The Effects of Modern Food Retail Development on Consumers, Producers, Wholesalers and Traditional Retailers: The Case of West Java

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The Effects of Modern Food Retail Development on Consumers, Producers, Wholesalers and Traditional Retailers: The Case of West Java

De invloed van ontwikkelingen in de moderne detailhandel in levensmiddelen op consumenten, producenten, groothandelaren en traditionele detailhandelaren: het geval van West Java

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To My Mum and Dad

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Acronyms

AJBR	Asian Journal Business Research
BPS	Biro Pusat Statistik
DKI	Daerah Khusus Istimewa
FDI	Foreign Direct Investment
FMCG	Fast Moving Consumer Goods
GDP	Gross Domestic Product
HRI	Hotel, Restaurant and Institution
IDR	Indonesian Rupiah
IMF	International Monetary Fund
KPPU	Komisi Pengawas Perlindungan Usaha (Committee for Supervisory of Business Competition)
LOI	Letter of Intent
NFP	Netherlands Fellowship Programme
Nuffic	Netherlands Organization for International Cooperation in Higher Education
PP	Presidential Decree
SPSS	Statistical Package for the Social Sciences
UNPAR	Universitas Katolik Parahyangan
UI	Universitas Indonesia
WHO	World Health Organisation

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Abstract

In developing countries, retail development was never considered as a strategy to boost the economy until the Asian financial crisis happened in 1998, which made the countries could not rely on their exports anymore. Indonesia experienced a difficult economic period and it became worse due to the political crisis, which happened in the same time with the financial crisis. One of the economic recovery programs was retail liberalisation, which consequently opened the domestic market for foreign retailers. Meanwhile, rapid urbanisation and hugc invcstmcnts in real estate have made retail sector, particularly modern food retail in Indonesia to grow bigger, it challenged local retailers to develop. The development of super- and hypermarkets in Indonesia in the last decade indicated that retail sector development was used as a strategy to encourage the economy. However, the development brings controversies regarding its impact on traditional retailers, environment and local economy.

This study has an objective to investigate whether the development of super- and hypermarkets as part of a strategy to boost the local economy benefits actors in the value chain, i.e. agricultural producers, local food processors and wholesalers. West Java was chosen as the case in this study considering that this province, is the centre of horticulture production, which experienced rapid development of modern food retail in the last decade.

Since the ongoing debates on pros and cons of the impacts of super- and hypermarkets development, there were many research investigations the impacts of development on many contexts, but this study is distinctive by focussing on investigating the impacts of super- and hypermarkets development on the local economy, which is measured by producers, processors and wholesalers profit. Two studies on consumers and traditional retailers were carried out for this study.

Quantitative analysis, using regression analysis to test the hypotheses on agricultural producers, local food processors, wholesalers and local economy. McNemar test, Chi-Square test, and Pearson Correlation test, was conducted to test the hypotheses on consumers and traditional retailers. Survey using questionnaires was the main tool of data collection, while interviews also performed to super- and hypermarkets managers, producers, processors and wholesalers to gain more insights for the study.

Using West Java as the case, super- and hypermarkets development have shifted consumers store preferences from traditional retailers to super- and hypermarkets due to product availability, quality, price and assortments. Furthermore, sales and number of buyer in traditional retailers decreased after the entry of super- and hypermarkets in their areas and traditional markets experienced the worst impact of modern retail development. Focussing on fresh goods category includes fruit, vegetables, local dairy products and processed meat, this study indicates that all producers, processors

and wholesalers benefit from the development of super- and hypermarkets. Moreover, super- and hypermarkets development contributes to the local economy.

This study has theoretical and practical contributions and recommendations to the field of retail development. Using value chain as the key concept, the study enriches the literatures on retail development, particularly the impacts of retail development on the local economy, which can be measured by analysing the contributions on producers, processors and wholesalers despite measuring the contributions on labour, productivity and tax revenues. In particular, this study introduces and presents a thorough analysis and information on retail development in developing countries, which have different environmental and cultural challenges.

