SMERU

Research Report

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Impact of Supermarkets on Traditional Markets and Retailers in Indonesia's Urban Centers

August 2007

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RESEARCH REPORT

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Impact of Supermarkets on Traditional Markets and Retailers in Indonesia's Urban Centers*

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ABSTRACT

This study measures the impact of supermarkets on traditional markets in urban centers in Indonesia quantitatively using difference-in-difference and econometric methods as well as qualitatively using in-depth interviews. The quantitative methods find no statistically significant impact on earnings and profit but a statistically significant impact of supermarkets on the number of employees in traditional markets. The qualitative findings suggest that the decline in traditional markets is mostly caused by internal problems from which supermarkets benefit. Therefore, ensuring the sustainability of traditional markets would require an overhaul of the traditional market management system, enabling them to compete with and survive alongside supermarkets.

Key words: impact evaluation, traditional market, supermarket, urban, Indonesia

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ABBREVIATIONS

OMM		Office of Market Management
FDI		Foreign Direct Investment
APPSI	*Asosiasi Pedagang Pasar Seluruh Indonesia*	Traditional Traders' Association
APRINDO	*Asosiasi Pengusaha Ritel Indonesia*	Modern Retailers' Association

GLOSSARY

Dinas Pasar	Office of Market Management (OMM)
Retribusi	Market services fees

EXECUTIVE SUMMARY

Supermarkets have been around in major urban centers in Indonesia for the last three decades. At the onset of the liberalization of the retail sector in 1998, however, foreign supermarket operators began entering the country, sparking fierce competition with local operators. Some corners claim that traditional markets are the real victims of the intense competition as they lose their customers due to the cheap, high quality products and the more comfortable shopping environment that supermarkets provide. Therefore, there are calls to limit the construction of supermarkets, especially in locations near traditional markets.

This study investigates the truth behind these claims by measuring the impact of supermarkets on traditional market traders in Indonesia's urban centers. Primarily quantitative research methods have been employed and qualitative research was conducted to reveal the stories behind the quantitative findings. The quantitative methods utilize the difference-in-difference (DiD) and econometric methods. The qualitative method consists of in-depth interviews with the Traditional Traders' Association (APPSI), Modern Retailers' Association (APRINDO), traditional market managers, traditional market traders, supermarket officials, and officials from relevant local government agencies.

Five traditional markets were chosen as the treatment group, while two traditional markets were chosen as the control group. The sampling frame ensures that these markets are representative of traditional markets in urban areas in Indonesia. Furthermore, it also ensures that the treatment and control groups have relatively the same characteristics other than their proximity to supermarkets. Two treatment markets and one control market are located in Depok, an urban center near Jakarta, while the rest are located in the Greater Bandung area, the capital of West Java Province. Randomly selected traders in these markets were interviewed using a questionnaire. These traders are representative of the traditional markets. In addition, we conducted 37 in-depth interviews with the aforementioned stakeholders.

In contrast to supermarkets, the majority of traditional markets are owned and operated by the local administration, usually under the Office of Market Management (*Dinas Pasar*). A relatively small share of traditional markets, however, is developed through cooperation between the local administration and private companies, normally under a build-operate-transfer (BOT) scheme. The private companies then pay the local administration a set contribution.

A market manager appointed by the head of the Office of Market Management manages the markets owned by the local administration. In some cases, market managers are responsible for more than one market. The Office of Market Management sets an annual market services fees (*retribusi*) income target for each market it owns. The main duty of the market manager is to achieve this target. Failing to achieve the target often results in the immediate dismissal of the market manager. Therefore, more often than not, collecting *retribusi* from the traders becomes the sole occupation of a traditional market manager instead of properly managing the market.

The main commodities sold in the traditional markets are fresh vegetables, sold by one fifth of traders, followed by other food and beverage ingredients. In contrast, only 7% of traders sell rice, the staple food of most Indonesians. Only one third of traders have households as their main customers. When asked who their main competitors are, 32.9% of traders identify other traders in the market, 27% identify supermarkets, 18% identify street vendors as their main rivals, and 13% declare that they have no competitors. In contrast to the high share of traders who are able to identify their competitors, there is a glaring lack of real strategy employed to beat the competition. Only 20% of traders have a quality assurance policy and another 13% provide discounts to loyal customers, while 38% rely only on politeness to customers and almost 10% have no strategy at all.

In terms of supply chain, 40% of traders mainly use professional suppliers, while 30% get their goods from wholesale markets. Almost 90% pay their suppliers with cash. These conditions mean that traders in traditional markets fully bear the risk for loss of their merchandise. This contrasts with supermarkets, which mainly use consignment or credit methods. Regarding working capital, 87.6% of traders use their own capital, which indicates their lack of access or willingness to make use of commercial loans to finance their business. This could act as a major constraint for expanding their business.

On average, traders in both treatment and control markets have experienced a decline in their business over the past three years. In the in-depth interviews, respondents revealed the main causes for this decline were the weakened purchasing power of their customers due to the fuel price increases, and the increased competition with street vendors who occupy the parking spaces and other areas surrounding the markets. According to the in-depth interviews, the third cause of the decline in business for traditional market traders is supermarkets. This was especially found for traders in the treatment group. It should be noted, however, that supermarkets were identified as the primary cause of the decline in business by traders in Pamoyanan, the only market in the study where the majority of market customers are middle-class households, and which also does not have a problem with street vendors.

The qualitative analysis finds that supermarkets indeed adversely impact the traditional retailers. Furthermore, it found evidence that traditional markets located near supermarkets are more adversely affected than those further away. However, this is largely due to the weak competitiveness of traditional retailers. The traders, market managers, and APPSI representatives all state that the main steps that should be taken to ensure their survival are improving the traditional market infrastructure, organizing the street vendors, and creating better market management practices. Most traders explicitly stated their confidence that supermarkets would not drive them out of business if the above conditions were met.

The quantitative impact analysis finds mixed statistical results for various performance indicators of traditional markets, such as profits, earnings, and employee numbers. Out of these performance indicators, supermarkets only statistically impact traditional markets by the number of employees hired by the traditional traders. The data indicates that traditional traders are willing to hire more employees the further they are located from the supermarkets, and vice versa. Traditional traders are competing in 'an almost perfect competition' and their strategies to maintain normal profits include adding to the amount and variety of products sold, and reducing expenses—including the cost of hiring employees.

While we indeed find evidence of traders that have gone out of business during the last three years, reasons for this are more complex than the entry of supermarkets alone. Most business closures are related to internal market and personal problems. In addition, traders who sell mainly to non-households and have maintained a good relationship with customers over a long period are more likely to stay in business.

The results from the qualitative and quantitative analysis above are further confirmed by the success story of a traditional market located in the Bumi Serpong Damai residential area in Tangerang, which has retained its customers in spite of new supermarkets opening nearby. A real estate developer and the local government jointly manage the traditional market. It is generally clean, safe, and has ample parking spaces and sufficient amenities. This market has also successfully applied a single-story building design with high ceilings to provide adequate air circulation. This proves that a competitive traditional market is able to successfully compete with and exist near supermarkets.

In order to ensure a thriving traditional market environment, policies that will help to increase the competitiveness of traditional markets must be created and implemented. Firstly, improve the infrastructure in the traditional markets. This includes ensuring proper hygiene and cleanliness levels, ample lighting, and an overall comfortable environment. For example, the current two-story market building design is not popular among traders because customers are unwilling to go to the upper floor.

In order to do this, local governments and private traditional market managers must go beyond considering traditional markets only as a source of income. They must invest in the upgrade of traditional markets and set a minimum standard for services. This also entails appointing qualified people as market managers and giving them enough authority to make decisions, so they do not act solely as *retribusi* collectors. It is also important to enhance the performance of market managers either by providing training or by regular evaluation. Furthermore, the market manager should consistently 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 might also be a solution to increase the competitiveness of traditional market.

Secondly, local governments should organize the street vendors, either by providing kiosks inside the traditional markets or by enforcing the law banning them from opening stalls around a traditional market. It is very important to prevent these vendors blocking the market entrance.

The third recommendation pertains to the traders themselves. Most of them have to pay their suppliers with cash and use their own capital for the business. This poses a constraint for business expansion, and also means that the traders are burdened with all the risks associated with doing business. Given that it is not common practice to insure a business, the traders are vulnerable to even a small shock. Therefore, it is worth investigating the types of insurance suitable for traders, and assisting them should they need additional capital to finance expansion.

Finally, the conditions uncovered in our study areas point to the need for the thorough regulation of modern markets, including such issues as the rights and responsibilities of the 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. In addition, both levels of governments should act strictly in accordance with the regulations. Moreover, it is important to ensure that the regulations are understood by all stakeholders. National and regional governments must have control mechanisms and monitoring systems in place to ensure fair competition amongst traditional and modern retailers.

I. INTRODUCTION

Bitter competition in the retail industry has been present in developed countries for much of the past century, particularly in the United States and Western Europe. The competition exists mainly between traditional retailers and modern retailers, that is, supermarkets and hypermarkets. Towards the last decade of the millennium, however, the battleground has expanded to developing countries, where deregulations in the retail sector aimed at increasing foreign direct investment (FDI) have resulted in the proliferation of supermarket chains (Reardon & Hopkins 2006). Reardon et al (2003) find that as of 2003, supermarkets' share of the retail food sector in scores of developing economies, such as South Korea, Thailand, Taiwan, Mexico, Poland, and Hungary, has reached 50%. In Brazil and Argentina, where the proliferation began earlier, the share was around 60%. Traill (2006) uses various assumptions and predicts that by 2015, supermarkets' share of the retail food market will reach between 61% in Argentina, Mexico, and Poland; 67% in Hungary; and 76% in Brazil.

In Indonesia, local supermarkets have been around since the 1970s, although they are still concentrated in large urban centers. Foreign-brand supermarkets began entering the market in late 1990s as FDI in the retail sector was opened in 1998. The increased competition has resulted in supermarkets reaching smaller cities in their efforts to find new consumers and wage price wars. Hence, while Indonesian supermarkets catered only to the upper class in the 1980s and early 1990s (CPIS 1994), their mushrooming in smaller cities and predatory pricing practices mean that consumers from the lower classes now have easy access to supermarkets. This is certainly also the case in other developing countries (Reardon et al 2003; Collett & Wallace 2006). While the competition between supermarkets is theoretically beneficial to consumers, and perhaps to the economy as a whole, relatively little is known about the impact of supermarkets on traditional markets. Measuring the impact is especially crucial given that supermarkets are now directly competing with traditional markets, which used to cater to a different market segment. This study analyzes the impact of supermarkets on traditional markets and retailers in urban centers Indonesia.[1]

In this study we limit our respondents to 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. Therefore, this study looks at the impact of supermarkets and hypermarkets on traders in traditional markets in Indonesia. Types of retailers in Indonesia are listed in Appendix I, and the word "supermarket" points to both supermarkets and hypermarkets wherever no distinction is specifically mentioned.

The rest of the report is as follows. Section II provides a concise literature review on the impact of supermarkets on traditional retailers and suppliers, mainly from studies in other developing countries. Section III explains the research methodology and research

[1]This research is a part of a larger World Bank study on supermarkets in Indonesia. The other two parts of the study look at the shopping patterns of households in urban Indonesia and the supermarket supply chain in West Java.

instruments used in the study. Section IV describes the sampling frame. Section V looks at regulations pertaining to the retail sector in Indonesia. Section VI discusses supermarkets in Indonesia. Section VII examines the traditional market setting in urban centers in Indonesia. Section VIII spells out the characteristics of traders in the traditional markets. Section IX looks at changes in business performance of the traditional traders. Section X discusses the impact of supermarkets on traditional markets. Section XI consists of the conclusions and is followed by the policy recommendations.

II. LITERATURE REVIEW

There is a wealth of literature dealing with the two main areas where supermarkets have affected the retail sector in developing countries: supply chains and traditional retailers (see Reardon & Berdegué 2002, Reardon et al 2003, Traill 2006, and Reardon & Hopkins 2006 for literature reviews on country-specific studies). Supermarkets choose, regulate, and tie their suppliers to a medium-term contract through their economies of scale. They either have their own distribution centers to deal directly with farmers or use specialized wholesalers to supply them with food of previously agreed quality and packaging. This practice has both positive and negative impacts on the supply chains. On the positive side, it forces the suppliers to be professional because they must transport the goods as scheduled and have audited financial reports. Secondly, the suppliers are now not as vulnerable to price changes as the prices have been agreed upon in the contract. However, the negative effects include supermarkets excluding small suppliers who cannot keep up with the quality standards, a stocking fee charge, and much longer payment periods than traditional retailers.

The general impact on traditional retailers has been negative and usually follows the same pattern. The first traditional retailers to go out of business are usually those selling broad types of goods, processed foods, and dairy products, with fresh produce shops and wet markets following afterwards. After several years of competition, the traditional retailers that are usually still in business are those selling niche products or those in locations where supermarkets are legally prevented from entering.

