



Modern Market Growth and Changing Map of Retail Food Sector in Indonesia



Ronnie S. Natawidjaja, Ph.D.

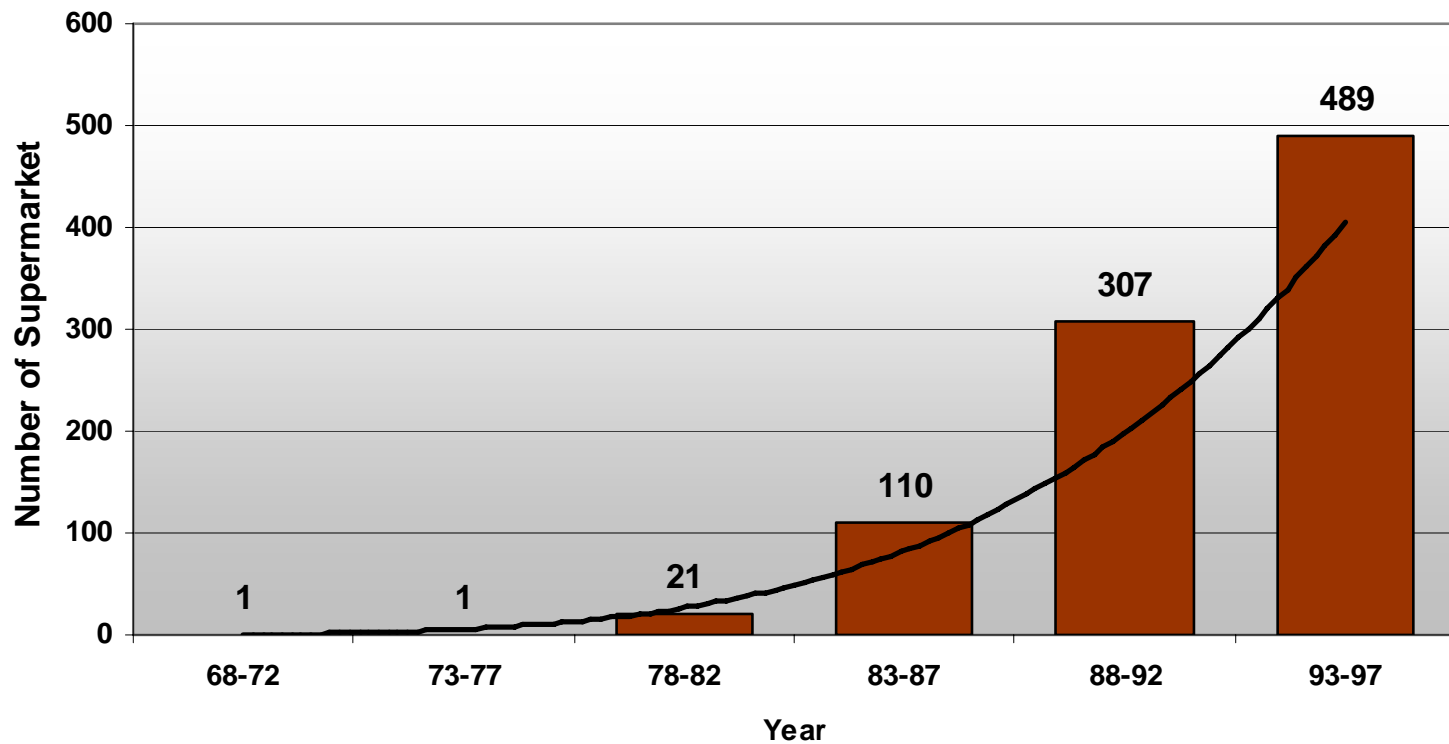


Center for Agricultural Policy
and Agribusiness Studies
Padjadjaran University
INDONESIA

Development of Supermarket

- The first supermarket was registered in early 70s and there was no further development within ten years.
- The supermarket was growing very rapidly since 1983 along with the early stage of economic growth and increase in income per capita marked as the beginning of the green revolution era.
- In the period of 1983-1987, supermarket grows with the rate of 85% per year. The growth was declining but remains increasing by 12% per year between 1993 and 1997.
- Supermarket development in the period of 1978- 1992 was mostly in Metro Jakarta and few large cities in Java Island.