The practical contributions and recommendations of this study are presented for the modern retailers, traditional retailers, suppliers and government. Environmental issues is the main concern for consumers that need to be considered by modern retailers as the impacts of the development, while suppliers concern for the benefits due to the development of modern retail. Small suppliers have to upgrade their knowledge and skills in order to meet the requirements of modern retail procurement systems. Building a farmers' group is one of the proposed recommendations in this study to upgrade small suppliers.

Realising that modern retail start not to use traditional wholesalers due to the inefficiency of traditional wholesalers' working systems, this type of wholesaler have to modernise their systems to achieve efficiency, which has an impact on the final prices of products, otherwise they can not compete with the specialised and dedicated wholesalers or large commercial farmers.

The development of modern retail does not have an objective to eliminate the traditional retailers, but in fact, traditional retailers can not compete with modern retailers due to a lack of resources. As part of the local economy, traditional retailers have to take advantages from the development of modern retail. To compete with modern retailers, first of all, traditional retailers have to repositoning themselves by providing a clean and convenience store environment for their customers. Then, they have to offer an attractive product displays in their stores and provide a good quality products.

Finally, the study contributes to the government, particularly local government by providing valuable information regarding the impacts of modern retail development on the local economy. Tax revenue and employment are not only the main benefits for the local economy due to the development of super- and hypermarkets in particular areas. The development of modern retail should also benefits consumers, suppliers and other retailers, furthermore it upgrades the standard of living. Government should be consistent with the implementation of regulations, therefore the development benefit all actors in the value chain of food retail sector.

De invloed van ontwikkelingen in de moderne detailhandel in levensmiddelen op consumenten, producenten, groothandelaren en traditionele detailhandelaren: het geval van West Java

Samenvatting

In ontwikkelingslanden is de ontwikkeling van de detailhandel nooit serieus overwogen als een strategie om de economie te versterken, totdat de Aziatische financiële crisis toesloeg in 1998, waardoor deze landen niet meer op hun exportmogelijkheden konden terugvallen. Indonesië maakte moeilijke economische tijden door, verder verergerd door de politieke crisis die samenviel met de economische crisis. Een van de economische herstelprogramma's bestond uit het liberaliseren van de kleinhandel, wat de deuren van de binnenlandse markt opende voor de buitenlandse detail- of tussenhandel. Tegelijkertijd hebben de snelle verstedelijking en enorme investeringen in onroerend goed (real estate) de sector van de detailhandel en in het bijzonder die van de moderne voedsel (levensmiddelen) kleinhandel in Indonesië doen toenemen, en deze ontwikkeling betekent een uitdaging voor de plaatselijke kleinhandel om mee te groeien. De ontwikkeling van de super- en hypermarkten in Indonesië over de afgelopen tien jaar gaf al aan dat de ontwikkeling van de detailhandelsector gebruikt werd als een strategie om de economie aan te sporen. Deze ontwikkeling heeft daarentegen wel controverses opgeleverd wat betreft de uitwerking ervan op de traditionele detailhandel, het milieu en de plaatselijke economie.

Het doel van deze studie is te onderzoeken of de ontwikkeling van genoemde hyper- en supermarkten bijdraagt aan de plaatselijke economie door de bijdrage van agriculturele producenten, plaatselijke voedselverwerkers en grossiers. De keuze is gevallen op West Java als case studie, met als overweging dat deze provincie het middelpunt vormt van de tuinbouw productie die de snelle ontwikkeling van de moderne detailhandel in voedsel (levensmiddelen) heeft ervaren in het afgelopen decennium.

Sinds de aanhoudende discussies over de voor- en nadelen van het effect op de ontwikkeling van de super- en hypermarkten zijn gehouden is er veel onderzoek gedaan naar de uitwerking van deze ontwikkeling op vele contexten, maar deze studie onderscheidt zich door zich te richten op onderzoek naar de specifieke uitwerking van genoemde ontwikkeling op de plaatselijke economie, die wordt afgemeten aan de winst gemaakt door de producenten, verwerkers en groothandelaren. Twee aparte studies over consumenten en traditionele detailhandelaren zijn verricht in het kader van dit onderzoek.