This trend is not surprising for several reasons. Firstly, supermarkets, through their economies of scale, can afford to sell cheaper and mostly higher quality products. Moreover, information on the price of each good is listed and easily accessible by the public. Thirdly, supermarkets provide a cleaner and more comfortable shopping environment, have longer opening hours, and offer more payment options—such as credit and debit cards and credit financing for large household appliances. Fourthly, products sold in supermarkets, such as foodstuffs, pass quality controls and are not sold past their expiration dates.

Only one study on the relationship between supermarkets and traditional markets in Indonesia was identified. CPIS (1994) find that traditional markets and supermarkets attract different segments of consumers. The former attract mostly low-end consumers, while the latter attract mainly the middle and upper class consumer. However, it is important to note that the CPIS study was conducted before the retail sector was opened to FDI in 1998.

Moreover, the CPIS study finds that the goods sold in the two market types are largely complementary, with traditional markets providing fresh foods and supermarkets selling processed food and non-food goods. Related to this difference, the study states that the competitive advantage of traditional markets is the low prices and freshness of the produce, while supermarkets provide superior comfort and cleanliness. Thus, the study asserts that traditional markets and supermarkets complement each other. However, the study also warns that if traditional markets are not managed properly, they could lose their advantage over the supermarkets. Hence, policy recommendations from the CPIS study involve strengthening the traditional markets rather than creating zoning regulations or limiting the operating hours of the supermarkets.

III. RESEARCH METHODOLOGY

This study combines quantitative and qualitative methods. The quantitative impact evaluation uses the difference-in-difference methodology and an econometric model, two widely used methods in impact evaluation (Baker 2000). Meanwhile, the qualitative impact evaluation is in the form of in-depth interviews with key informants. The study used a questionnaire for the traders and interview guidelines for the key informants as research instruments. The questionnaire contains questions about traders' opinions of their business and the impact of supermarkets in addition to facts regarding the traders' operations.

A. Difference-in-Difference (DiD)

The DiD methodology requires recording conditions in two time periods—before and after the treatment. In this case, the treatment is the opening of supermarkets. Furthermore, there should be control groups (i.e. traders in traditional markets with no supermarket close-by), and the characteristics of the treatment and control groups must be similar. The framework of the DiD methodology is shown in Equation 1.

$$Impact = (T_2 - T_1) - (C_2 - C_1) \qquad (1)$$

where T_1 and T_2 are the condition of the traders in traditional markets before and after the arrival of a supermarket near the traditional market respectively, and C_1 and C_2 are the condition of the traders in traditional markets where there is no supermarket nearby for the same period as the treatment group. If the impact is significantly different from zero, then supermarket indeed impact traditional markets.

In this study, we set the baseline period at 2003 in order to ensure that the traders still have a relatively accurate recall of the conditions. Secondly, the onset of hypermarkets entering smaller cities began in late 2003, making that year suitable to act as the baseline.

B. Econometric Model

Whereas DiD only calculates whether the difference between control and treatment groups is statistically significant without controlling for other variables, the econometric model controls both observable and unobservable conditions that may contribute to the results. Observable conditions include the education level of the traders, type of commodities sold, and kiosk location. To control for unobservable conditions, we include location dummy variables in some specifications.

We use two reduced-form econometric models. The first only uses ex-ante characteristics as the control variables, while the other uses both ex-ante conditions and their changes between 2003 and 2006. The general models are shown in Equations 2 and 3.

$$\Delta C_i = \alpha + \beta X_i + \gamma S_i + \varepsilon_i \quad (2)$$

$$\Delta C_i = \alpha' + \beta' X_i + \theta' \Delta X_i + \gamma' S_i + \varepsilon_i' \quad (3)$$

where ΔC_i is the proportional change in performance indicators of trader i. The performance indicators that we use are profit, earnings, and number of employees. X_i is the control variables, ΔX_i is the changes in the control variables, and S_i is the variable that differentiates the control from the treatment groups. We test two differentiating indicators: a dummy variable and the distance to the nearest supermarket. The mean and standard deviation of the control variables are in Appendix V.

C. In-depth Interviews

The qualitative impact assessment involves interviewing stakeholders in the retail sector: selected traditional market traders; traditional market managers; supermarket managers; relevant government officials at the district planning agencies, district trade and industry office, and district market management office; Modern Retailers' Association (APRINDO); and Traditional Traders' Association (APPSI) in the sampled districts. In total, 37 key informants were interviewed.

IV. SAMPLING FRAME

We focus the study in urban areas with the largest density of supermarkets: Greater Jakarta and Bandung. Greater Jakarta is comprised of Jakarta, Bogor, Tangerang, Depok, and Bekasi. The traditional markets forming the treatment group were chosen purposively based on the following conditions: there is a supermarket within a five-kilometer radius from the traditional market; the supermarket must have been opened between 2003 and 2006, or if there are several supermarkets, they all must have been opened within that period; the traditional markets should be located in the same district as a supermarket in the control group; and the traditional market must not have been renovated after 2003.

There are 98 traditional markets in Greater Jakarta and 20 traditional markets in Bandung, and approximately 188 modern retailers/shopping malls in Greater Jakarta and 80 in Bandung. Only those that have opened in the past three years are kept in the sampling frame. The locations of the markets are then overlaid with the locations of the modern retailers. Traditional markets that have no modern retailers within a radius of five kilometers, have been renovated during the past three years, or have had modern retailers in their vicinity before 2003 are dropped from the sampling frame.

The traditional markets that serve as the control group are chosen according to the following conditions: the traditional market should also be located in the same district as those in the treatment group; there is no supermarket within a five-kilometer radius from the traditional market; there will be a supermarket opening near the traditional market in 2007; and the traditional market must not have been renovated after 2003. Traditional markets that will have a supermarket opened near them in 2007 were specifically chosen because a traditional market serving an area that supermarkets are not interested in may not be comparable to those in the treatment group.

As mentioned above, both treatment and control groups must be located within the same district and, if possible, neighboring subdistrict. This is important to ensure that the characteristics of the areas and sites are well matched, such as population number and population density (see Appendix IX).

Using our sampling frame, we found two traditional markets in Depok to represent Greater Jakarta, and three in Bandung. Traders in these markets form our treatment group. Two traditional markets, one each in Depok and Bandung serve as the control group. Given our sampling frame, these markets are representative of the traditional markets in urban centers in Indonesia. The traders interviewed are limited to those who have been trading in the markets for more than three years selling fresh fruit and vegetables, meat, or other basic foodstuffs. Traders selling non-food items or ready-to-eat products are not enumerated as they only represent a very small proportion of traditional traders. Finally, the respondents are randomly chosen on a probability-proportionate-to-size (PPS) sampling method basis.

Table IV.1 provides the names of the markets, information on the nearest supermarket, and the number of respondents enumerated in each market. Appendix IV discusses the characteristics of each market chosen in the sample. Before discussing the traditional market setting in urban centers in Indonesia, the next two sections discuss the regulatory framework of the retail sector in Indonesia and the modern retail setting in the country.

Table IV.1 Survey Sites

Traditional Market		Role	Nearest Supermarket			Number of Respondents
			Name	Distance (meters)	Year Opened	
Depok						
	Palsigunung (Tugu)	Treatment	Medali Mas	600	2004	50
	Cisalak	Treatment	Giant	900	2003	53
	Musi	Control	Giant	6,000	2003	54
Bandung						
	Leuwipanjang	Treatment	Carrefour	500	2003	48
	Pamoyanan	Treatment	Hero	300	2003	39
	Sederhana	Treatment	Carrefour	100	2006	63
	Banjaran	Control	Griya	15,000	2006	100
					Total Respondents	407

V. REGULATORY FRAMEWORK OF THE RETAIL SECTOR IN INDONESIA

In this section we focus on the laws at the national level and the local laws in place in Depok and Bandung. The current national regulations on retail trading are minister of trade decrees, enacted in 1997 and 1998. Given the weak standing of ministerial decrees in the Indonesian legal system, the government is currently drafting a presidential regulation on modern markets (Draft Presidential Regulation on Modern Shops and Markets). However, the draft does not include criminal sanctions for modern markets in breach of the regulation because it is against national legislation for presidential regulations to carry sanctions. Thus, the presidential regulation's standing will not differ greatly from the ministerial decree. Moreover, some articles will be difficult to implement. One example is article three paragraph four, which states that there are only one modern market and/or two modern shops allowed for every million people.

Thus, the central government should consider changing the form of regulation from presidential regulation to national legislation or leaving such regulation to local government. Given Indonesia's decentralized governance system, the central government should only be responsible for monitoring domestic and foreign investors, while local governments should have full rights over issuing business and operation permits.

At the local level, currently only a handful of administrations have bylaws specifically regulating the modern retail industry. The Jakarta Province Regulation No. 2/2002 regarding Private Markets in Jakarta, implemented through Governor of Jakarta Decree No. 44/2003, is an example of a local regulation on modern markets. The bylaw regulates the types of private markets; the classification of those markets based on upstart capital and floor size; requirements for opening a private market; and the necessary distance between a modern market and a traditional market. In other localities where such regulations are not yet in place, the local administrations base their policies on the national regulations.

Table V.1 presents traditional and modern market regulation at the national level down to district/city level. Meanwhile, Appendix II presents a list of national regulations on retail trading in Indonesia for Depok, and Bandung.

Our study areas, Depok and Bandung, do not yet have any specific local regulations for modern markets. The current regulations used by these administrations are the Depok City Regulation No. 23/2003 on Market Management, Bandung City Regulation No. 19/2001 on Market Management, and Bandung District Regulation No. 27/1996, which mostly focus on traditional markets. While the regulation in Depok contains a chapter on modern markets, it is limited to regulating the application procedure for an operating permit and does not mention issues such as zoning or partnerships between modern markets and small and medium enterprises. However, the Bandung administration is currently drafting a bylaw to regulate modern markets. Similar to Jakarta's provincial regulation, this bylaw would include a definition and classification of modern markets, the distance required between a modern market and a traditional market, an obligation for modern markets to collaborate with small and medium enterprises, and sanctions for modern markets that fail to comply with the law.

Table V.1 Regulations Covering Traditional and Modern Markets

Level of Regulation	Regulation
National	▪ Presidential Decree No. 118/2000 on the Changes of Presidential Decree No. 96/2000 on Business Sectors that are Opened or Closed with Some Requirements to Foreign Direct Investment. ▪ Decree of the Minister of Industry and Trade No.107/MPP/Kep/2/1998 on Modern Retailer's Permit ▪ Decree of the Minister of Industry and Trade No.420/MPP/Kep/10/1997 on Spatial Planning and Market Development Guidance ▪ Joint Decree (SKB) by the Minister of Trade and Industry and Minister of Home Affairs No.57 and 145/MPP/Kep/1997 about the Spatial Planning and Development of Modern Markets; ▪ Regulation of the Minister of Trade No.12/M-DAG/PER/3/2006 on Franchising ▪ Draft Presidential Regulation on Modern Shops and Markets
Provincial (Jakarta only)	*DKI Jakarta*: Provincial Regulation No. 2/2002 on Private markets in DKI Jakarta; Gubernatorial Decree No. 44/2003 on Guidance on the Implementation of Private Markets in Jakarta.
District (Sample areas)	*City of Depok*: Local Regulation No. 23/2003 on Market Management in Depok; Mayoral Decree No. 49/2001 on Disturbance Permit *City of Bandung*: Local Regulation No. 19/2001 on Market Management in Bandung; Mayoral Decree No. 644/2002 on Cleaning Services Tariff in Bandung

While rich in definitions, both the draft regulation on modern markets and the regulations on market management do not describe specific duties and responsibilities for the respective administrations' Office of Market Management. Similarly, they do not contain rights or responsibilities of traders and market operators, nor any sanctions for the administration or the traders for noncompliance. Finally, the socialization of these regulations is weak. In the Depok administration, even the Office of Industry and Trade staff are unaware that the market management regulation contains a chapter on modern markets.

VI. SUPERMARKETS IN URBAN CENTERS IN INDONESIA

A. Supermarkets in Indonesia

Supermarkets in Indonesia are all privately owned and their permits are issued by the central government's Department of Trade. Local governments usually have no authority to refuse permits issued by the central government, although some require supermarkets to apply for a local permit. As an example, the Depok government requires supermarkets to have an IUPM (Permit for Modern Market Business, issued by the Department of Trade) and an IP3M (Principle Permit for Modern Market Establishment, issued by the Depok Office of Trade and Industry). In addition to the centrally issued permit, the supermarkets usually have to obtain other local permits that should be obtained by any private business, such as an IMB (Building License) and HO (Disturbance Permit). The situation is similar in Bandung, although the Bandung administration has prepared a draft law on modern retailers.

The first supermarket in Indonesia was opened in the 1970s, with the numbers rapidly multiplying between 1977 and 1992—by an average of 85% each year. Hypermarkets first appeared in 1998, with Carrefour and Continent (later taken over by Carrefour) opening their first stores in Jakarta. From 1998 to 2003, hypermarkets grew by 27% a year, from 8 to 49 stores. While it is difficult to ascertain the number of supermarkets and hypermarkets in the whole country, as of 2003, around 200 supermarkets and hypermarkets were owned by the top ten retailers (PricewaterhouseCoopers 2004).