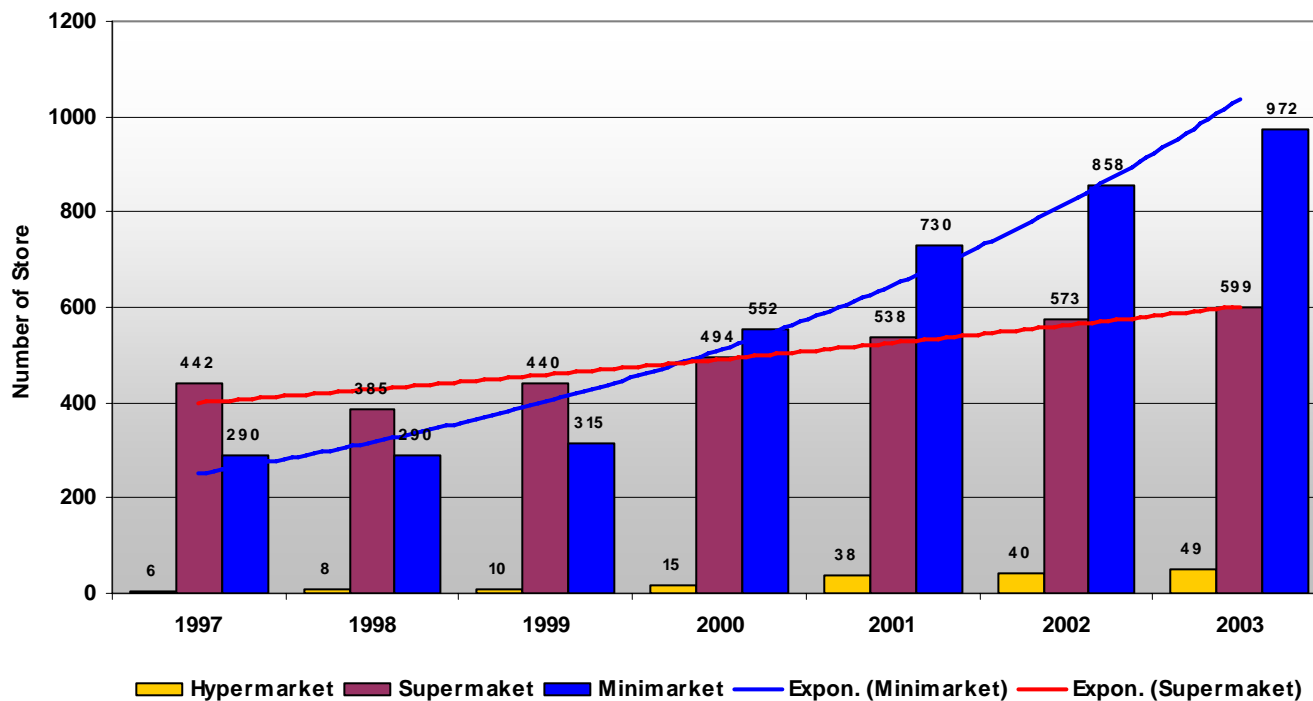
Early Supermarket Development



Source: BPS, 2003



Development of Modern Market (1997-2003)