Een kwantitatieve analyse is gemaakt met behulp van *Regression Analysis* om de hypotheses omtrent agrarische producenten, plaatselijke voedsel (levensmiddelen) verwerkers, groothandelaren en de plaatselijke economie te testen. De zogenaamde *McNemar Test*, de *Chi-Square Test* en de *Pearson Correlation Test* werden uitgevoerd om de veronderstellingen betreffende consumenten en traditionele kleinhandelaren te testen. Het voornaamste middel om gegevens te verzamelen bestond uit een enquête met gebruikmaking van vragenlijsten, aangevuld met vraaggesprekken gehouden met bedrijfsleiders van super- en hypermarkten, producenten, verwerkers en grossiers om nader inzicht te verkrijgen in het kader van dit onderzoek.

In het geval van West Java als onderwerp van deze case studie valt er een verschuiving te constateren in de ontwikkeling van super- en hypermarkten, namelijk in de tendens van winkelkeuze die oorspronkelijk op de traditionele detailhandel viel maar die tegenwoordig meer op de super- en hypermarkten valt vanwege de verkrijgbaarheid, kwaliteit, prijs en assortiment van de producten. Bovendien zijn de verkoopcijfers en het kopersaantal van de traditionele detailhandel gedaald sinds de komst van deze super- en hypermarkten in de omgeving en sinds de traditionele markten de zwaarste klappen hebben moeten verduren van de moderne ontwikkelingen in de detailhandel. Gericht op de categorie van verse producten (levensmiddelen) met inbegrip van fruit, groenten, plaatselijke zuivelproducten en verwerkte vleeswaren, geeft deze studie aan dat alle producenten, verwerkers en groothandelaren voordeel hebben bij de groei van de super- en hypermarkten. Er kan zelfs worden gesteld dat deze ontwikkeling een bijdrage levert aan de plaatselijke economie.

Dit onderzoek heeft zowel theoretische als practische bijdragen en aanbevelingen te bieden op het gebied van de detailhandelontwikkeling. Met behulp van een waardeketen (value chain) als sleutelbegrip betekent deze studie een verrijking van de vakliteratuur betreffende de ontwikkeling van de detailhandel, in het bijzonder de uitwerking ervan op de plaatselijke economie, die kan worden afgemeten door middel van het analyseren van de bijdrage afkomstig van producenten, verwerkers en groothandelaren, en van de bijdrage afkomstig van geleverde arbeid, productiviteit en belastinginkomsten. Deze studie introduceert en biedt een grondige analyse en informatie over de ontwikkeling van de detailhandel in ontwikkelingslanden, die nu eenmaal het hoofd moeten bieden aan verschillende uitdagingen op het gebied van milieu en cultuur.

De practische bijdragen en aanbevelingen van dit onderzoek worden hierbij aangeboden aan de moderne kleinhandelaren, de traditionele leveranciers, en aan de regering. Milieuproblemen zijn van het grootste belang voor de consument en deze problemen dienen te worden beschouwd door de moderne kleinhandel als uitwerking van deze ontwikkeling, terwijl de leveranciers zich meer interesseren voor voordelen die de groei van de moderne kleinhandel brengt. De kleinschalige leveranciers dienen hun kennis en vaardigheden bij te spijkeren om aan de eisen van het moderne inkoopsysteem te voldoen. Een van de voorgestelde aanbevelingen van deze studie is om landbouwerscollectieven te vormen om deze kleine leveranciers beter beslagen ten ijs te doen komen.

Met het oog op het feit dat de moderne detailhandel begint af te zien van gebruikmaking van de traditionele groothandelaren vanwege het gebrek aan efficiëntie dat valt waar te nemen in hun arbeidsysteem, moet dit soort grossiers wel overgaan op modernisering van het systeem teneinde een hoger niveau van efficiëntie te bereiken, wat weer zijn weerslag zal hebben op de uiteindelijke prijs van de producten, aangezien zij anders niet meer in staat zullen zijn om op te boksen tegen de gespecialiseerde en geëngageerde groothandelaren of grootschalige commerciele agrariërs.