The growth of supermarkets in terms of market share is also impressive. A World Bank report (2007) found that in 1999 the modern market made up only 11% of the total market share for food. By 2004, that number had almost tripled (30%). In terms of sales, the study finds that supermarket sales grow by an average of 15% while traditional retail sales decline by 2% per year. PricewaterhouseCoopers (2004) predicted that supermarket sales will increase by 50% between 2004 and 2007, with hypermarket sales growing by 70% in the same period. According to the A.C. Nielsen Asia Pacific Retail and Shopper Trend 2005 report, the public's proclivity to shop in traditional markets has decreased by an average of 2% per year. Despite the rapid growth in the number of supermarkets in Indonesia, however, residents living outside Jakarta and the few other small urban centers on Java remain relatively untouched—86% of all hypermarkets are located on Java.

The profile of the five largest supermarket chains in Indonesia is discussed below. Out of these, Carrefour and Superindo chains have a foreign company as majority shareholder. These large chains operate in large urban centers in Indonesia, both on and off Java. Three of the five operate both supermarkets and hypermarkets, Carrefour exclusively operates hypermarkets, and Superindo only operates supermarkets. In addition to these large chains, there are smaller supermarket chains, mainly operating outside Jakarta and focusing in a single region. We list the major retailers in a descending order based on their sales figures.

Matahari, the largest retailer in Indonesia, opened its first department store in 1958. Its first supermarket was opened in 1995. In 2002, Matahari created two separate business entities, one managing department stores, the other supermarkets. It then opened its first hypermarket, aptly named Hypermart, in 2004. Matahari's combined sales in 2005 were Rp7 trillion (Matahari 2006). At the end of 2005, Matahari had 37 supermarkets and 17 Hypermarts, with more planned in the future.

The second largest retailer is also one of the youngest in the country. Carrefour entered Indonesia in 1998, and was the pioneer of hypermarkets in the country together with Continent, which it took over in 2000. In 2004 Carrefour had 15 hypermarkets. Total sales in 2004 were Rp4.9 trillion (PricewaterhouseCoopers 2005).

The third major player, Hero, is the largest and oldest domestic supermarket chain in Indonesia. It began operations in the 1970s, and by 2005 it had 99 supermarkets. Currently, around 30% of Hero's shares are owned by Dairy Farm International (DFI), a Hong Kong-based firm. In 2002, Hero joined the hypermarket boom in Indonesia by opening Giant, the Malaysian retail brand also owned by DFI. In 2004 there were 10 Giant stores in Indonesia. Hero's total combined sales in 2004 were worth Rp3.8 trillion (Pricewaterhouse Coopers 2005).

The fourth-ranked player, Alfa, began operations in 1989 and by 2004 it had a total of 35 supermarkets and hypermarkets across Indonesia. Its retail sales in 2004 were worth Rp3.3 trillion (PricewaterhouseCoopers 2005).

Finally, the fifth largest retailer is Superindo, which began trading in 1997 and in 2003 had 38 supermarkets. It is a private company, and Delhaize, a Belgian retailer, owns a large proportion of its shares. Superindo's total sales in 2003 were worth Rp985 billion (PricewaterhouseCoopers 2004).

It is also useful to briefly discuss supermarket business practices. 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 stores are bright, clean, and have functioning amenities such as toilets and food courts.

A visit to a supermarket's headquarters found that goods procurement is conducted by the merchandising department, based on contractual and non-contractual agreements. A contract specifies the price and quantity of the goods according to the agreement, to be delivered according to a specific schedule. The goods in this contract category are usually vegetables and meats, which must comply with packaging standardization and must pass the standards of the central government's Food and Drug Monitoring Agency (BPOM). Goods under contract are normally procured by consignment. In contrast, the off-contract agreements are made via negotiations on a case-by-case basis and are valid for all products. In addition, it is normal for supermarkets to charge a display fee and impose long payment periods.

Supermarkets exercise a mixture of price and non-price strategies to attract customers and to compete with other retailers. Our observations showed that various pricing strategies are used, such as limit pricing strategies to deter new entrants; predatory pricing strategies to compete with other incumbents; and inter-temporal price discrimination—which means charging different prices at different times, such as giving discounts on the weekend or between particular hours. In addition, supermarkets also survey traditional markets to get a sense of the market price levels, which they will undercut. Finally, cross-subsidy practices are often conducted, where they run losses on some merchandise in order to win over the competition.

Examples of non-price strategies used by the supermarkets are extended store opening hours, especially on weekends when the store are open until late at night; bundling and tying, where bundled goods are sold for less than if sold separately; free public transport for customers and free parking; and the most important strategy of vigorous advertising campaigns. Supermarkets are several levels above traditional markets in most of these aspects of competition. While supermarkets do not perceive traditional markets as their main competitors, a supermarket manager we interviewed warned that traditional markets will be unable to survive for long if the local government does nothing to upgrade their competitiveness.

B. The Modern Retail Settings in Depok and Bandung

As a city buffering Jakarta, Depok has been experiencing quite rapid economic and population growth. Although Depok has been home to supermarkets for the last decade, 2004 and 2005 saw the intense construction of new supermarkets. Several established supermarkets were driven out of business by the new ones as a result. There has also been a mushrooming of minimarkets and other forms of modern retailers. There are currently 62 modern retailers in Depok, 42 of which are minimarkets. Three supermarket brands began operations and one brand opened its second store in Depok between July 2005 and March 2006 alone: Carrefour; Hypermart, complementing a Hypermart that opened on the border between Depok and Jakarta; Giant, complementing another that was opened in 2003; and Superindo. These supermarkets were opened alongside each other on one strip of road. The number of modern retailers in Depok is slated to increase in the future—especially minimarkets, due to the relative ease in obtaining a permit and the relatively small amount of capital needed to open a minimarket. However, no applications to establish a new supermarket were made in 2006. Only one new supermarket will open in 2007 in Depok, near Musi Market, the market that acts as a control in this study. However, this slow down is only temporary—expansion is set to increase again due several reasons, such as the establishment of new expressways connecting Depok to neighboring cities, and Depok's continuing population growth.

In Bandung, the first department store was opened in 1977 and the first supermarket followed in 1979. The explosion in the number of supermarkets began in 2002. They are mostly located in the city center, often side by side due to intense competition. While such competition has forced some supermarkets to close—mainly local chains like Merlin and Ria—the construction of new supermarkets continues. As of 2006, Bandung was home to 65 supermarkets, 6 hypermarkets, and 3 modern wholesalers, in addition to countless minimarkets. Just one week after our field visit, a supermarket was opened 200 meters from Banjaran Market, one of our control markets.

VII. TRADITIONAL MARKETS IN URBAN CENTERS IN INDONESIA

In contrast to supermarkets, most traditional markets are owned by the local government. Local governments in Indonesia usually have an Office of Market Management (OMM), or *Dinas Pasar*, which manages traditional markets. This office either manages the markets on its own or in cooperation with private companies. The cooperation method usually involves giving a private company a permit to build or operate a traditional market under a build, operate, and transfer (BOT) scheme, with the private company making a set payment to the OMM each year.

There are several classes of traditional market, usually based on their area (in square meters) and number of traders. The classification methods differ between each local government, but usually Class I or Class A markets are the largest. It is the norm for the OMM to set an annual income target for each market manager, which usually increases each year. For the past several years, the proportion of OMM revenue to local revenue (PAD) in both Depok and Bandung ranged from 1.5% to 3% (see Appendix VI). Failure to meet the target usually results in the replacement of the market manager. It is therefore unsurprising to observe that many market managers occupy themselves with the sole task of meeting their target as opposed to properly managing the market.

There were nine traditional markets in Depok as of 2006. The newest are Depok Jaya and Sentra UKM, while Agung underwent a complete renovation in 2004. Table VII.1 shows the list of markets. The markets are divided into three classes, based mainly on the services provided for traders and facilities available in the markets. The market tax collected from Class I markets is the highest, while that of Class III markets is the lowest.

Table VII.1 Traditional Markets in Depok

No	Name	Class	Owner	Area ($\pm$)	Established / Renovated
1	Kemiri Muka	I	Government	26,000 m^2	1989
2	Agung	I	Government	10,000 m^2	2004
3	Musi	II	Government	10,000 m^2	1988
4	Palsigunung/Tugu	II	Government	1890 m^2	1991
5	Cisalak	I	Government	19,000 m^2	1993
6	Sukatani	II	Government	2989 m^2	1984
7	Reni Jaya	III	Government	1000 m^2	1987
8	Sentra UKM	III	Private	8300 m^2	2006
9	Depok Jaya	III	Private	700 m^2	—

Source: Depok Office of Market Management

Several types of market services fees (*retribusi*) are collected from customers and both traders located inside the markets and street vendors located within a 300-meter radius. This includes charges for parking, cleaning, and unloading. As of 2004, the Depok OMM's total income target from these *retribusi* was Rp1.6 billion—double the target for 2001 (see Appendix VI). In addition, a trader in a traditional market in Depok is required to own an SKHPTB (Letter of Rights to Use Kiosk), which is valid for 20 years but must be renewed every five years, and also a KTB (Trading ID Card), which should be renewed annually.

In Bandung, there are 49 traditional markets, out of which 36 are owned and operated by the Bandung OMM, while the rest are privately owned and operated. The government markets are distributed across 17 of Bandung's 26 subdistricts. The market classification system in Bandung is different to Depok, and is based on number of traders and market location. Class I markets have more than 235 kiosks, 250 traders, and are located on a main road. If not located on a main road, a market needs to have at least 475 kiosk and 500 traders in order to be classified as Class I. Class II markets have fewer kiosks or traders, and Class III markets have the least. Of the 36 government markets, six are Class I, 21 are Class II, and 9 are Class III markets. There are currently only 26 market managers for the 36 markets—some managers are responsible for more than one market. All three treatment markets that we visited are Class II markets.

The Bandung OMM is currently revitalizing 13 markets, mostly by adding parking space and providing trading space in the market for the street vendors. In addition, it has signed agreements with several private companies to build and operate markets on land owned by the Bandung administration. Similar to the Depok OMM, the Bandung OMM sets an annual *retribusi* target for each market, totaling Rp4.6 billion in 2006 (see Appendix VI). The *retribusi* paid by each trader differs based on the market class, location of kiosk, type of goods sold, and kiosk size.

Unlike in Depok, the market management in Bandung only collects *retribusi* for the kiosk and security, while the Bandung Office of Waste Management collects *retribusi* for cleaning and the Bandung Office of Transportation collects parking *retribusi*. The amount of *retribusi* paid by each trader for security also differs, ranging between Rp300 and Rp600 per day, depending on their kiosk's location.

As in Depok, the markets in Bandung are increasingly surrounded by street vendors—usually newly relocated traders or market traders who move out in order to win the customers or take advantage of the lower amount of *retribusi* paid when trading on the street.

VIII. THE NATURE OF COMPETITION IN THE TRADITIONAL MARKET

This section examines the nature of competition for traders in traditional markets. The results are from the perspective of traders in both the control and treatment group (see also Appendix VII).

Table VIII.1 notes the types of commodities sold in traditional markets and the proportion of traders selling each commodity. In addition to these commodities, there are a small number of vendors selling ready-to-eat food and beverages. Each trader sells an average of two types of commodities. The highest proportion of traders sells fresh vegetables, followed by food and beverage ingredients. The high level of competition in the market results in competitive pricing and a higher quality of produce. In contrast, the prices of rice and meat, commodities with fewer traders, tend to be more volatile and increase more frequently.

Table VIII.1 Commodities Sold and Proportion of Traders (%)

Commodity	%	Commodity	%
Fresh vegetables	22.4	Meat (beef, mutton, lamb, pork)	6.4
Food and beverage ingredients	17.2	Spices	5.9
Fresh fruits	8.9	Eggs & milk	4.4
Other household necessities	7.9	Cooking oil	2.7
Fish	7.4	Nuts	2.2
Chicken	6.9	Root vegetables	1.0
Rice	6.9		

Table VIII.2 shows that small stores make up the largest share of buyers, both in terms of number of consumers and value of goods bought. In terms of customer numbers, 41.5% of traders said that their main customer is a small store. Combined with the share of restaurants and mobile vendors, this means that most goods are sold in bulk. Goods purchased for direct household consumption make up only one third of the total value of goods sold in traditional markets.

Table VIII.2 Traditional Market Customers (%)

Number		Value	
Customer	%	Customer	%
Small stores	41.5	Small stores	43.7
Households	40.1	Households	33.9
Restaurants	11.3	Restaurants	14.0
Mobile vendors	6.6	Mobile vendors	8.0
Others	0.5	Others	0.3

Table VIII.3a shows the parties that respondents consider as the toughest competitors and the main strategies employed to attract customers. Most traders perceive their fellow traders as their toughest competitors, while supermarkets ranked second, followed by street vendors. Furthermore, quite a large share of respondents does not believe that they have any competitors. Given that street vendors mostly sell near the markets, more than half of the respondents identify other traders in or near their market as their main competition.

When asked about strategies employed to attract buyers, almost 40% of respondents state politeness as the key to their business success. The second and third-ranked strategies are more tangible: quality and price. Interestingly, about 10% of traders have no strategy. While a substantial proportion of respondents consider supermarkets as one of their competitors, the majority does not employ any strategy specifically aimed at competing with the supermarkets.