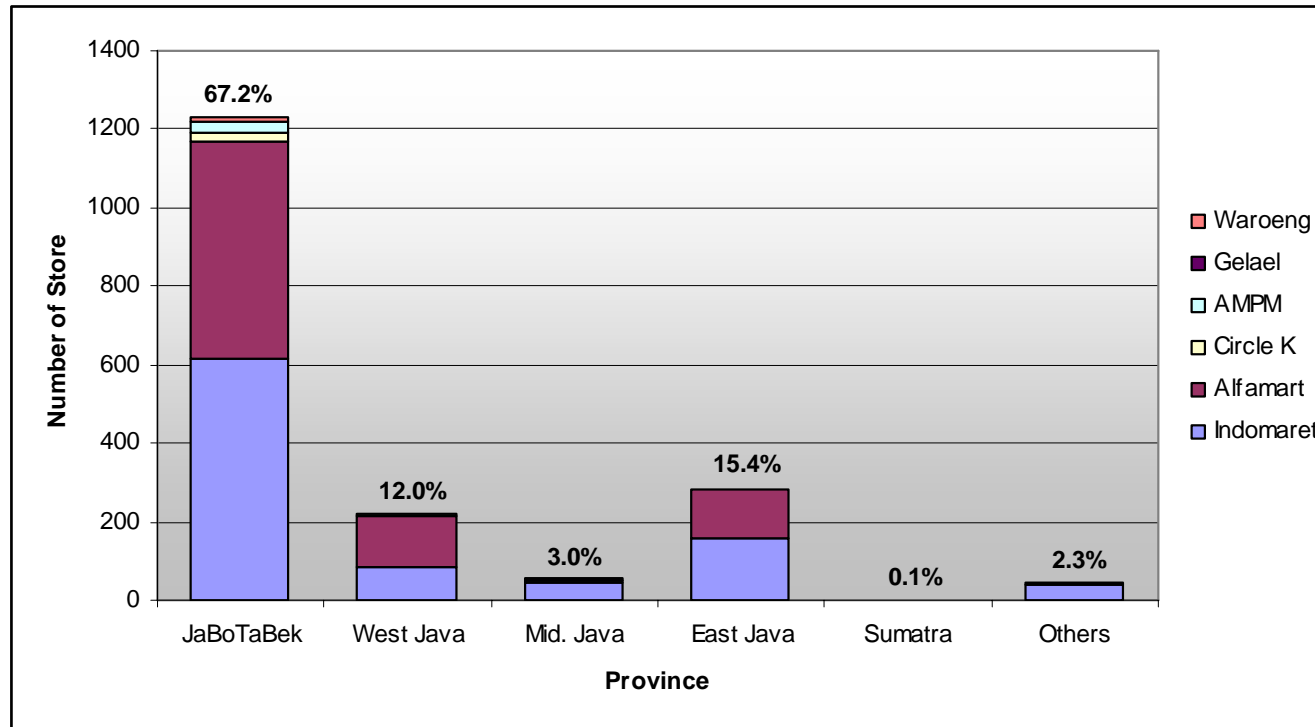


Source: DRI, 2003, Visidata, 2003

Average growth per year = 14,63%

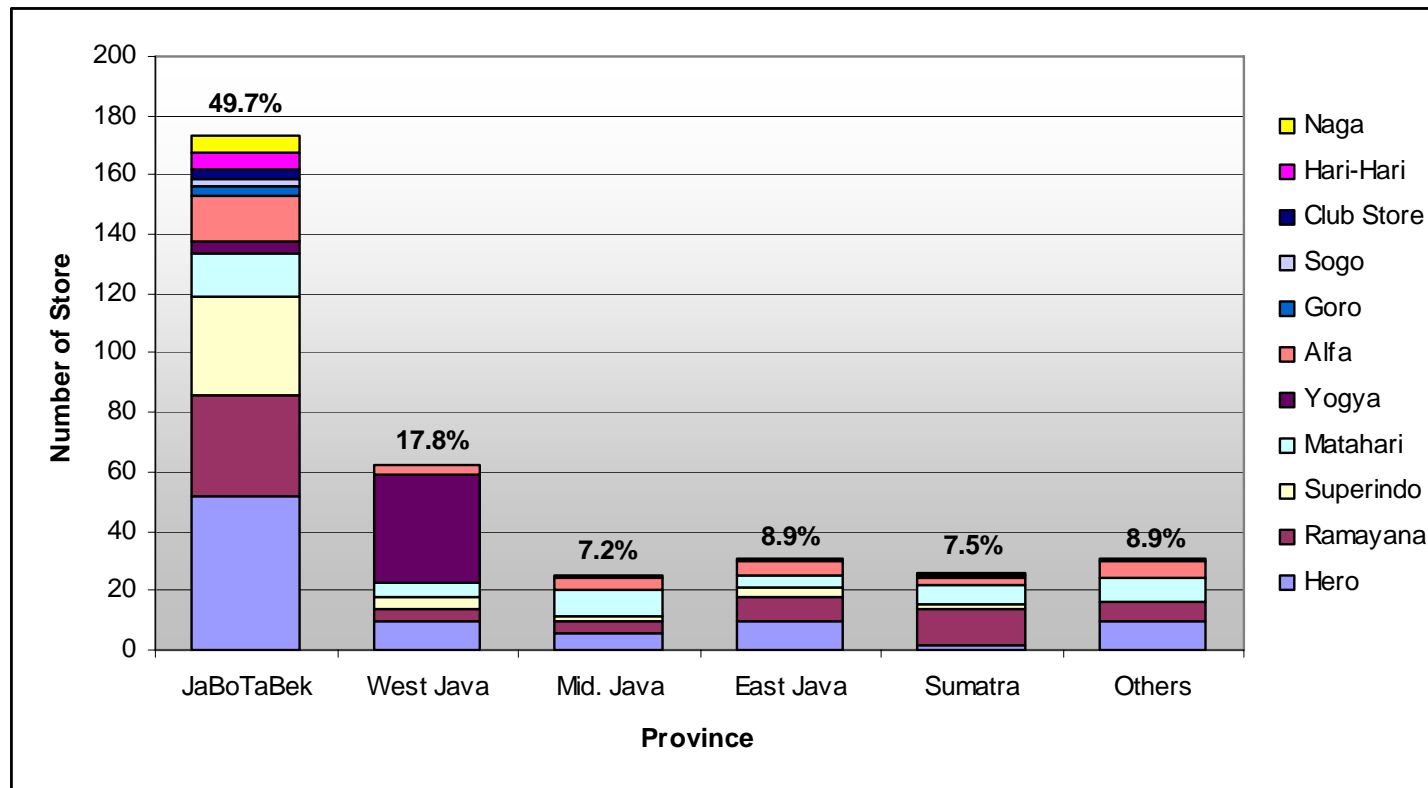


Minimarket Distribution in 2004



Source: Retail Indonesia, 2005

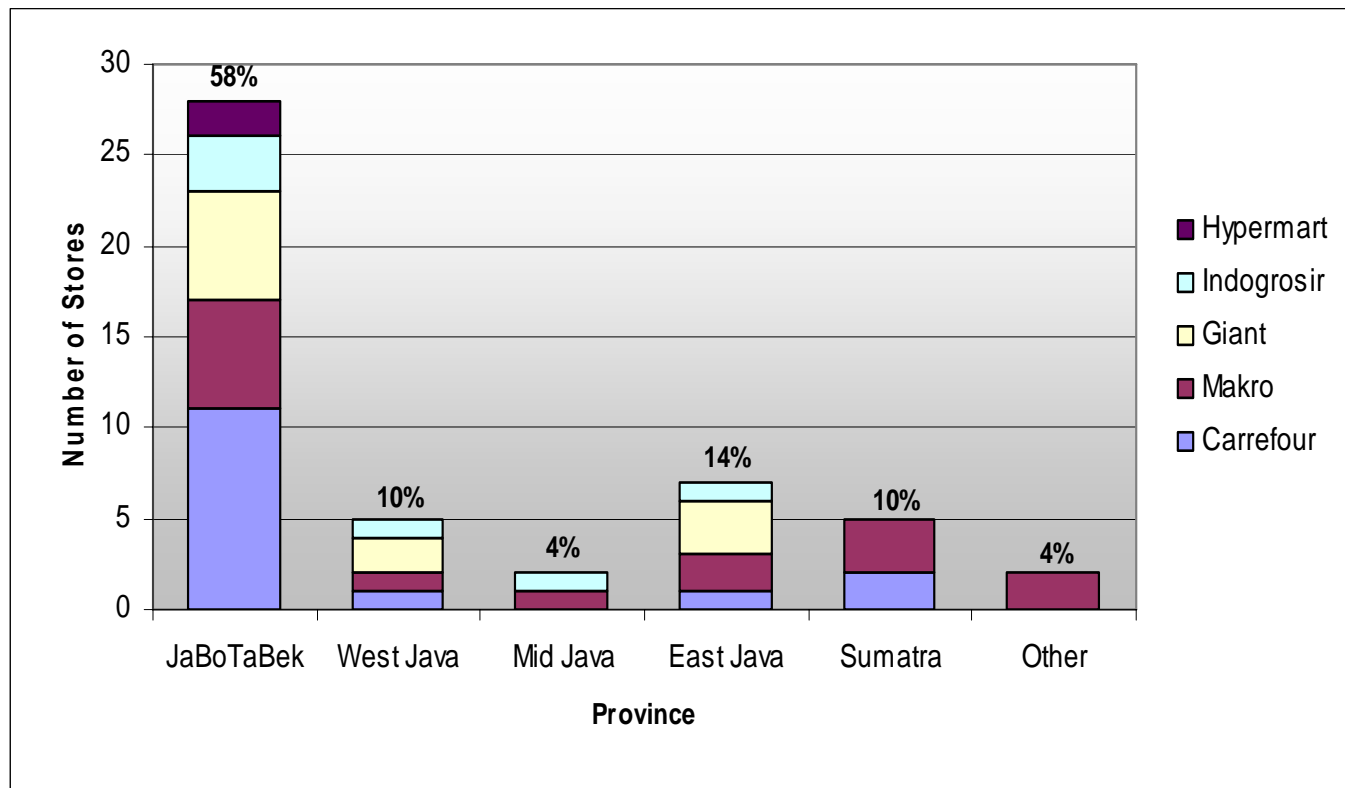
Supermarket Distribution in 2004



Source: Retail Indonesia, 2005



Hypermarket Distribution in 2004

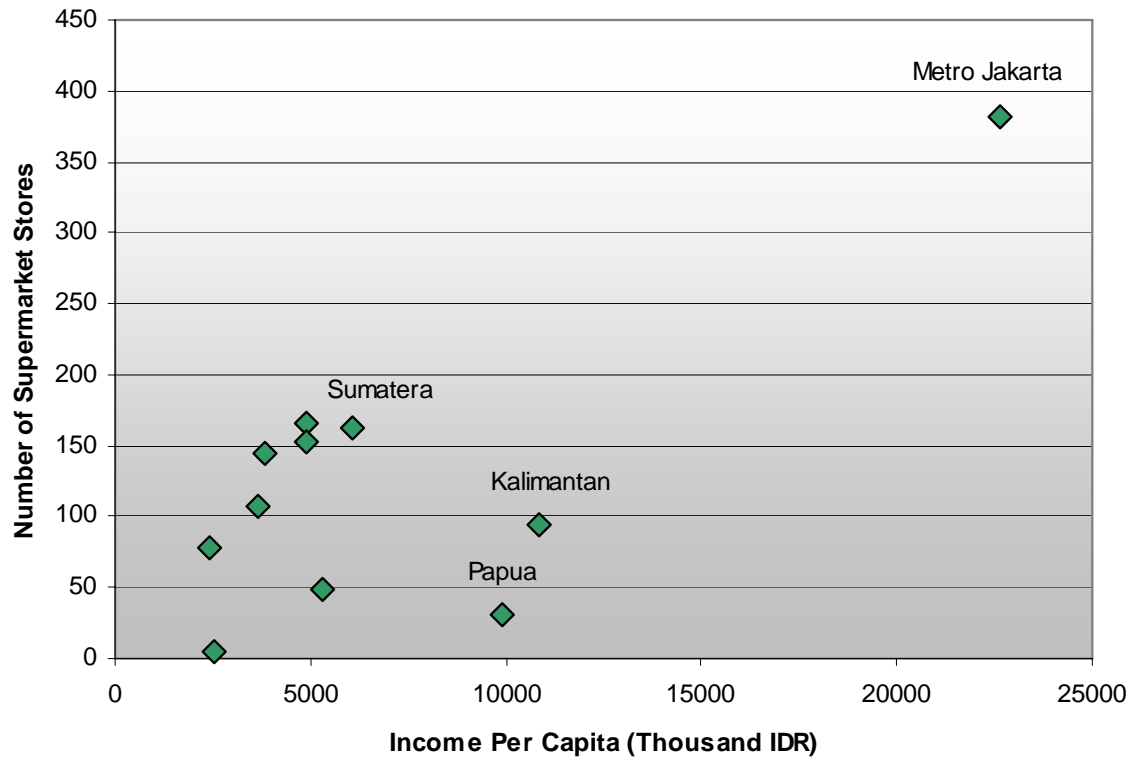


Source: Retail Indonesia, 2005

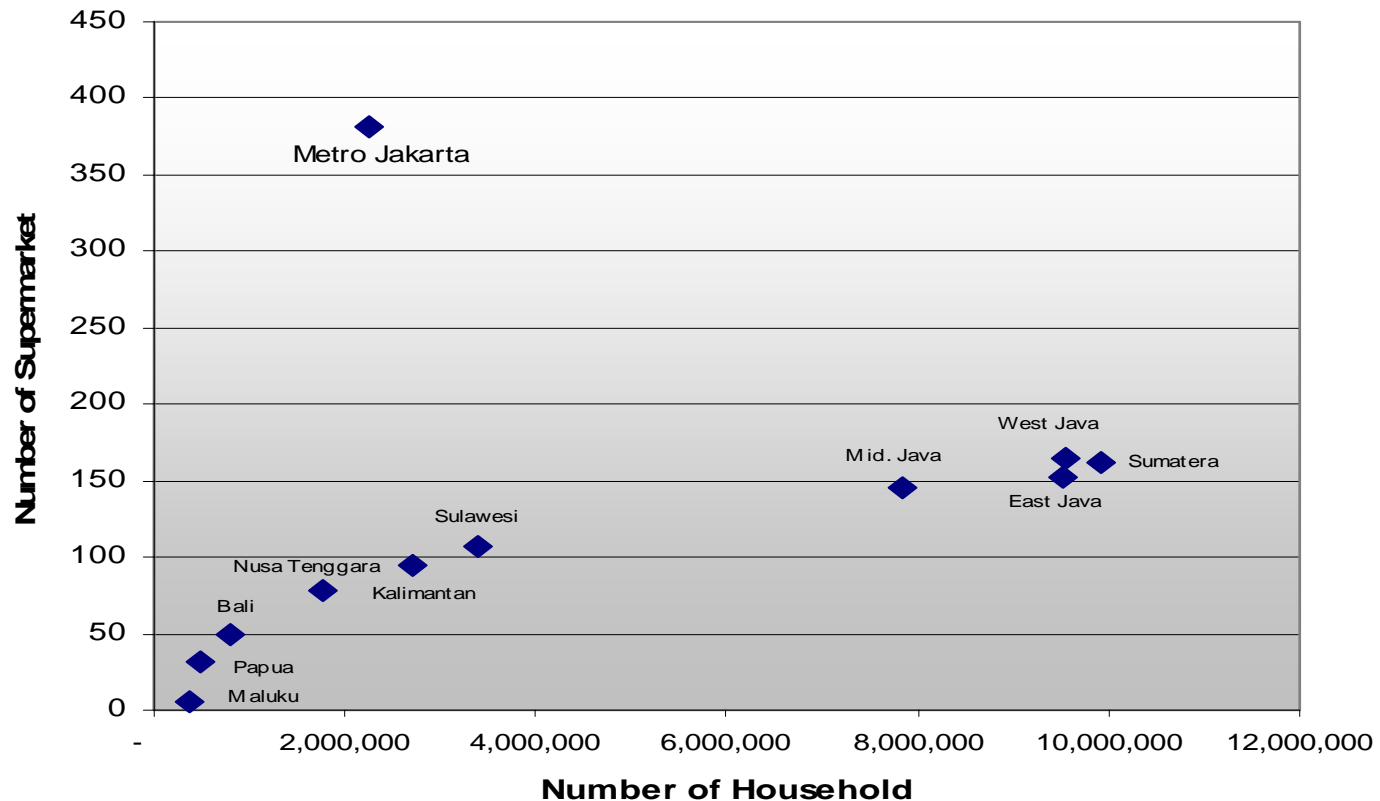
Unique Characteristic of Supermarket Growth in Indonesia

- Why is modern market development mostly concentrated only in certain areas, particularly Metro Jakarta and its sub-urban areas?
- What is the pull and push factor of its development?
- What are problems, gainer and loser, from the development of supermarket?
- How to reduce the social cost of most likely the loser?
- How to turn the threat and opportunity in to economic potential?