De ontwikkeling van de moderne detailhandel stelt zich niet ten doel de traditionele kleinhandel te elimineren, maar in feite ligt het zo dat de traditionele detailhandelaren de concurrentie van hun moderne rivalen in deze sector niet aankunnen vanwege gebrek aan middelen. Als onderdeel van de plaatselijke economie zouden de traditionele detailhandelaren juist moeten profiteren van de ontwikkelingen in de moderne detailhandel. Teneinde het hoofd te bieden aan de concurrentie van de moderne detailhandel zouden traditionele detailhandelaren zich in een nieuwe positie moeten manoevreren door hun klanten een hygiënische en aangename winkelomgeving te bieden. Verder zouden ze hun producten van hoge kwaliteit op aantrekkelijke wijze moeten uitstallen in hun winkels.

Tot slot kan worden genoemd dat deze studie een bijdrage vormt ten behoeve van de regering, in het bijzonder de plaatselijke autoriteiten, door hen te voorzien van waardevolle informatie betreffende de uitwerking van de ontwikkeling van de moderne detailhandel op de plaatselijke economie. Belastinginkomsten en werkvoorziening zijn niet de enige belangrijke voordelen voor de plaatselijke economie die de groei van de super- en hypermarkten in een bepaalde omgeving heeft gebracht. De ontwikkeling van de moderne kleinhandel zou ook de consumenten, leveranciers en andere detailhandelaren ten voordeel moeten strekken, afgezien van het feit dat dit het leefpeil op een hoger plan brengt. De regering dient de verordeningen consistent uit te voeren, zodat de beschreven ontwikkeling alle partijen die een rol spelen in de waardeketen van deze detailhandelsector in levensmiddelen ten goede zal komen.

1 Introduction

1.1 Introduction

The presence of modern retail in Indonesia started with the emergence of supermarkets in 1970. Modern retail in Indonesia is defined as shopping centres and modern stores, i.e., mini-market, supermarket, department store, hypermarket, and wholesaler that sell a variety of goods to consumers using a self-service system (Presidential Decree-PP no.112/2007). Mini-market has a store space less than $400m^2$, while a supermarket is allowed to have a space from $400m^2$ to $5000m^2$, and more than $400m^2$ is defined as a department store. Hypermarket and wholesaler are allowed by regulations to have store space of more than $5000m^2$. Mini-market, supermarket, and hypermarket sell convenience goods, particularly foods and household goods to consumers, while department store offers shopping goods, i.e., fashion goods.

Until 1983, supermarkets formed a small sector, located mainly in the Jakarta area serving a niche of market-expatriates and upper-class Indonesians. Rapid diffusion of supermarkets in Indonesia started in 1983, and reached its peak in the early 1990s through market expansion in a few big cities in Java. However, the growth of supermarkets started to decline during the crisis of 1997. After 1998, supermarkets have experienced rapid growth due to the following factors (Natawidjaja, Reardon and Shetty 2007:13-14):

1) Rapid urbanisation, the urban share of population was about 50% of the retail sector by 2006, and real per capita GDP had grown 3% on average during 2000-2004;
2) Retail liberalisation, which started in 1998 as part of Indonesia's economic recovery program with the IMF. This initiative drove the Foreign Direct Investment (FDI) in the Indonesia's retail sector. Continent and Carrefour (French retailers) introduced the hypermarket concept in 1998 followed by Wal-Mart, who left due to the financial crisis, and Giant (Dairy Farm of Hongkong). As part of their competitive strategy, there were some consolidations among big players in this retail sector. Continent was acquired by Carrefour, Hero Group (Indonesian retailers) acquired parts of the Dutch Ahold, Tops also joined with Dairy Farm Hongkong to open hypermarkets. Besides consolidation, some of the local retailers developed their business and introduced a new format of stores, i.e., Matahari group (the biggest retailer group in Indonesia) has developed their portfolio introducing Hypermart (a hypermarket format), while another local group, Yogya has developed its supermarket coverage, and also introduced the mini-market format.
3) Mass investments in urban real-estate after the crisis, and real estate market access is crucial for supermarket diffusion.