Table VIII.3a Competition and Strategy (%)

Toughest Competitors	%	Strategy to Attract Buyers	%
Other traders in the market	32.9	Politeness	37.6
Supermarkets	27.5	Ensure quality merchandise	19.9
Street vendors	17.9	Discount	12.8
Do not know	12.5	No strategy	9.6
Other traditional markets	5.4	More merchandise variety	9.1
Minimarkets	2.5	Better management of merchandise	3.4
Small vendors	1.0	Priority for frequent shoppers	2.5
Kiosks	0.3	Home delivery	2.2
		Honesty	1.7
		Accept payment in installments	0.7
		Cleanliness	0.5

Table VIII.3b specifically describes the toughest competitors as considered by respondents in the control and treatment markets. Traders in the control markets perceive fellow traders in the market as their primary competitors, followed by street vendors. On the other hand, 42% of traders in the treatment markets identify supermarkets as their toughest competitors. However, the combined share of the competitors within and around the traditional markets is still higher than the proportion of supermarkets. Surprisingly, quite a large share of respondents cannot identify their primary competitors.

TableVIII.3b Competition and Strategy (%), Control & Treatment Markets

Control Markets		Treatment Markets	
Toughest Competitors	**%**	**Toughest Competitors**	**%**
Other traders in the market	38.96	Supermarkets	42.29
Street vendors	27.27	Other traders in the market	29.25
Do not know	25.32	Do not know	13.44
Minimarkets	4.55	Street vendors	12.25
Supermarkets	3.25	Mobile vendors	1.19
Mobile vendors	0.65	Minimarkets	1.19
		Small stores	0.40

Table VIII.4 notes traders' main suppliers and the most used method of payment to the suppliers. More than 40% of traders use professional suppliers, another 31% mostly go to traditional wholesale markets, and only 6% communicate directly with producers. However, most traders usually do not rely on only one supplier. Around 8% get their goods from other traditional markets. Cash is the main method of payment used. This is unsurprising, given that most traders are small-scale, and therefore have no leverage to convince suppliers to provide credit. Again, this contrasts the usual supply practices in supermarkets.

Table VIII.4 Suppliers of Traders in Traditional Markets (%)

Most Commonly Used Supplier	%	Main Method of Payment	%
Professional supplier	43.0	Cash	86.5
Traditional wholesale markets	31.4	Consignment	10.3
Wholesaler	9.3	Credit	3.2
Other traditional market	8.4		
Directly from producer	5.9		
Own production	2.0		

The final characteristic of traders in traditional markets we examined is their source of working capital, which is shown in Table VIII.5. Almost 90% of traders use their own source of capital, around 2% receive capital from informal sources, and the rest receive credit from banks, including commercial banks, loan sharks, and cooperatives. The majority of those who source their capital from banks are clients of commercial banks, both private and government-owned.

Table VIII.5 Source of Working Capital (%)

Source of Capital	%	Source of Capital	%
Own capital	86.8	Loan sharks	1.0
Government-owned banks	4.7	Cooperatives	0.7
Private banks	3.0	Borrow from friends	0.2
Borrow from relatives	1.7	Market banks	0.2
Others	1.7		

In conclusion, most traders in traditional markets either have no access to credit or do not apply for credit. They pay their suppliers in cash and so undertake all the risks themselves, including the risk of not being able to sell before the goods expire. They rely largely on politeness to attract and maintain their customers as opposed to employing a more credible business strategy. Their two main rivals are other traders, both inside and outside the market building. Given that the majority of their customers are not households, they largely rely on a few loyal customers rather than on a large customer base. While this may protect them from having to engage in a fierce competition, losing only one or two customers may be a debilitating blow.

Compared with the business practices employed by supermarkets as discussed in Section VI, according to the traders we interviewed, the ability to haggle and discounts for loyal customers are the only two aspects where traditional markets hold an advantage over the supermarkets. Furthermore, an intimate atmosphere is one of the strong points of a traditional market (see Appendix VIII).

IX. BUSINESS PERFORMANCE OF TRADERS IN TRADITIONAL MARKETS, 2003–2006

This section examines the changes in traders' business performance over the past three years. The questionnaire recorded two sources of information regarding the traders' business performance and the impact of supermarkets. The first is data on the traders' earnings and profit levels in both 2003 and 2006. The second is their opinions regarding the same variables. The questionnaire collected the data first in order to maintain the respondents' objectivity. The opinions were asked towards the end of the interview.

On average, in-depth interview respondents declared that both profits and earnings have declined in the past three years. Some traders in Cisalak, particularly those selling basic foodstuffs and vegetables, admit that their income has dropped significantly in the last three years. One trader even claims that his income and profits have dropped by 60% compared to 2003. In addition, traditional traders and market managers predict that the number of daily buyers has dropped by 40–50%.

Similarly, traders in Tugu have experienced a decline in income of up to 50%. According to the APPSI representative of Tugu, the number of buyers has declined by about 40%. Moreover, one of the traders there says that the number of buyers is now only half of that three years ago. Surprisingly, however, the number of traders has increased in that time. Most of the new traders are street vendors, using the unoccupied spaces around the market building as places to trade.

Contrary to the increasing number of traders in Tugu, traders in Musi have declined by a quarter, demonstrated by the large number of empty kiosks and counters. This is caused by a decrease in the number of buyers and the fact that many traders have become street vendors, as they believe it is more profitable than trading inside the market. Most of the traders who move to the street sell vegetables and basic foodstuffs. However, several traders gave information that some traders have become bankrupt and returned to their hometowns.

In general, the income of traders in all markets has declined compared to 2003. According to one trader, the conditions at Musi were totally different in 2003, when there were fewer street vendors surrounding the market. Competition amongst the traders was healthy. However, the encroachment of more and more street vendors has caused a significant decline in the earnings and profit of traditional traders in Musi. Another vegetable and daily foodstuffs seller discloses that his daily earnings and profit have fallen by up to 50%. He further says that in 2003 the buyers were still coming until 19:00, but nowadays they only come until 10:00.

The conditions in Bandung are similar. Since 2003 many traders in Pamoyanan have been forced to close down because they are unable to pay for their kiosks. According to a market manager, 18 kiosks and 4 counters have closed in the past two years. Among the four markets visited in Bandung, 76% of traders claim that there are now fewer customers. This has impacted the profit and earnings of these traders. Overall, 60% and 67% of traders in the two treatment markets in Bandung, Leuwipanjang and Pamoyanan, admit to experiencing a reduction in earnings and profit respectively. In Banjaran Market, meanwhile, 78% of traders claim that their earnings have declined, with 81% experienced declining in profits.

From the quantitative analysis, Table IX.1 shows the mean proportional change in profit and earnings among the traders. It shows that traders in both treatment and control groups have experienced a decline in their business performance over the past three years. The decline in profit is greater than in earnings, which may indicate that the traders prioritize ability to sell above making profits.

It is important to note that the negative figures in the table do not mean that traders are losing money; rather it shows that on average their profit has declined by 20% over the past three years. It is also worth noting that the decline in the objective indicators is smaller than what was claimed during the in-depth interviews.

Table IX.1 Mean Proportional Change in Profit and Earnings of Traders in Traditional Markets, 2003–2006 (%)

	Treatment	Control	Overall
Profit	-19.30	-24.10	-21.11
	(3.66)	(5.13)	(2.99)
Earnings	-8.98	-3.05	-6.72
	(4.26)	(18.00)	(7.34)

Note: standard errors in parentheses

The opinions given by traders as recorded in the questionnaire mostly confirm the decline. Around 68% of traders claim that their earnings have declined, while 74% believe that they are making less profit than 2003. In total, 66% state that both their earnings and profits have declined.

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; thirdly, 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 are also taking away some of their business. This is especially the case in Pamoyanan, where the market is located directly next to the supermarket, where the customer base is mainly comprised of middle-class households, and where there is not a problem with street vendors.

In Depok, the main problem lies with organizing the traders, especially the street vendors; the poorly maintained condition of market buildings; transportation problems, such as limited parking lots and access road to the market; lack of security; uncomfortable shopping conditions; and problems with market cleanliness, such as lack of garbage disposal facilities and malfunctioning drainage systems. Furthermore, little punishment is handed out to traders who violate market regulations, and cooperation between the Depok OMM and market managers is weak. Market managers do not have the power to make the needed changes; their main task, as assigned by the OMM, is to collect *retribusi* in order to achieve the set target.

Other than internal problems, the decline of the markets in Depok is caused by fierce competition with street vendors. There are around 100 street vendors around Tugu Market, 830 in the proximity of Cisalak Market, and 154 near Musi Market. Although the Depok administration has been removing the street vendors, many of them keep coming back, and in Cisalak and Musi they have blocked the access roads into the markets. The street in front of Cisalak and Tugu is swamped with the vendors, forcing customers with vehicles to park one kilometer away. This is also the case in Musi, where an increasing number of houses have become trading kiosks.

Traders, APPSI, and market managers explicitly state that the street vendors are the main cause of the drastic drop in the number of buyers, income, and profit. As previously noted, the traders inside the market, especially in Cisalak and Musi, consider the street vendors as one of their main competitors, which has resulted in the increasingly intense competition between traders inside the markets.

The last problem in Depok is related to funding, as most traditional traders in Depok find it difficult to improve their business. The main underlying factors for this are considered to be the difficulty of securing commercial loans and the limited participation of the Depok administration. In terms of government assistance, in early 2005 the Depok administration issued only ten traders from each market with long-term loans of Rp3–5 million each. The loan attracts interest of 2% per year and should be repaid within two years. Most of the traders cannot fulfill the requirements set by the banks for commercial loans.

The main complaint of traders in Bandung is also related to the increasing number of street vendors around the market. In Leuwipanjang, the problem is exacerbated by the change in public transport routes. Moreover, a larger and cleaner traditional wholesale market, Caringin, not far from Leuwipanjang has also started to sell retail in order to survive the competition with supermarkets. The decision of the local administration to alter the public transport route has also made it difficult for customers wanting to go to the Pamoyanan market. Furthermore, Hero opened 300 meters from the Pamoyanan market in 2003, and traders believe this is the main cause of the decline. According to traders in Bandung, another major cause of the decline is the reduced purchasing power of buyers due to the fuel price increase. Smaller causes of the decline are the bird flu scare and the issue of formaldehyde in processed food.

Moving into the quantitative results, Table IX.2 shows the causes of the decline as given in the questionnaire by traders. The decreasing number of buyers is attributed as the main cause of the downturn, which is consistent with the qualitative results. This is followed by increased competition with other traders in the market, increased competition with supermarkets, and increase in general prices of the goods. While traders employ few specific strategies, through the in-depth interviews we find that a small number of traders have applied new marketing strategies. These include adding more variation to the merchandise, providing good customer service, maintaining quality of the goods, delivering goods to the buyers' homes, giving discounts for customers, and even matching supermarket prices.

Table IX.2 Causes of Business Downturn in Traditional Markets

Cause	Share Attribution (%)
Less buyers	67.2
Increased competition with other traders	44.8
Increased competition with supermarkets	41.8
Higher prices	37.7
Increased competition with street vendors	29.9
Higher prices from suppliers	23.5
Increased competition with minimarkets	20.9
Deteriorating condition of the market	13.8
More difficult securing supply	4.9
Increased kiosk rental fee	3.0
Harder to access credit	2.6

Note:
Answers from traders claiming to experience a decline in both earnings and profit.
The traders can give multiple answers.

APPSI has been conducting a two-pronged strategy to increase the business performance of traditional markets. Firstly, they are lobbying for a zoning approach for supermarkets, where supermarkets can only operate in the suburbs and at some distance from traditional markets. Secondly, they are campaigning for local governments to improve their treatment of traditional markets, for example by providing credit to the traders and subsidizing the kiosk rental fee.

X. THE IMPACT OF SUPERMARKETS ON TRADITIONAL MARKETS

Given the overall decline in the performance of traders in traditional markets, this section specifically investigates the contribution of supermarkets to the decline. The qualitative analysis results are discussed first.

In Depok, Giant Cimanggis and Medali Mas are the supermarkets located near Cisalak and Tugu. According to the traders, Medali Mas has not significantly impacted their businesses, while Giant has absorbed a large number of buyers. Some traders believe that Giant has caused a decline in their earnings and profit. The traders believe that in the future, the existence of supermarkets will disturb the existence of traditional markets because they sell identical products for similar or lower prices. Furthermore, the facilities and infrastructures in supermarkets ensure a more comfortable and secure feeling. Moreover, Giant provides discounts on the weekend. In contrast to the traders, one officer from the Depok OMM claims that the existence of supermarkets and hypermarkets around the traditional markets has had little or no impact on the traditional markets.

However, with the exception of Pamoyanan, the traders also claim that the impact of the supermarkets is not as significant as the impact caused by the internal problems prevalent in their markets. In addition, they admit that there is a slight difference in the types of buyers coming to traditional and modern markets, with mobile vendors and small stores still preferring to shop at traditional markets. In one interview, the traders declare that they are ready to compete as long as the market infrastructures and amenities are improved (see Boxes 1 and 2).