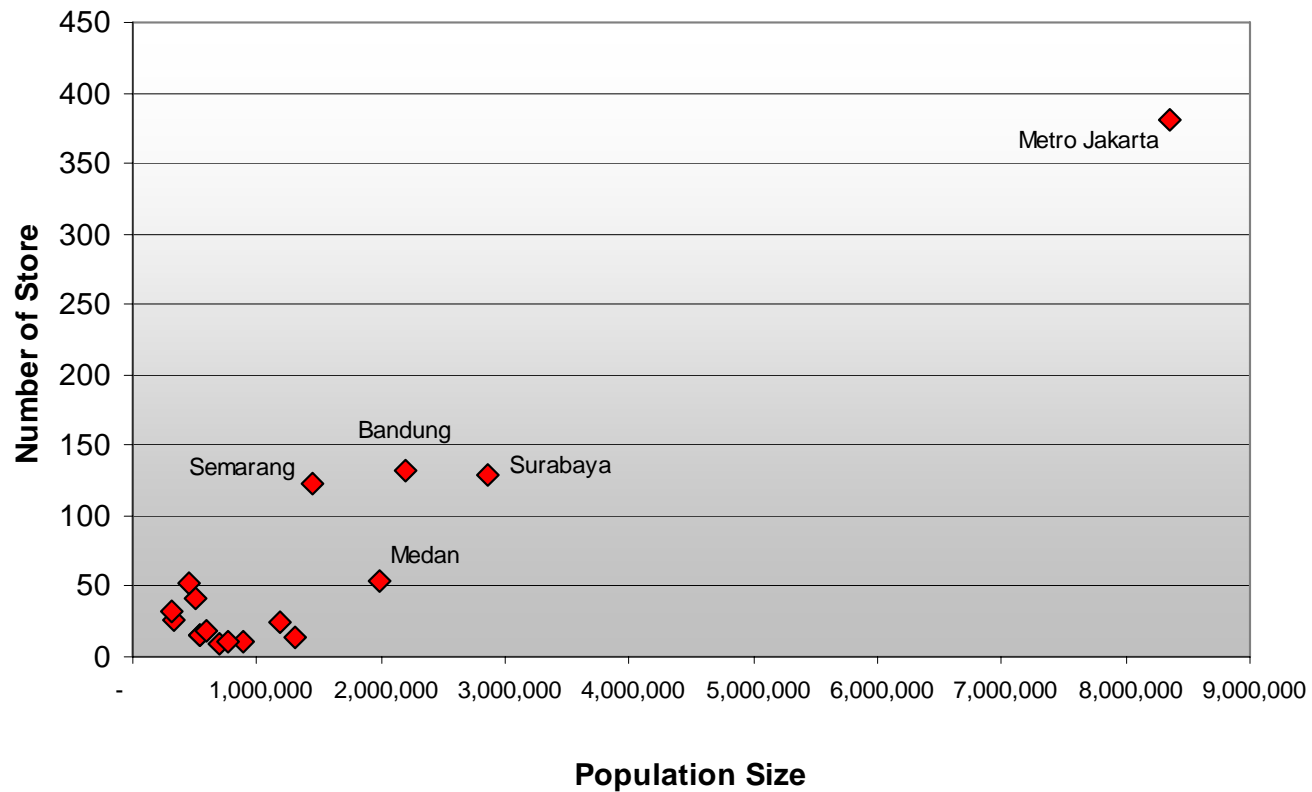
Scatter Plot of Income Per Capita and Number of Stores



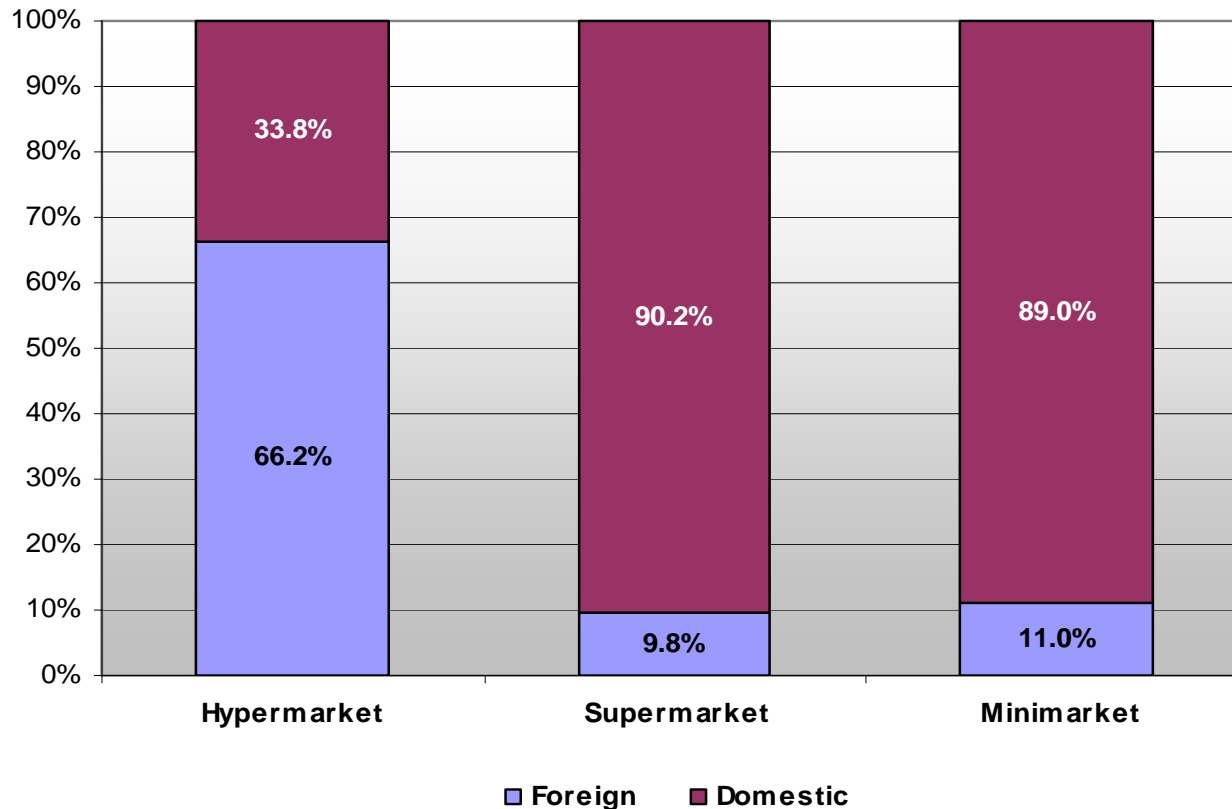
Scatter Plot of Number of Households and Number of Stores



