been in the market for at least five years. Apart from traditional retailers, 30 consumers in traditional markets and 30 consumers in modern market were also interviewed to get additional information that is needed in this study.

Three traditional markets were selected purposively using the following criteria. First, we selected three regions in Bandung that represent the consumer's social and economic characteristics (upper, middle, and lower income level): North, Central, and East

Bandung. Second, we selected one traditional retail market from each region but there should be at least one modern retails near the traditional market. Based on these criteria, Pasar Cibogo, Pasar Ancol, and Pasar Saeuran were selected.

### ***Pasar Cibogo***

Pasar Cibogo is located in Jl. Kecamatan, Sarijadi, North part of Bandung. Relatively dense populated housing surrounds it, both flats and elite housings. There isn't any permanent market building in this market, instead, the retailers peddle their products on carts or mats. Most of them sell fruits, vegetables, fish, meat, and rice. The market usually operates from 4 am to 4 pm everyday.

There are at least two modern retails nearby this traditional market. A minimarket is just across the market (less than 50 meters) and a hypermarket is located approximately 1300 meters from the market.

### ***Pasar Ancol***

Pasar Ancol is located in Jl. Ancol, Karapitan, Central Bandung. This traditional market was built in 1949 and it was renovated in 1976 and in 2009. Total areal of this market is 1,950 meter squared with three storages building. The first floor is for fresh market (fruits, vegetables, fish, meat, rice, etc.), the second floor is for clothing and processed food, and the third is the office. The market usually operates from morning to 4 pm everyday.

There are also two modern retails around this traditional market. One is minimarket that is located approximately 400 meters from Pasar Ancol, and the other one is a supermarket that is located 800 meters from Pasar Ancol. The supermarket was built in 2011 but the minimarket is there after 2011.

### ***Pasar Saeuran***

Pasar Saeuran is located in Jl. Gatot Subroto, Binong, East Bandung. Total areal of this market is 7,366 meter squared. The market usually operates from morning to 4 pm everyday. Supporting facilities for this market is relatively limited. It can be seen from the bad road condition and there isn't any parking lot available. It is also worsened by the existence of many illegal street vendors. There is a supermarket approximately 500 meters from this traditional market. This supermarket is built in more than five years ago.

## **KEY FINDINGS**

Based on the respondent information in Pasar Cibogo, 14 out of 15 respondents said that they are not bothered by the existence of modern retails nearby the traditional market where they sell their goods. They said that reduction in their income is relatively not because the impact of the existence of modern retails, but more because of internal factor as follows: lack of fund for business expansion, limited market facilities and infrastructures, volatile consumer's purchasing power, and the most significant factor is the competition with other retailers in the market and with illegal street vendors.

A respondent that sells fresh product (fruits and vegetables) who also sells groceries (palm oil, sugar, etc.) in Pasar Cibogo said that there is no significant impact perceived from the existence of modern retailers for fresh fruits and vegetables (FFV) selling because their products are fresher than the FFV in modern retails. However, he said that there is much or less impact on palm oil selling. He said that sales promotion that is often done by modern retails attracts consumers to buy the oil from modern retails than traditional retails due to the lower price offered by the modern retails. This opinion is supported by consumer's information (we interviewed 10 respondents randomly from those who came/bought products in the hypermarket). Approximately 75% of the respondents said that they buy products from modern retails because the hypermarket offers promotion and price discount on certain times.

Apart from the different type of products that is sold, some traditional retailer respondents also said that they have different market segment. They said that majority of their consumers are middle lower income level, but the consumers of hypermarket are middle up income level. They seem to be sure about this because they know most of their buyers who have become their customers for quite a while.

Our observation in Pasar Cibogo also supports this idea. Majority of the consumers that came to the market while we were doing our observation, seem to be from middle lower class income. It can be seen from their appearance, clothing, and most of them came on foot or motorcycle (not using cars). It seems like that the buyers who came is from nearby housing (flats) or maybe the assistant (maid) of family who lives in elite housing that are located not too far from the market.

Based on our interviewed with ten respondents (that are selected randomly in Pasar Cibogo), 90% of respondents bought their needs from traditional retails because they have retailers that they usually buy their needs from. They also said that they could find most of their needs in traditional markets compared to in modern markets. The other 10% said that they went to traditional market to buy products that were couldn't be found in other places. This finding is consistent with Maharani & Oesman (2014) who find that fresher products, more complete types of goods, and the opportunity to bargain the price are features that attract people to buy things from traditional market.

Based on the respondent information in Pasar Ancol, 12 out of 15 respondents (80%) felt that their income and omzet were not related with the existence of supermarket nearby their traditional market. They said that their income decreasing since it's been renovated into a market building in 2009 that attracted more sellers into the market thus increasing competition between the retailers in the market. They also said the reduction of their income also because of the increasing rental price for their stalls.

These 12 respondents believe that their market segment is different from the supermarket. They also believe that their customers are: (1) Final consumer buyers, who have been their loyal customers for many years; and (2) Buyers who buy in relatively large amount for reselling in fresh or in form of processed food to be sold to final consumers. Note that a long Jl. Ancol, there are many street vendors which sell various kind of ready to eat food.

On the contrary with those who believe that there is no impact from the existence of supermarket near their selling location, 20% of respondents said that there is negative impact of the existence of supermarket nearby their place. They believe that their income decreased 50% from 4 million rupiah to 2 million rupiah/day in average, and they claimed that this decline is because of the existence of supermarket near their selling location.

Almost the same information also gained from traditional retailers in Pasar Saeuran. Most of the retailers, who sell vegetables, and fresh meat (poultry, beef, fish), said that the presence of supermarket near their selling location did not affect their income. However, those who sell sugar, can products, and other non-fresh

groceries, felt that the presence of supermarket was more or less affecting their income.

Based on interview with consumers who came to Pasar Saeuran and consumers who came to supermarket, it can be inferred that consumers prefer go to Pasar Saeuran to buy fresh products for their daily needs and go to supermarket to buy groceries. Higher probability of older respondents chooses to go to Pasar Saeuran compare to the younger respondents because of familiarity and loyalty factors. It is also known that in the end of the month, probability of going to Pasar Saeuran is higher than to supermarket.

Based on the description from respondents in three different traditional markets, we found several key findings as follow. *First*, on the contrary with the conventional wisdom, traditional retailers (who sell FFV) in our study believe that the existence of modern retails nearby their selling locations has very little impact on their income. This finding is consistent with several other literatures (Rahayuningrum & Widayanti, 2007; Suryadarma et al, 2008). *Second*, decreasing income of traditional retailers in our study is mostly caused by competition with illegal street vendors and internal traditional market management issues such as increasing rental price of stalls and limited infrastructures (consistent with Suryadarma et al findings in 2008). *Third*, product differentiation (in quality and type of goods) that are sold in traditional and modern retails and market segmentation, make these two types of markets complement to each other. It means that the existence of modern retails do not necessarily replace the function of traditional retails.

## CONCLUSIONS

This study serves as empirical evidence that in Indonesia, traditional retails and modern retails may coexist. It can be maintained by improving traditional retail's infrastructure, improving a better traditional market management that doesn't put more burdens to retailers (by lowering the stall's rental price, not increasing the rental price).

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