In Bandung, traders in Sederhana complain about the newly built Carrefour. Traders selling basic foodstuffs and other household necessities are especially feeling its impact. In contrast, traders in Leuwipanjang do not really feel the impact of the supermarkets. Rather, their main complaint surrounds the existence of street vendors, their complaints echoed by traders in Sederhana. On the other hand, traders in Pamoyanan claim that the Hero has been the main culprit of the decline in their business.

The Bandung Chapter of APPSI strongly opposes the supermarkets. They claim that the government has abandoned traders in traditional markets by allowing supermarkets to open too close to the traditional markets. While APPSI only represents its members, a minority of traders, it has a valid point since the Bandung administration indeed repeatedly violates its own spatial plan in order to accommodate the supermarkets.

From our observation, there are several factors that could explain why one traditional market may be impacted while others are not. First is the distance between the traditional market and the supermarket, where traditional markets that are relatively near supermarkets are more severely impacted. A second, more important factor is the types of buyers in the traditional markets. Traditional markets whose main customers are middle-class households, such as Pamoyanan, feel the deepest impact of the supermarkets.

Box 1. Two-Story Building Design: Who Benefits?

The Building Structure

The two-story building design in the traditional markets of Bandung has caused number of traders, mainly those who traded on the second floor, to go out of business. Our observations revealed that almost all kiosks on the second floor of Pamoyanan (renovated and turned into a two-story building in 2000), Sederhana (in 1997), and Leuwipanjang (in 2001) are empty. Some traders occupying kiosks on the second floor were unable to settle their installment payments. As a result, they abandoned their kiosks and moved to the streets surrounding the markets. In addition to not paying their installments, they are not paying the kiosk *retribusi* because they believe the kiosks no longer belong to them.

Cucun is a vegetable trader and formerly a street vendor in Leuwipanjang Market. In 2002, she bought a *jongko* (kiosk) on the second floor, which cost her one million rupiah. Initially, there were many buyers coming to the upper floor, but one month later the numbers were declining sharply. She was subsequently no longer able to pay the installments for her kiosk, after only having made five monthly payments of Rp100,000 each. She returned to roadside trading, however she must continue to pay installments for the *jongko*. After spending almost all of her savings to buy the *jongko* she now is bankrupt. According to Cucun, other traders have experienced the same problems and have fallen into bankruptcy soon after starting to trade on the second floor.

Ateng is a chicken trader and Odang is a meat trader. Both also at Leuwipanjang, they had expressed their disapproval of the planned two-story renovation of the market, stating that buyers would be reluctant to shop on the upper floor as has been the case in other traditional markets such as Kosambi and Pamoyanan. The Leuwipanjang local administration continued with the initial plans. The result is unsurprising: almost all the kiosks and counters on the second floor are now empty and a large number of traders have become bankrupt.

Box 2. Traditional Trader Ready to Compete

Strategies to Attract Buyers

Vijay Sihombing is one of the basic goods traders in Tugu, Depok. He has been trading there since 1996. As a trader, he is required to pay a garbage *retribusi* of Rp1,000 per day and a security charge of Rp1,000 per day. In addition, he has to pay a contribution for the security staff holiday allowances and for market cleaning services, totalling a minimum of around Rp5,000–10,000 per trader. He procures his goods from agents who come to his kiosk, or buys in bulk at the Jatinegara Market. Based on his observations, the number of traders has grown during the last three years as a result of an increase in the number of kiosks. On the other hand, the number of buyers during that period has fallen by as much as 50%. The buyers still coming are generally mobile vendors, *warung* (small store) owners, or caterers. Sihombing employs several strategies, including politeness and discounts, to attract buyers and to maintain good relationships with his loyal customers. Furthermore, he ensures he maintains the high quality of his products and stocks a wide selection of goods for his customers in order to expand his business. Unfortunately, he is currently facing financial constraints, which makes it difficult for him to compete with the "big players" in the market.

Ready to compete if the market is fully renovated

The limited parking space is one reason why buyers are reluctant to go to the Tugu market. "There were lots of luxury cars parked here," said Vijay, when describing the condition of the market in the past. He strongly hopes that the local administration, through the office of market management, considers upgrading the market facilities and infrastructure—including the parking space. He believes that a clean market that has ample parking space and is well managed will attract buyers, and states his confidence that he is ready to compete with modern retailers if those requirements are fulfilled.

In order to measure how accurate those opinions are, a quantitative analysis was conducted using objective performance indicators. Table X.1 provides the results of the DiD (difference-in-difference) impact evaluation. This analysis found that the differences in changes in profit and earnings between the treatment and control groups are not significantly different from zero. This implies that the decline in earnings and profit of traditional markets cannot be attributed to the presence of supermarkets near the traditional markets.

Table X.1 The Impact of Supermarkets on Traditional Markets: Difference-in-Difference Method

	Treatment	Control	Difference
Profit	-19.30	-24.10	4.79
	(3.66)	(5.13)	(6.16)
Earnings	-8.98	-3.05	-5.93
	(4.26)	(18.00)	(15.13)

Note:
The figures are mean proportional changes in each category between 2003 and 2006. Standard errors in parentheses

The finding that the control group also experienced declines in both profit and earnings is very interesting. It is even more surprising to find that the control group experienced a larger decline in terms of profit compared to the treatment group. At the very least, this finding allows us to assume the non-existence selection bias in our study, because traders who went bankrupt in the treatment market would most likely still go out of business even without the existence of supermarkets.

Econometric methods were used for the second quantitative analysis. Following Equations 2 and 3 in Section III, there are three large sets of controls. The first is variables that control the condition of the traders in 2003. The second set controls for the changes in conditions between 2003 and 2006, and the last set of control variables attempts to control for unobserved location-specific variables by including a dummy for Depok. In total, we conducted 12 estimations each using three dependent variables: proportional change in earnings, profits, and number of employees. In addition, we also use two variables as indicators of the presence of supermarkets: a dummy variable and the distance of a market to the nearest supermarket. The results are shown in Table X.2.

In columns 1–6 we use the dummy of treatment as our variable of interest. Note that column 1 is essentially the same as the result for earnings DiD in Table X.1. The fit of the model increases as we include more control variables, going from almost zero in column 1 to 0.3 in column 6. Looking specifically at the supermarket/treatment dummy, the sign of the coefficient is negative in columns 1 and 4, but positive in columns 2, 3, 5, and 6. However, none of the supermarket dummies in the specifications are statistically significant.

In columns 7–12, we use distance to the respective supermarkets as an indicator of possible impact, as opposed to the dummy variable. In general, while the coefficients are different from the first set of estimations, the signs and statistical significance are the same. Similar to the first set of estimations, including more control variables improves the explanatory power of the model.

Columns 13–24 replicate columns 1–12, only we use profit as the dependent variable. Column 13 has the same result as the profit DiD evaluation in Table X.1. Looking across the board, we do not find any significant impact in either the dummy or distance variable. As opposed to columns 1–12, however, the signs of the coefficients do not switch between the simple models and those with added controls.

In columns 25–36, employee numbers have been employed as the performance indicator. Looking specifically at the distance to the respective supermarket, the sign of the coefficient in columns 32, 33, 35, and 36 is positive, although very close to zero, and the coefficients in those columns are statistically significant. This provides initial evidence that with more control variables, the impact of supermarkets on traditional markets, especially on employee numbers, is statistically significant. The farther the distance of a traditional market to a supermarket, the higher the ability of traders to hire more employees. Furthermore, it is interesting to note that the 2003 level control variables set is the one that caused the impact indicator to become significant.

The final issue relates to the traders who went out of business due to the supermarkets. While we do not directly visit traders who have gone out of business due to the competition from supermarkets, this information was gathered from the traders in the treatment group through the questionnaire and in-depth interviews. In addition, the managers of traditional markets and traditional traders' association were asked about this issue.

Some of those no longer trading in Cisalak Market moved to Cibubur Market. Several others opened their own businesses from home, and the rest worked in the informal sector. In Musi Market, many traders have become street vendors. In addition, there are also some who went bankrupt and returned to their hometowns. Most traders who moved to the streets surrounding the market are vegetables and basic foodstuffs traders. As is the case in Cisalak Market, in Bandung, many traders from Leuwipanjang moved to smaller markets, and more are becoming street vendors.

In the questionnaire, traders stated that a third of those who went bankrupt have mostly moved to another market, while half have become unemployed. The rest have changed employment types, such as becoming a bus driver or motorcycle taxi operator.

The bankrupt traders may be a cause for concern if there is enough reason to believe that those going out of business in the treatment markets would not have experienced it had there been no supermarkets nearby. However, we believe that that is not the case in this study. Firstly, the control markets experienced higher losses in terms of profits compared to the treatment markets. Secondly, there are comparable earnings in the control markets. Thirdly, not every treatment market experienced a decline in number of traders. In conclusion, only a small proportion of traders in the treatment group know of a bankrupt trader, and we find no evidence that the bankruptcy in the treatment markets is related to the supermarkets.

Table X.2 The Impact of Supermarkets on Traditional Markets: Econometric Estimation Results

	Dependent variable: proportional change in earnings											
	1	2	3	4	5	6	7	8	9	10	11	12
Treatment dummy	-0.06	0.12	0.13	-0.06	0.13	0.14	--	--	--	--	--	--
	[0.18]	[0.08]	[0.07]	[0.18]	[0.08]	[0.07]						
Distance to supermarket (kilometers)	--	--	--	--	--	--	0.008	-0.009	-0.009	0.009	-0.008	-0.009
							[0.019]	[0.006]	[0.006]	[0.018]	[0.006]	[0.006]
Control variables: 2003 level	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes
Control variables: changes 2003 – 2006	No	No	Yes	No	No	Yes	No	No	Yes	No	No	Yes
Depok dummy	No	No	No	Yes	Yes	Yes	No	No	No	Yes	Yes	Yes
R-squared	0.0004	0.1397	0.2969	0.0004	0.1429	0.2988	0.0012	0.1383	0.2947	0.0012	0.1401	0.2961
	Dependent variable: proportional change in profits											
	13	14	15	16	17	18	19	20	21	22	23	24
Treatment dummy	0.05	0.05	0.07	0.05	0.06	0.07	--	--	--	--	--	--
	[0.06]	[0.08]	[0.07]	[0.06]	[0.07]	[0.07]						
Distance to supermarket (kilometers)	--	--	--	--	--	--	-0.005	-0.007	-0.007	-0.004	-0.006	-0.006
							[0.005]	[0.006]	[0.005]	[0.005]	[0.006]	[0.005]
Control variables: 2003 level	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes
Control variables: changes 2003 – 2006	No	No	Yes	No	No	Yes	No	No	Yes	No	No	Yes
Depok dummy	No	No	No	Yes	Yes	Yes	No	No	No	Yes	Yes	Yes
R-squared	0.0015	0.1705	0.3607	0.0029	0.1801	0.3682	0.0025	0.1730	0.3626	0.0032	0.1804	0.3680

Note: Robust standard errors in parentheses

Table X.2 The Impact of Supermarkets on Traditional Markets: Econometric Estimation Results (continued)

	Dependent variable: proportional change in number of employees											
	25	26	27	28	29	30	31	32	33	34	35	36
Treatment dummy	-0.03 [0.05]	-0.09 [0.04]	-0.08 [0.04]	-0.03 [0.05]	-0.09 [0.04]	-0.08 [0.05]	--	--	--	--	--	--
Distance to supermarket (kilometers)	--	--	--	--	--	--	2.6e-6 [3.6e-6]	**8.9e-6** **[3.5e-6]**	**8.1e-06** **[3.5e-6]**	3.7e-06 [3.6e-6]	**9.57e-6** **[3.6e-6]**	**8.6e-06** **[3.6e-6]**
Control variables: 2003 level	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes
Control variables: changes 2003 – 2006	No	No	Yes	No	No	Yes	No	No	Yes	No	No	Yes
Depok dummy	No	No	No	Yes	Yes	Yes	No	No	No	Yes	Yes	Yes
R-squared	0.0018	0.2105	0.2841	0.005	0.2125	0.2847	0.0020	0.2142	0.2878	0.0066	0.2194	0.2905

Note: Robust standard errors in parentheses; bold figures are statistically significant

XI. CONCLUSIONS

Supermarkets have been around in major urban centers in Indonesia for the last three decades. At the onset of the liberalization of the retail sector in 1998, however, foreign supermarket operators began entering the country, sparking a fierce competition with local operators. Some corners claim that traditional markets are the real victims of the intense competition, as they lose their customers due to the cheaper and higher quality products and the more comfortable shopping environment that supermarkets provide. Therefore, there are calls to limit the construction of supermarkets, especially in locations near traditional markets.

This study investigates the truth behind these claims by measuring the impact of supermarkets on traditional market traders in Indonesia's urban centers. Primarily quantitative research methods have been employed, and qualitative research was conducted to support the quantitative findings. The quantitative methods utilize the DiD and econometric methods. The qualitative method consists of in-depth interviews with APPSI, APRINDO, traditional market managers, traditional market traders, supermarket officials, and officials from relevant local government agencies.