Scatter Plot Population Size of Major City and Number of Stores



Percentage of Foreign Investment in the Modern Market



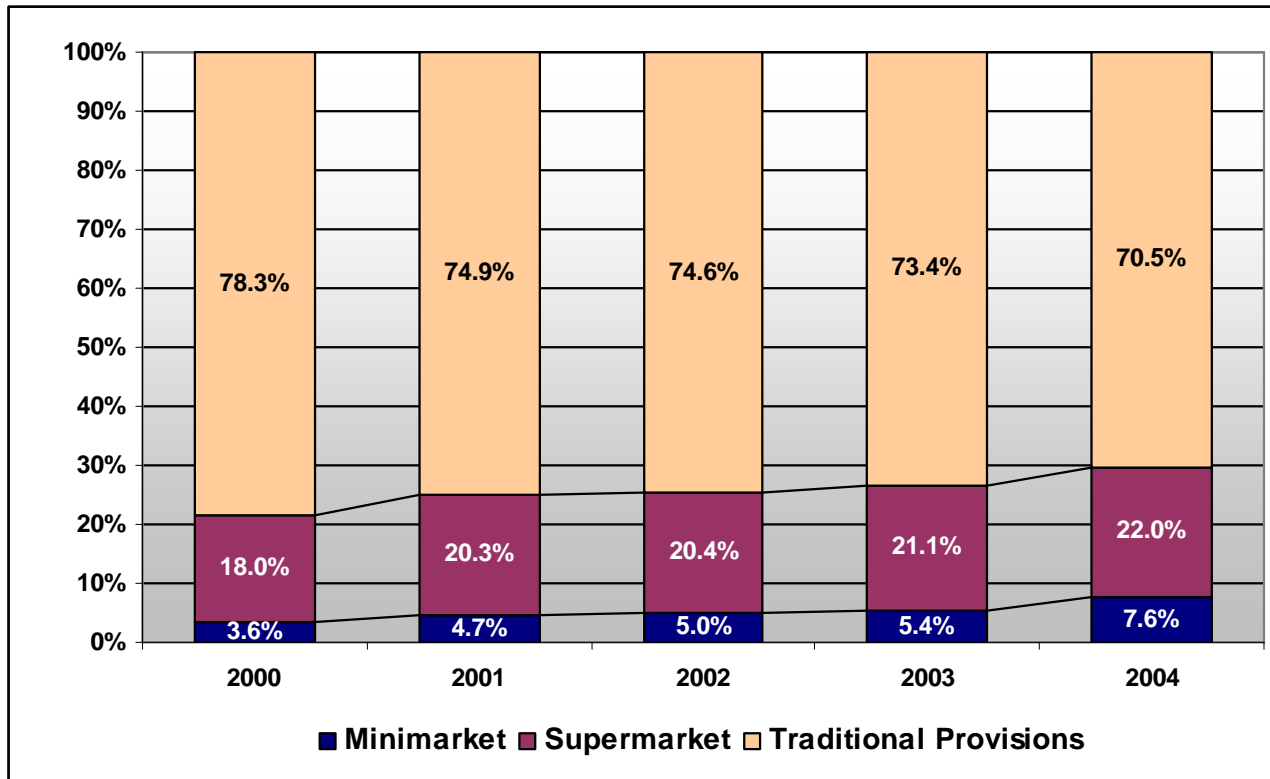
Source: International Business Strategies, 2003



Marketing Strategy and Investment

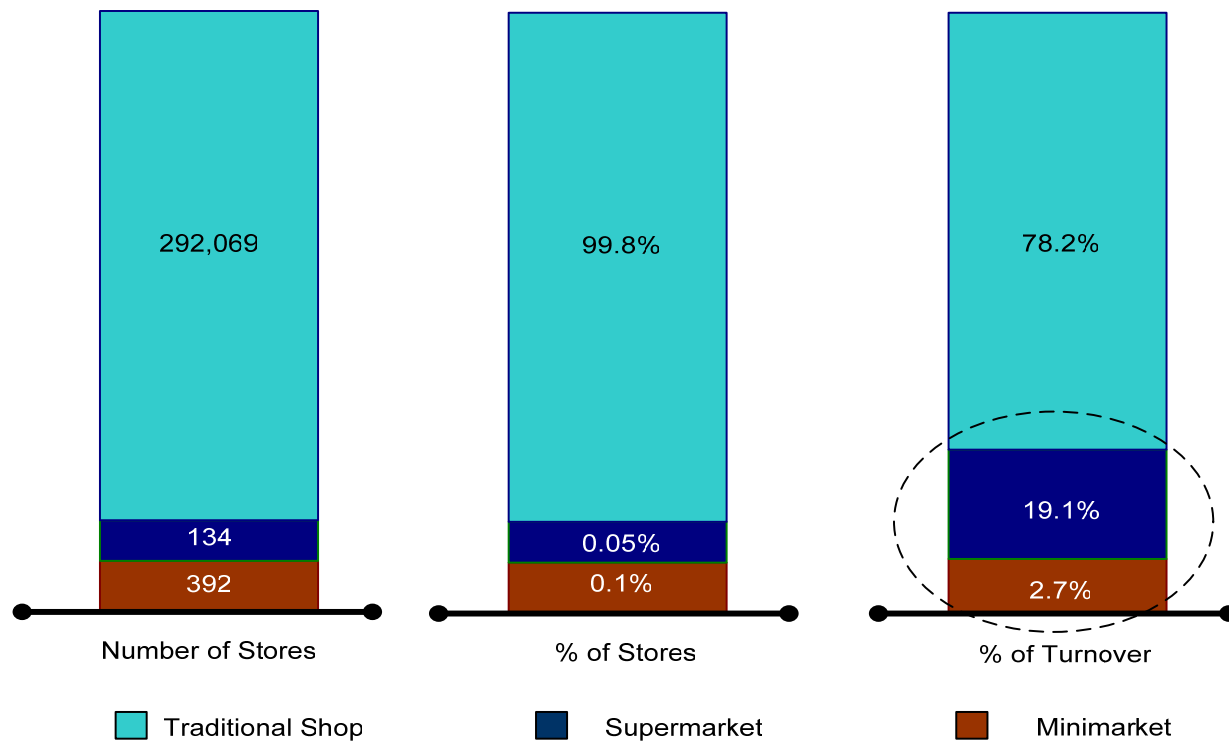
- Foreign investment mostly on hypermarket and about 10% on supermarket and minimarket, some of them are franchised
- Most supermarket is local investor. To face tight competition, large supermarket develop small convenient store (minimarket) and more aggressively place the store closer to the consumers