Five traditional markets were chosen as the treatment group and two traditional markets were chosen as the control group. The sampling frame ensures that these markets are representative of traditional markets in urban areas in Indonesia. Furthermore, it also ensures that the treatment and control groups have similar characteristics other than their proximity to supermarkets. Two treatment markets and one control market are located in Depok, an urban center near Jakarta, while the rest are located in the Greater Bandung area, the capital of West Java Province. Randomly selected traders in these markets were interviewed using a questionnaire. These traders are representative of the traditional markets. In addition, we conducted 37 in-depth interviews with the aforementioned stakeholders.

On average, traders in both treatment and control markets have experienced a decline in their business over the past three years. In the in-depth interviews, respondents revealed the main causes for this decline as the weakened purchasing power of their customers due to the fuel price increases, and the increased competition with street vendors who occupy the parking spaces and other areas surrounding the markets, even blocking the market entrance. The third cause attributed to the decline in business for traditional market traders is supermarkets. This was especially found for traders in the treatment group. It should also be noted that supermarkets were identified as the primary cause of the decline in business by traders in Pamoyanan, the only market in the study where the majority of market customers are middle-class households, and which also does not have a problem with street vendors.

The quantitative impact analysis finds mixed statistical results for various performance indicators of traditional markets, such as profits, earnings, and employee numbers. Out of these performance indicators, supermarkets only statistically impact traditional markets through the number of employees hired by the traditional traders. The results indicate that traditional traders hire fewer employees the closer they are to a supermarket and vice versa. However, it should be noted that the coefficients are exceptionally small.

These results are further confirmed by the qualitative analysis findings that supermarkets are not the main cause of the decline among traditional markets. The traders, market managers, and APPSI representatives all state that the main steps which should be undertaken to ensure their survival are the improvement of traditional market infrastructure, organization of the street vendors, and the implementation of better market management practices. The traders explicitly state their confidence that supermarkets would not drive them out of business if the above conditions were met.

While there is indeed evidence that traders have gone out of business during the last three years, the reasons for this are more complex than the entry of supermarkets alone. Most business closures are associated with internal market and personal problems. In addition, traders who mainly sell to non-households and have maintained a good relationship with their customers over a long period of time are more likely to stay in business.

The results above are further confirmed the success story of a traditional market in Tangerang, which has retained its customers in spite of the construction of a new supermarket nearby (Pikiran Rakyat 2006; Tabloid Nova 2006). This market is clean, safe, has ample parking space, and has sufficient amenities. This proves that a competitive traditional market is able to successfully compete with and exist near supermarkets.

XII. POLICY RECOMMENDATIONS

The policy recommendations to ensure a thriving traditional market environment revolve around increasing the competitiveness of the traditional market. This involves several steps. First, improve the infrastructure in the traditional markets. This includes ensuring proper hygiene, sufficient cleanliness, ample lighting, and an overall comfortable environment. The current two-story market building design is not popular among traders because customers are unwilling to go to the upper floor.

In order to do this, local governments and private traditional market managers must go beyond considering traditional markets only as a source of income. They must actually invest in the upgrade of traditional markets and set a minimum standard of services. This also entails appointing qualified people as market managers and giving them enough authority to make decisions, so they do not act solely as *retribusi* collectors. It is also important to enhance the performance of market managers either by providing training or by regular evaluation. Furthermore, the market manager should consistently coordinate with traders in order to achieve better market management. A joint venture between local government and the private sector might also be a solution to increase the competitiveness of traditional markets, as has been the case in the Bumi Serpong Damai Market.

Secondly, local governments should organize the street vendors, either by providing them with kiosks inside the traditional markets or by enforcing the law banning them from opening stalls around a traditional market. It is imperative that these vendors are kept from blocking the market entrance.

The third recommendation pertains to the traders themselves. Most traders have no option but to pay their suppliers with cash and use their own capital for the business. On one hand, this poses a constraint for business expansion. On the other hand, it means that traders have to undertake all the risks associated with doing business. Given that it is not common practice to insure a business, the traders are vulnerable to even a small shock. It is therefore worth investigating the types of insurance suitable for traders and assisting them should they need additional capital to finance their expansion.

Finally, the conditions uncovered in our study areas point to a need for the thorough regulation of modern markets, including the regulation of such issues as the rights and responsibilities of the 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, improvements to the current bylaw should be sufficient. Moreover, it is more important to ensure that all stakeholders understand the regulations, and that both levels of government should act in strict accordance to them. To ensure fair competition amongst traditional and modern retailers, it is necessary that national and regional level governments have control mechanisms and monitoring systems to keep the playing field fair.

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APPENDICES

APPENDIX I
Types of Retailers in Indonesia

Retail Store	Physical Definition	Goods Available
Minimarket "Convenience Stores"	• Employ 2–6 • Less than 350 square meters	• Packaged Food • Basic Hygiene Goods
Supermarket	• 350–8000 square meters • 3+ cash registers	• Food • Household Goods
Hypermarket	• Free Standing • Over 8,000 square meters • Cash Register for every 1,000 square meters • Employ 350–400	• Food • Household Goods • Electronics • Clothing • Sports Goods
Cash and Carry	• Over 500 square meters • Requires membership to enter	• Food • Household Goods
Small Full Service Stores	• Family owned • Less than 200 square meters • Independent	• Limited Selection of Food • Limited Selection of Household Goods
Traditional Market	• Multiple Vendors • Small Stalls of 2–10 square meters	• Fresh Produce • Homemade Goods • Basic Household Goods

Adapted from Collett & Wallace (2006).

APPENDIX II
Regulations on Retail Trading in Indonesia: National Level, Depok, and Bandung

National Level

1. Presidential Decree No. 118/2000 on the Changes of Presidential Decree No. 96/2000 on Business Sectors that are Open or Closed with Some Requirements for Foreign Direct Investment
2. Joint Ministerial Decree of the Minister for Industry and Trade and the Minister for Home Affairs No. 145/MPP/Kep/5/97 and No. 57/1997 on Spatial Planning and Development of Markets and Shops
3. Decree of the Minister for Industry and Trade No. 261 MPP/Kep/7/1997 on Establishment of the Central Team for the Spatial Planning and Development of Markets and Shops
4. Decree of the Minister for Industry and Trade No. 402/MPP/Kep/11/1997 on Stipulations on Business Licenses for Foreign Trade Representatives Offices
5. Decree of the Minister for Industry and Trade No. 420/MPP/Kep/10/1997 on the Guidance for Spatial Planning and Development of Markets and Shops
6. Director General of Domestic Trade Circular No. 300/DJPDN/IX/97 on Licencing Procedures for Modern Markets
7. Decree of the Minister for Industry and Trade No. 23/MPP/Kep/1/1998 on Trading Corporations
8. Decree of the Minister for Industry and Trade No. 107/MPP/Kep/2/1998 on Stipulations on and Procedures for Issuing Permits to Modern Markets
9. Annex to Decree of the Minister for Industry and Trade No. 107/MPP/Kep/2/1998
10. Ministerial Trade Regulation No. 10/M-DAG/PER/3/2006 on Stipulations on and Procedures for Issuing Business Licenses for Foreign Trade Representative Offices
11. Ministerial Trade Regulation No. 12/M-DAG/PER/3/2006 on Stipulations on and Procedures for Issuing Franchise Business Registration Certificates
12. Draft Presidential Regulation on the Structuring and Establishment of Modern Markets and Modern Shops

Depok Administration

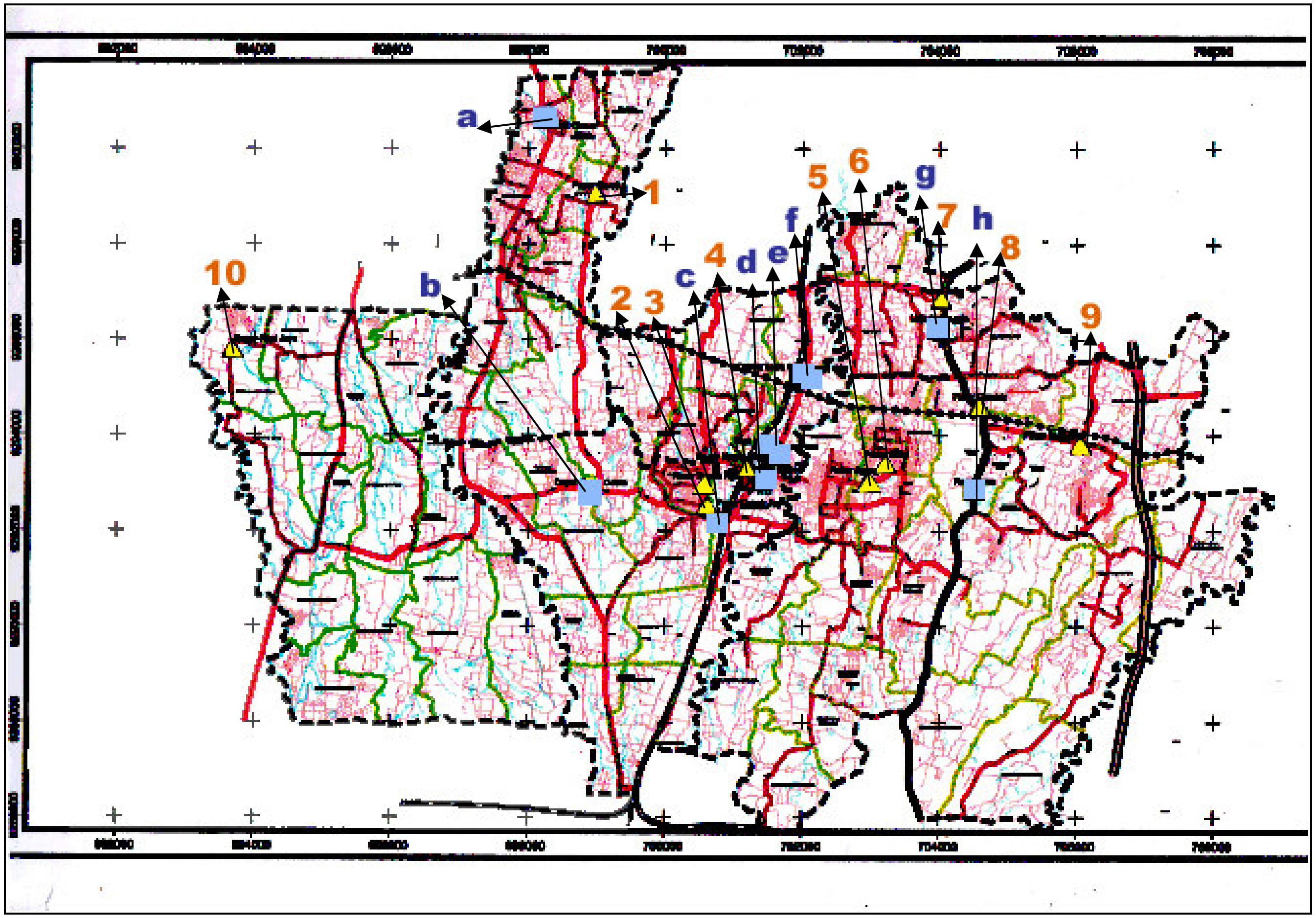
1. Kota Depok Regional Regulation No. 49/2001 on Disturbance Permits
2. Kota Depok Regional Regulation No. 23/2003 on Market Management in Depok

Bandung Administration

1. Kabupaten Bandung Regional Regulation No. 3/1994 on Market Management in the Districts of Bandung
2. Kabupaten Bandung Regional Regulation No. 27/1996 on Bandung District OMM
3. Bandung Mayoral Decree No. 382/2000 on Classification of Markets and Standard Selling Prices of Markets in Bandung
4. Market Agency Decree No. 22/2003 on Formation of the Organization and the Work Arrangements of Market Heads
5. Collection of Regional Regulations on Market Management in Kota Bandung
6. Plan of Regional Regulations on Modern Markets and Modern Shops
7. Service Guidebook for One-Stop Service
8. Local Regulation No.19/2001 on Market Management in Bandung
9. Mayoral Decree No. 644/2002 on Tariffs for Cleaning Services in Bandung
10. Draft Regional Regulation on Modern Markets and Shops

APPENDIX III
Location Map of Retailers in Depok and Bandung

A. Location of Traditional and Modern Markets in Depok



Notes:

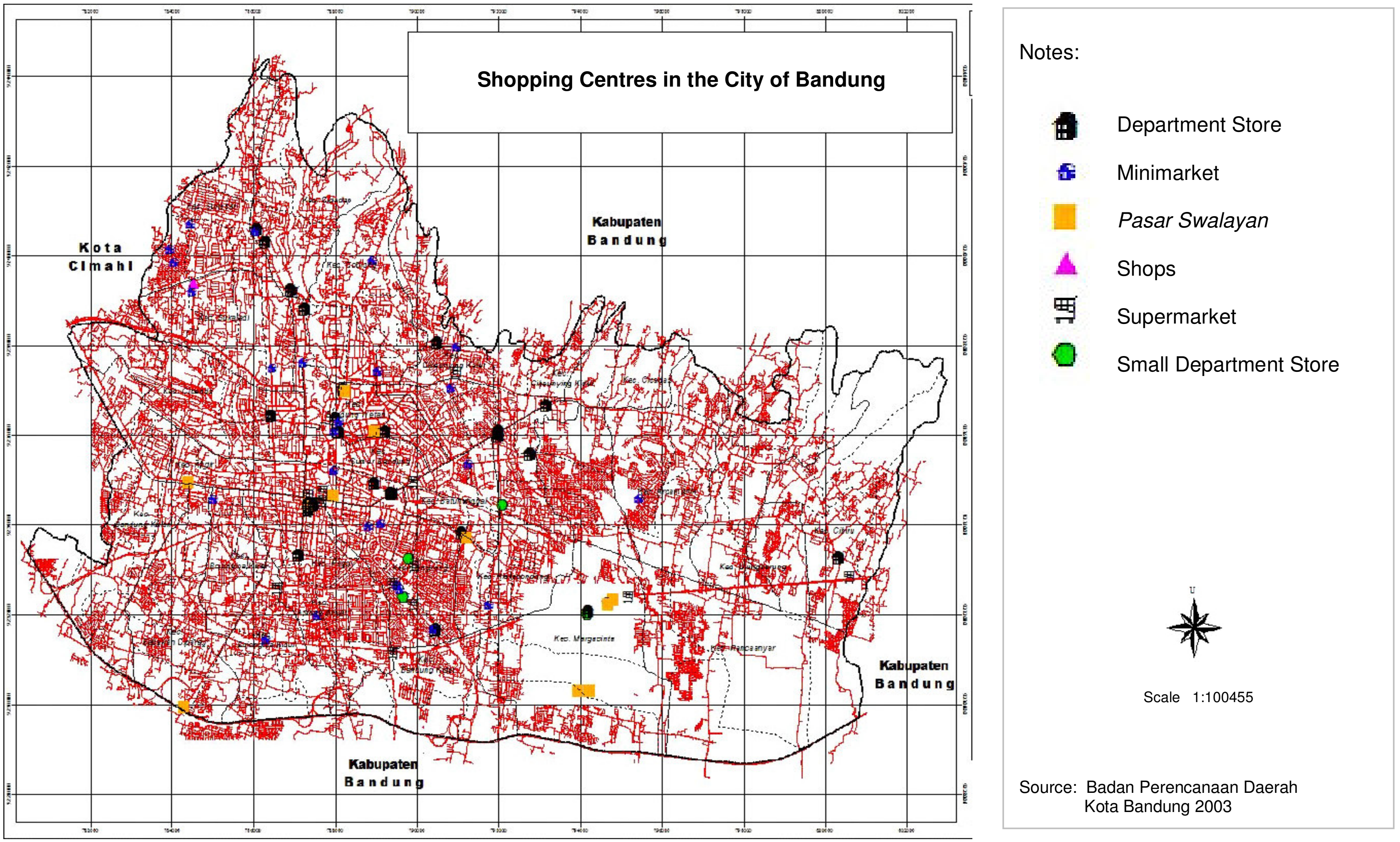
Traditional Markets:

1. Pasar Gandul
2. Pasar Depok Jaya
3. Pasar Depok Agung
4. Pasar Kemiri Muka
5. Pasar Agung
6. Pasar Musi
7. Pasar Tugu
8. Pasar Cisalak
9. Pasar Sukamaju
10 Pasar Reni Jaya

Modern Markets:

a. Mall Cinere
b. Depok Trade Center
c. Alfa Gudang Rabat
d. Plasa Depok Ramayana
e. ITC Depok
f. Depok Town Square dan Margo City
g. Mall Cimanggis
h. Ramayana

B. Location of Modern Markets in Bandung



APPENDIX IV
Description of Sample Traditional Markets

Depok

A. Cisalak

The Cisalak Market was constructed in 1993 and began its full operations in 1996. It is the second largest market in Depok after Kemiri Muka Market, covering an area of 1.9 hectares, and wholly owned and managed by the Depok OMM. Based on its size and contribution to the Depok administration's income, Cisalak Market is classified as a Class I market. The annual *retribusi* target allocated to Cisalak by the Depok OMM is currently around Rp324 million.

The Cisalak Market management employs 38 staff, including the market manager, *retribusi* collectors, and market officials. Market officials collect the *retribusi* for traders inside the market and street vendors up to a 300-meter radius from the market. In addition, the street vendors also have to pay small illegal levies charged by organized gangs.

There are two main buildings in Cisalak Market, and each is two-stories high. The market is divided into eight sections. In addition, there are several shops surrounding of the buildings. There is a total of 680 kiosks of two different sizes (3x3 m^2 and 3x2 m^2); 556 counters, most of them located on the ground floor; and 10 shops.[2] Only 505 of all trading spaces are occupied, while the rest, about 60%, are closed. There are currently 1275 traders in Cisalak Market, including the street vendors, most of whom are located near the market entrance. The goods sold here are similar to an average market, such as basic foodstuffs, vegetables, fish, meat, and clothes. Most parts of the ground floor are particularly set-aside for meat and fish traders. Similar to other traditional markets, most traders are open from 04:00 to around 15:00–16:00, except clothes and electronic kiosks, which are usually open until 8 or 9 pm.

According to the informants, the main internal problems in Cisalak Market include the poor condition of the buildings, poor sanitation, and the market entrance being blocked by the street vendors. The informants also claim that the number of buyers shopping inside the buildings has dropped significantly due to the street vendors. Almost all products, except meats, are sold on the sidewalks. Traders in Cisalak Market, especially those inside the main buildings, also complain about Giant, which they consider to be too close to the market. In contrast, there is a relatively low level of competition amongst traders inside the main building.

[2]Kiosks, counters, and awnings are different types of trading space. Usually kiosks are used by traders selling basic foodstuffs, while counters are used by meat or vegetable traders.

Palsigunung/Tugu

Tugu Market was built in 1992, opened to the public in 1996, and became fully operational in 1997. It is also known as Palsigunung Market due to the name of the area where it is located. Tugu Market covers an area of 1,890 square meters and is a Class II market. It consists of one two-story building built on Depok administration land, several buildings built on a land owned by Bina Marga (a corporation owned by the central government), which are rented by the Depok OMM, and kiosks on irrigation land near the Kali Baru River.

The Tugu Market *retribusi* is based on kiosk size, and ranges from Rp1,000 to Rp2,500 daily, while garbage and security *retribusi* are Rp1,000 each per day. Some *retribusi* is collected by the market staff, while the rest is collected directly by staff from the Depok OMM. In addition to the daily *retribusi*, the traders normally also pay a contribution for the holiday allowance for market security officers—a minimum of Rp10,000 per trader.

There is a total of 425 kiosks in Tugu Market: 135 units in the upper floor of the market's main building; 111 units in the lower floor; 157 units in the building on the Bina Marga land; and 22 units on the irrigation land. There are an additional 85 counter units: 23 on the upper floor and 62 on the Bina Marga land. Most of the kiosks and counters in the upper floor are empty as buyers are reluctant to go upstairs. There are currently around 600 traders in Tugu Market, including the 200 traders on the Bina Marga land. Goods sold include vegetables, basic foodstuffs, meats, clothes, and jewelry. In 2003, the traders formed a forum initially FKPPT (Communication Forum of Traders in Tugu Market), which currently has 90 members. Then, in 2005 the Commissioner of APPSI in Tugu Market was formed with 191 members.

Unlike in Cisalak Market, the facility and infrastructure problem faced by Tugu Market is its limited parking space. There is only enough space for eight cars. To overcome this problem, the Depok administration has agreed to fund a Rp350 million upgrade of the parking space in 2007. There was a fire at the Tugu Market in 2005, and no significant renovations followed the accident.

B. Musi

Musi Market is one of the oldest markets in Depok. It was built in 1982 and was officially opened in 1988. This market is located in the eastern part of Depok, near residential areas. Musi Market, covering an area of 1 hectare, is classified as a Class II market. The market is staffed by 15 people, including the market manager, administration officials, *retribusi* collectors, cleaning coordinators, parking attendants, and porters.

There are only 281 traders in Musi Market. Around one-third of the traders here sell vegetables and basic foodstuffs, around 10% sell meat and fish, another 10% sell rice, and the rest sell clothes. Frequent shoppers to Musi are housewives (40%), mobile kiosk operators (30%), and small store owners (30%). When measured in the value of purchases, the small stores are the most valuable customers, followed by the mobile kiosks and housewives. The market's operating hours are from 02:00 until noon. Most buyers come at around 09:00 to 10:00.

Based on the market manager's data, in 2004 there were 640 units, consisting of 340 kiosks, 168 counters, 37 radius stalls (300 meters from the market building), and 95 awnings. This market is divided into eight sections (A-H). Section G is specifically meant for kiosks, and out of 112 units that are available, only 28 units are filled. In Section H, meanwhile, only 40% of the 168 available counters are occupied.

In contrast to the other markets, traders in Musi do not pay a security *retribusi* as they have taken over the security of the market. In addition, there is a widespread unwillingness to pay the other *retribusi*. For example, traders who own two kiosks only pay the *retribusi* of one kiosk, while traders with three kiosks only pay for one and a half. Furthermore, in recent months most of the traders inside the market building have refused to pay *retribusi* because the market management has not kept their promise to organize the street vendors who occupy the nearby street. The traders also complain about the terrible state of the market buildings. In early 2006, the Depok OMM made some infrastructure improvements, such as paving the access road to the market and expanding the parking lot, although it is limited to Sections G and H.

The traders in Musi Market joined with the APPSI of Agung Market in 2005. The organization of traders in Musi Market itself is called P3MD, and was established in 2005. P3MD's main function is to accommodate the aspirations of traders and to represent the traders in official matters.

Bandung

A. Pamoyanan

Pamoyanan Market was first opened in 1977. It was renovated in 1993, burned down in 1995, and was renovated for the second time in 2000. The current design is also a two-story building. In total, Pamoyanan has 125 kiosks on the first floor and 56 on the second floor. Out of those in the second floor, 30 used to be occupied, mainly selling used clothes, but only one kiosk is still open. The market used to be crowded until 15:00–16:00, but is now already deserted by around 11:00. This is mainly due to the fact that most of its customers were middle-class households, who switched to shopping at Hero when it opened about 300 meters from the market in 2003. Pamoyanan does not have a problem with street vendors.

The daily *retribusi* target of Pamoyanan is Rp200,000. The very slow business means that traders are only able to pay the *retribusi* at the end of the day rather than in the morning. In addition, an increasing number of traders have begun to postpone payment of the Annual Trading License (SPTB).

B. Leuwipanjang

Leuwipanjang Market began operations in 1980 and underwent a renovation in 2001, creating a two-story building with total area of 1300 square meters. Traders say that conditions have worsened since the renovation because the new building is more crowded. Only 50% of trading space is currently occupied. Furthermore, traders from the second floor have switched to street vending around the market building, as customers are reluctant to go to the second floor.

The number of customers visiting the market further reduced in 2003. One reason cited for this is the decision by the Bandung Office of Transportation to convert a public transport route that used to pass in front of the market from two-way to one-way. Hence, buyers who could previously reach the market easily now have to pass by Carrefour first.

C. Sederhana

Sederhana was opened in 1986, and so far it has experienced four fires, the last one occurring in 2003. After that fire, the market was renovated using a central government grant and turned into a two-story market with total area of 14,000 square meters, making it the fourth largest market in Bandung. There are three supermarkets surrounding Sederhana Market: Giant, Carrefour, and Griya. There are also four minimarkets: two Yomart, one Alfa, and one Smart. All were opened within the past three years. There is a local bus terminal beside the market and a garbage collection site in front of it. The main office of the Bandung OMM is to the left of the market.

Similar to the conditions in Depok and other markets in Bandung, the second floor is only sparsely occupied. In addition, even though the first floor has a higher occupancy rate, there are many unused kiosks. The traders who used to open their kiosks inside the building have moved to outside areas and have become street vendors, causing the market entrance to become very crowded. Although the market has toilet facilities and access to clean water, the market management does not manage these amenities—this is left to individual traders.

The market's operating hours begin at 04:00 and end at 15:00, except during the month of Ramadhan, when it is open until 17:00. Goods sold in this market are the same as any other traditional market. Most buyers are restaurant owners, mobile vendors, and then households. Furthermore, while there are a significant number of street vendors, the competition between them and the traders inside the building is manageable.

The manager of Sederhana Market says that his daily *retribusi* target is Rp725,000, and that it increases every year. The market manager's sole duty is to collect *retribusi*, and he could be removed from his position if he fails to achieve the target. There are a total of 18 market officials, including those whose only duty is to collect the *retribusi*. In addition, the manager discloses that the traders sometime refuse to pay the full *retribusi*, or pay only the *retribusi* for one kiosk although they may have multiple kiosks.

D. Banjaran

The Banjaran Market is a Class I market with an area of 1.3 hectares. It has 544 kiosks and 463 counters. Built in the 1930s, Banjaran is very old and, in contrast to newer markets, does not have a main building. There has been no significant renovation to the market except in sections that have experienced fires. In addition, the road in front of the market is always congested and is full of street vendors. Similar to other markets, the street vendors have created fierce competition amongst traders.