Modern retail market is taking over traditional market by 1-3% per year



Source: ACNielsen, 2004

Even though the contribution of modern trade in the number of stores is only about 1%, contribution in term of sales turnover is 25% of the total market



Source: ACNielsen, 2004

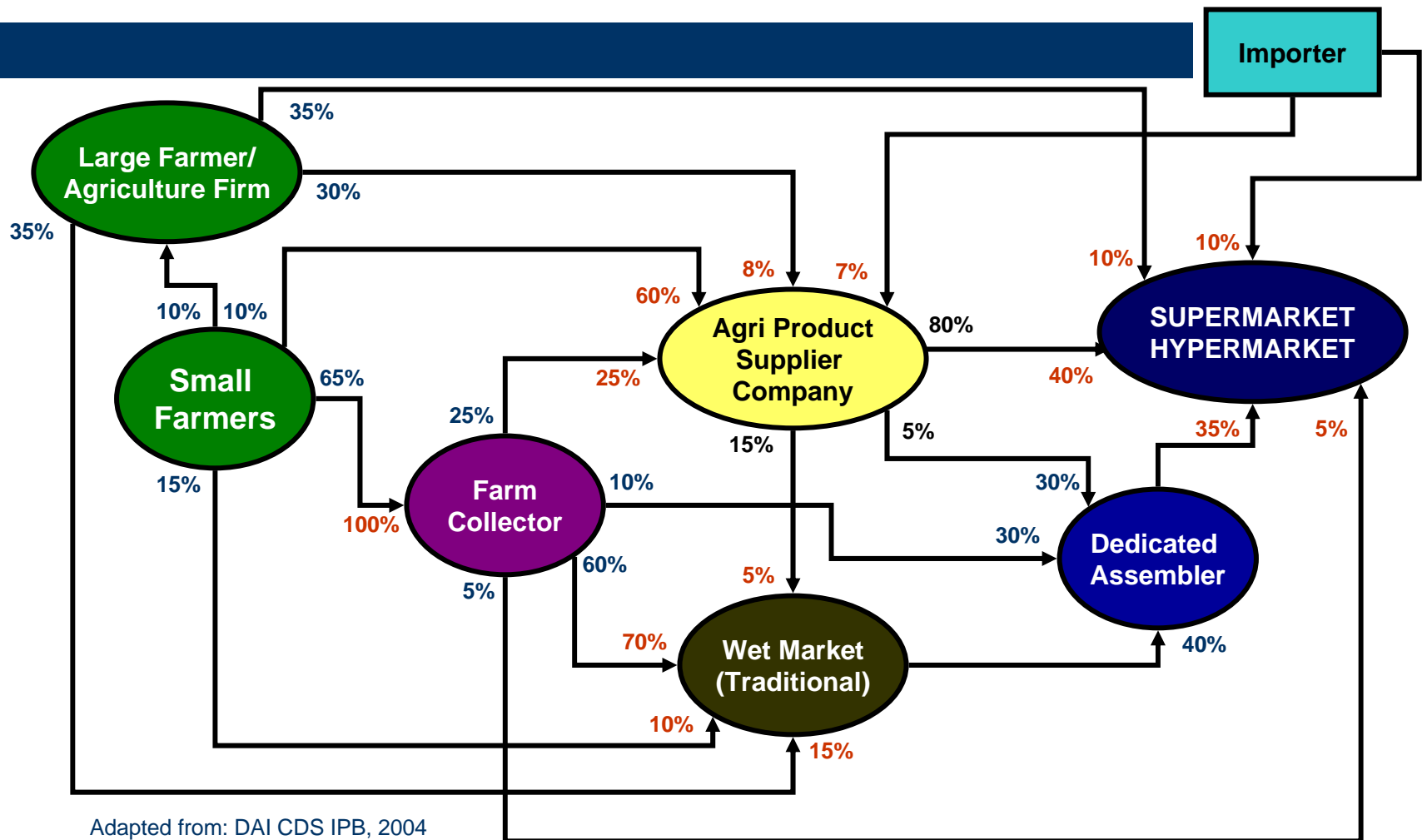


Demonstration of Traditional Market Traders Association on Supermarket Development



Traditional traders (wet market) asking for protection to the DPRD (Local People's Assembly) Metro Jakarta from competition with supermarket