Another problem in Banjaran is the traders' unwillingness to pay the *retribusi*. They only pay if they have sold enough goods. This problem is exacerbated by the fact that most customers of Banjaran are employees of nearby factories. Recently four of the factories laid off the majority of their employees. This has caused the traders to lose their customer base, and furthermore some of the laid off employees have become street vendors.

APPENDIX V
Control Variables: Mean and Standard Deviation

Variable	Mean	Std Dev.	Dummy
2003 Level			
Trading experience (years)	15.19	9.37	No
Finished primary school	0.30	0.46	Yes
Finished junior secondary school	0.23	0.42	Yes
Finished tertiary level education	0.36	0.48	Yes
Share of unpaid assistants to total	0.43	0.48	No
Daily *retribusi* to earnings ratio	0.01	0.02	No
Own the kiosk	0.62	0.49	Yes
Kiosk size (m^2)	8.45	6.42	No
Kiosk is at front and on the first floor	0.21	0.41	Yes
Kiosk is at back and on the first floor	0.62	0.49	Yes
Kiosk is at front and on the second floor	0.01	0.09	Yes
Kiosk is at back and on the second floor	0.01	0.12	Yes
Number of buyers	44.24	31.04	No
Only sells one commodity	0.47	0.50	Yes
Main commodity: rice	0.07	0.26	Yes
Main commodity: cooking oil	0.03	0.18	Yes
Main commodity: F & B ingredients	0.17	0.37	Yes
Main commodity: spices	0.05	0.23	Yes
Main commodity: vegetables	0.23	0.42	Yes
Main commodity: roots	0.01	0.10	Yes
Main commodity: fruits	0.08	0.27	Yes
Main commodity: nuts	0.22	0.15	Yes
Main commodity: meat	0.07	0.25	Yes
Main commodity: chicken	0.07	0.25	Yes
Main commodity: fish	0.07	0.26	Yes
Main commodity: egg & milk	0.04	0.20	Yes
Belongs to the treatment group	0.62	0.49	Yes
Distance to nearest supermarket (km)	4.84	6.11	No
Changes 2003 – 2006			
Share of unpaid assistants decreased	0.06	0.23	Yes
Change in kiosk ownership	0.15	0.36	Yes
Kiosk size is larger	0.04	0.20	Yes
Kiosk location is better	0.11	0.31	Yes
Change in number of buyers	-21.84	32.24	No
Changing number of commodity sold	0.04	0.21	Yes
Changing main commodity	0.03	0.18	Yes
Depok dummy	0.39	0.49	Yes

APPENDIX VI
Revenue of Depok OMM (2001–04) and Bandung OMM (2003–06)

A. Revenue of the Depok Office of Market Management (million rupiah)

Facilities	2001	2002	2003	2004	2001	2002	2003	2004
		Realization		Target		Realization		Target
Kiosk	105	165	200	393	30.31%	30.84%	27.54%	24.21%
Counter	88	130	221	334	25.53%	24.27%	30.34%	20.56%
Other	153	240	306	897	44.16%	44.89%	42.12%	55.23%
All Markets' Revenue	346	534	727	1624	100%	100%	100%	100%
% Increase		54.40%	36.10%	123.40%				
PAD (local revenue)	21,664	34,380	41,517	48,800				
Market *Retribusi*/PAD	1.60%	1.55%	1.75%	3.33%				

Source: Depok OMM 2004

B. Revenue of Bandung OMM *Retribusi* (million rupiah)

Retribusi	2003	2004	2005	2006
Target	4,425.00	4,557.80	4,262.20	4,313.40
Realization	4,429.90	4,559.90	4,424.70	4,486.50
% Increase		2.93%	-2.96%	1.40%
PAD-Local Revenue	217,024	222,909	225,596	n.a
Market *Retribusi*/PAD	2.00%	2.00%	1.96%	n.a

Source: Bandung OMM 2006 and Bandung BPS

C. Structure and *Retribusi* of Traditional Market Tariffs in Depok

Market Class	Facilities	Area m^2	Tariff (Rp)
First class	a. Kiosk	0–20	1,500–3,000/day
	b. Counter		2,000/day
	c. Awning		1,500/day
	d. Radius 300 m		1,000/day
	e. Toilet		500/entry
	f. Cleanliness		1,000/day
Second Class	a. Kiosk	0–20	1,000–2,500/day
	b. Counter		1,500/day
	c. Awning		1,000/day
	d. Radius 300 m		750/day
	e. Toilet		500/entry
	f. Cleanliness		1,000/day
Third Class	a. Kiosk	0–20	750–2,000/day
	b. Counter		1,000/day
	c. Awning		750/day
	d. Radius 300 m		500/day
	e. Toilet		500/entry
	f. Cleanliness		1,000/day

Source: Depok OMM (Article 23 Local Regulation No. 23/2003 on Market Management in Depok)

APPENDIX VII
Nature of Competition in the Control and Treatment Markets

Commodities and Proportion of Traders (%) – Control Markets

Commodity	%	Commodity	%
Food & beverage ingredients	20.13	Spices	5.84
Vegetables	14.29	Meat	5.19
Fruits	12.34	Rice	4.55
Other household necessities	10.39	Cooking oil	3.90
Fish	7.14	Root vegetables	1.95
Chicken	6.49	Nuts	1.30
Egg & milk	6.49		

Note: 20.13% means 20.13% of traders said that their main commodities are food & beverage ingredients.

Commodities and Proportion of Traders (%) – Treatment Markets

Commodity	%	Commodity	%
Vegetables	27.27	Other household necessities	6.32
Food & beverage ingredients	15.42	Spices	5.93
Rice	8.30	Egg & milk	3.16
Fish	7.51	Nuts	2.77
Chicken	7.11	Cooking oil	1.98
Meat	7.11	Root vegetables	0.40
Fruits	6.72		

Note: 27.27% means 27.27% of traders said that their main commodities are vegetables.

Main Customers in Traditional Market (%) – Control Markets

Customer Type	Number	Customer Type	Value
Small stores	57.79	Small stores	56.49
Households	25.32	Households	24.03
Restaurants	11.69	Restaurants	12.99
Mobile vendors	5.19	Mobile vendors	6.49

Main Customers in Traditional Market (%) – Treatment Markets

Customer Type	Number	Customer Type	Value
Households	49.01	Households	39.92
Small stores	31.62	Small stores	35.97
Restaurants	11.07	Restaurants	14.62
Mobile vendors	7.51	Mobile vendors	9.09
Others	0.79	Others	0.40

Strategies (%) – Control and Treatment Markets

Strategy to Attract Buyers	Control	Strategy to Attract Buyers	Treatment
Politeness	35.06	Politeness	39.13
Quality	18.83	Quality	20.55
Discount	12.34	Discount	13.04
Others	11.69	More variety	9.09
More variety	9.09	Others	8.30
Priority to frequent shoppers	4.55	Management of goods	3.56
Management of goods	3.25	Home delivery	2.77
Honesty	1.95	Honesty	1.58
Home delivery	1.30	Payment in installment	0.79
Cleanliness	1.30		
Payment in installment	0.65		

Supplier of Traders in Traditional Markets (%) – Control Markets

Most Commonly Used Supplier		Main Method of Payment to Supplier	
Supplier	55.84	Cash	87.66
Govt. wholesale markets	22.73	Consignment	9.09
Wholesaler	11.04	Credit	3.25
Other traditional market	5.84		
Directly from producer	3.90		
Other traditional market	0.65		

Supplier of Traders in Traditional Markets (%) – Treatment Markets

Most Commonly Used Supplier		Main Method of Payment to Supplier	
Govt. wholesale markets	36.76	Cash	85.77
Supplier	35.18	Consignment	10.67
Other traditional. Market	9.88	Credit	3.16
Wholesaler	8.30	Others	0.40
Direct from producer	7.11		
Own production	2.77		

Source of Working Capital (%) – Control Markets

Source of Capital	%	Source of Capital	%
Own capital	88.3	Loan sharks	1.3
Government-owned banks	6.5	Cooperatives	0.7
Private banks	0.7	Market banks	0.7
Borrow from relatives	0.7		
Others	1.3		

Source of Working Capital (%) – Treatment Markets

Source of Capital	%	Source of Capital	%
Own capital	85.8	Loan sharks	0.8
Government-owned banks	3.6	Cooperatives	0.8
Private banks	4.4	Borrow from friends	0.4
Borrow from relatives	2.4		
Others	2.0		

APPENDIX VIII
Reader's Letter (*Kompas*, Friday, February 18, 2000)

Box 3. Surat Pembaca: Belanja di Pasar Tradisional (*Kompas*, Jumat 18 Feb 2000)
<http://www.kompas.com/kompas-cetak/0002/18/opini/reda04.htm>

Soal pemberitaan di media massa, tentang pedagang eceran dan pasar tradisional terancam oleh hadirnya *hypermarket.* Sebagai ibu rumah tangga, pasti hafal dengan harga sebagian besar barang keperluan sehari-hari. Sebetulnya bukan peraturan letak *hypermarket* (di dalam atau luar kota) yang menentukan tersingkirnya pasar tradisional atau pedagang eceran. Yang menentukan adalah kenyamanan dan harga di tempat berbelanja tersebut.

Pasar tradisional tidak mungkin tersingkir kalau dikelola dengan baik. Nikmatnya berbelanja di pasar ini, bisa tawar-menawar dan berkenalan dengan pedagang secara pribadi – mereka cukup ramah dan sayur atau buah yang dijual lebih murah dibanding di *supermarket.* Namun, yang membuat segan mendatangi pasar tradisional adalah kotor dan terkadang becek serta harus berdesakan karena umumnya setiap tempat yang harusnya untuk jalan diisi oleh pedagang yang memajukan barang dagangannya dengan semaunya. Kondisi itu dibiarkan oleh pengelola pasar, dan konsumen sering menjadi korban pencopetan.

Faktor lain adalah kaki lima yang menutup sebagian besar kios sehingga menghalangi konsumen yang berbelanja di kios, di samping kaki lima juga menempati jalan masuk ke pasar-pasar dan menjadi mangsa pemungut pungli petugas pengelola pasar.

Usul saya, adakan perlombaan antarpasar dan pengelola pasar yang tidak becus dipecat atau dimutasikan. Perlombaan diadakan setahun sekali dan dinilai oleh masyarakat (pengunjung diberi formulir untuk diisi). Nama dan nomor kios pedagang yang jorok diumumkan sehingga mereka cenderung menjaga kebersihan. **Ny S Karyadi, Bogor Jabar**

Box 3. Translation. Reader's Letter: Shopping in Traditional Market
(*Kompas,* Friday, Feb 18, 2000)

Regarding the news on mass media about small traders and traditional markets threatened by the presence of hypermarket. As a housewife, I completely remember almost all prices for basic necessities. As a matter of fact, it is not the zoning regulations for hypermarkets (inside or outside the city) that cause the elimination of traditional markets and small traders. Actually, factors that determine buyers' choices are more related to the convenience and prices at those shopping centers.

Traditional markets will not be driven out of business if they are managed properly. The ability to haggle and personally know the traders has become part of the enjoyment of shopping in traditional market. In addition, those traders are very polite and the goods sold in the traditional market such as vegetables and fruit are cheaper than those sold at the supermarket. However, what makes people reluctant to go to the traditional market is that traditional markets always have a problem with cleanliness. They are dirty, sometimes wet, and customers have to jostle each other because some traders have blocked the access road. The management doesn't seem to care about these problems and it creates further problem such as pick pocketing.

Another factor is the street vendors, which obstruct most of the kiosks, hindering the consumers shopping at the kiosks. The street vendors also trade on the entrance road of the market where they become prey to illegal levies charged by market officials.

My suggestion is hold a competition amongst the traditional market. Market management officials that are not capable of doing their jobs should be fired or reassigned. This competition should be done every year and evaluated by the people (buyers are given a questionnaire to complete). The names of the owners and also the kiosk numbers that were found to be dirty need to be exposed to the public, so they will maintain the cleanliness of the stalls. **Mrs. S Karyadi, Bogor, West Java**

APPENDIX IX.
Site/Area Data

Traditional market name		Role	Subdistrict	Location		
				District/ City	District Population	Density
Depok*						
	Palsigunung (Tugu)	Treatment	Cimanggis	C.Depok	1,374,522	6,862.66
	Cisalak	Treatment	Cimanggis	C.Depok	1,374,522	6,862.66
	Musi	Control	Sukmajaya	C.Depok	1,374,522	6,862.66
Bandung**						
	Leuwipanjang	Treatment	Bojongloa Kidul	C.Bandung	2,270,970	13,505
	Pamoyanan	Treatment	Cicendo	C.Bandung	2,270,970	13,505
	Sederhana	Treatment	Sukajadi	C.Bandung	2,270,970	13,505
	Banjaran	Control	Banjaran	D.Bandung	4,274,431	2,066

* Source: BPS Depok 2004
** Source: BPS Bandung 2006
Note: The Banjaran subdistrict of the District of Bandung is close to the border of the City of Bandung, therefore the characteristics of this area are similar to the City of Bandung.