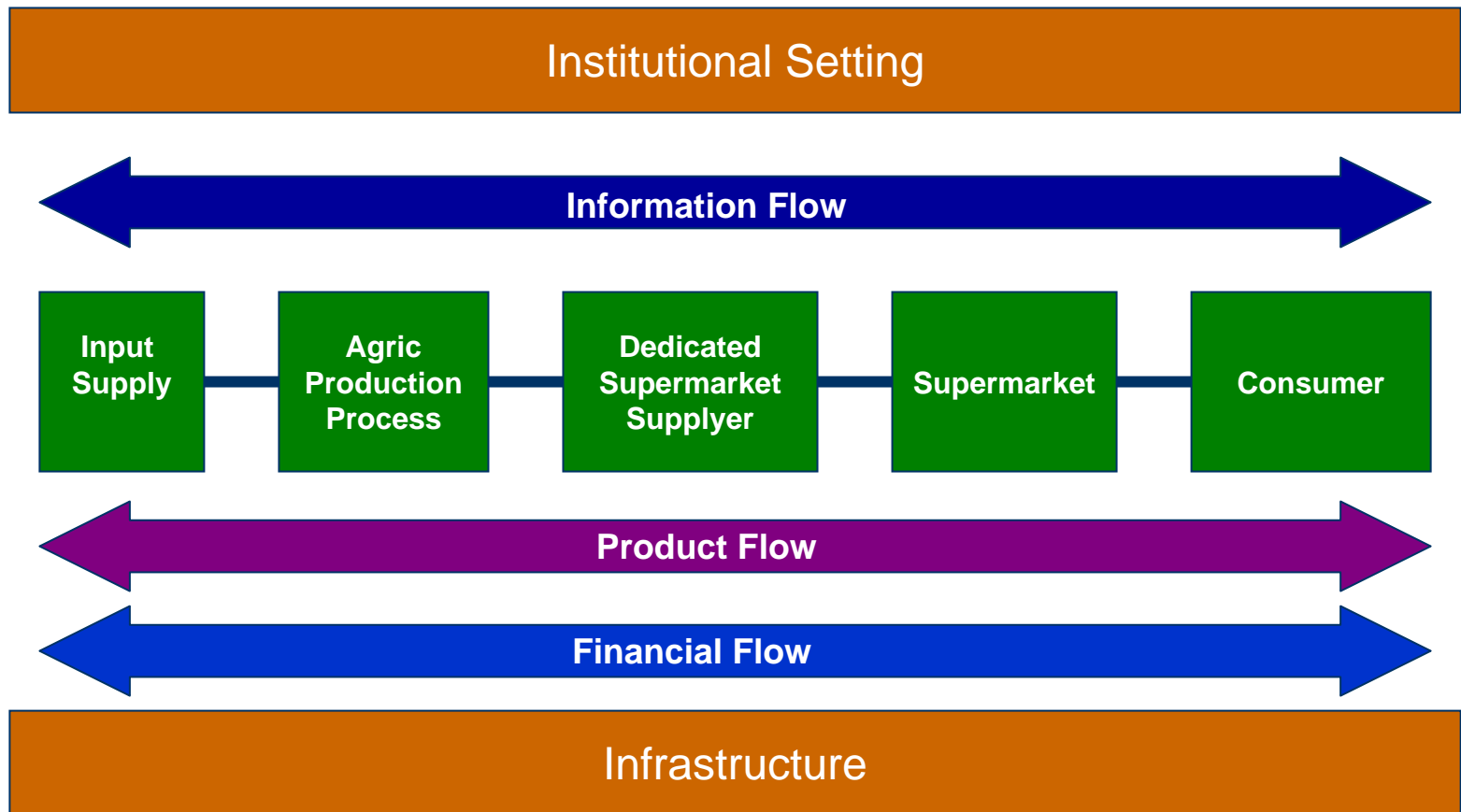
Supply Chain of Horticulture Products to Supermarket/Hypermarket



Adapted from: DAI CDS IPB, 2004



Key Element of *Supply Chain* to Supermarket



Problem for Farmers

- Difficulties in responding to demand of agriculture product with specific quality, quantity, and time sustainably
- Low technology investment
- No extension service help on the technology and invasion
- Farmers group is only formally exist (govt. guided program), but can not functionally responded to the changing environment; farmers mostly work individually

Problem for Dedicated Supermarket Supplier

- Payment of hypermarket and supermarket is not cash and carry, paid in 10-20 days
- Credit payment of supermarket cannot be used as collateral for a loan from banking system
- Difficult to find consistent quality and quantity of produce sustain ably, buy 1 ton, 0,4 ton to supermarket and 0,6 ton has to be resale to wet market
- Difficult to built long time working relationship with farmers, always looking for short term gain

Threat to Local Farmers

- Share of hypermarket and supermarket in Indonesia is predicted to grow continually. However, at the moment is only 10-15%, it seem to be not too important. The picture may change if supermarket grow and spread outside Java and kabupaten level
- Looking to the development in other countries the share can reach 80% of the food market, farmers will face very limited share if cannot join the growth of supermarket
- If supermarket cannot find the product locally, will import from some where else cheaper and better quality
- Induce policy sentiment to protect farmers and politically sound protectionism.

Conclusion

- The growth of hypermarket and supermarket is consumers demand pull. For the time being, the growth is only strong in the Java island, large urban area and metropolitan;
- Minimarket is part of the market strategy of local large supermarket to survive competition. Can penetrate deeper into a housing complex in urban area. Threat mostly to the traditional and mom-pop shop
- Development of modern market can be effectively induced agriculture product standardization, food safety and increase farmer's welfare. But at the same time also it can be a threat to farmers if they cannot meet the standard requirement.

Future Trend

- Modern market growth in Metro Jakarta, Bogor, Tangerang, Bekasi will still continue to grow for the next 5 years. However, the growth will soon saturated and slowing down.
- With the continue growth of the Indonesian economy, modern retail will continue to expand with the growth between 15-25% annually. The picture may change quickly if supermarket grow and spread outside Java and kabupaten level.
- The share of modern market in Indonesia at the moment is only 10-15%, it seem to be not too important. If supermarket spread to outside Java and kabupaten level, it has potential to increase its share to 60% within less than 10 years.
- Minimarket is part of the market strategy of local supermarket to survive competition, going deeper into smaller population in a housing complex. The expansion of minimarket have more potential to penetrate down to kabupaten (district) and kecamatan (subdistrict) level.

Policy Suggestion

- There have to be a government policy preventing “direct” competition of hypermarket and supermarket, with traditional market according to local socio economic characteristics and population density
- Technology of farmers, SMEs, and traditional provisions need to be improved, so that their product standard fit with the supermarket standard
- Strengthen farmers and SME organization
- Long term credit for investment and support of bridging financial support to help actors of supply chain to supermarket