Following retail liberalisation, there were two types of modern retail which actively tried to increase their market shares in the Indonesian market – Hyper- and Mini-Market, Carrefour is the leader in hypermarket sector with more than 60 stores in some urban centres, followed by Hypermart and Giant. The big three in Mini-Market sector are owned by a local group with Alfamart as market leader followed by Indomaret and Yomart. Considering the development of modern retailer, Indonesian government has issued a regulation (Presidential Decree - PP no.112/2007) to manage the growth of modern retailer in order to protect and to increase the competitiveness of traditional markets (the so called 'pasar') . Local government in each municipality has been given authority to regulate, to manage and to monitor the development of modern retail and traditional market together with the central government.

Retailing has been viewed traditionally as a dependant industry, which relies on manufacturing industries as the basic sector (Williams 1996:54). There are two types of basic industry activities: the export industry, which consists of primary, manufacturing, and producer service activities that sell their products to consumers outside the local area; and the second type, those companies that bring consumers into locality to spend their money (Williams 1996:54). The retail sector plays an important role in facilitating the growth of economies, particularly at the local level, in that it prevents the drainage of income out of the area (Williams 1997:208).

Retailing activity as part of consumer service sectors plays an important role in encouraging economic growth. As part of the marketing system, retailing has an important contribution to economic development (Kaynak 1986:26; Kaynak and Hudanah 1987). Retail development can prevent the leakage of money by providing facilities that stimulate people not to travel out of the area to acquire that service (Williams 1996:54), which makes the local economy larger and more self-sufficient (Brammer and Tomasik 1995:33). There are previous studies done on economic development (Barnes, Connel, Hermenegildo and Mattson 1996; Hicks and Wilburn 2001; Nene, Azzam, Yiannaka and Katchman 2005; Golden, Jeutang, Pattaik, Rosenbaum and Thompson 2006), and some focus on the impact of modern retail on employment and tax revenue (Ketchum and Hughes 1997; Mehta and Persky 2004 ; Basker 2005; Hicks 2005; Neumark, Zhang and Ciccarella 2008; Basker 2007).

Other studies focus on consumer shopping behaviour (Seiders and Tigert 1997; Arnold, Handelman and Tigert 1998; Singh, Hanse and Blattberg 2004; Fox, Montgomery and Lodish 2004), and indigenous traditional retailers performances (Seiders and Tigert 2000; Peterson and McGee 2000; Arnold and Luthra 2000; Singh et al. 2004), and value chain particularly on the contribution of modern retailers on agricultural producers (Weatherspoon and Reardon 2003; Dries, Reardon and Swinnen 2004, Reardon 2005, Neven and Reardon 2006). There are few studies have been done about modern retailer in developing countries, especially in Southeast Asia (Goldman, Krider and Ramaswami 1999; Suryadarma, Poesoro and Budiyati 2007; Sunanto and Tuninga 2008, 2009; Sunanto, Anggawijaya, Adriani and Palesangi 2010).

The development of modern retail in Indonesia cannot be separated from the role of government, both at central level and local/region/municipality level. They try to attract investment in the retail sector in order to get benefits of modern retailer entry and development, i.e. job availability/creation, and tax revenue. However, in fact, modern retailers are related to other stakeholders in the value chain such as producers, wholesalers, other retailers, consumers, and also society. The existence of modern retail is expected to give value, not only to consumers but also to local producers, particularly agricultural producers (farmers) and food processors. It is expected that the inclusion of farmers and food processors in the modern retail value chain will bring them prosperity, and supports the local economy. Another current issue regarding environmental impact of modern retail has emerged, being its impact on transportation, air pollution, and waste considering that majority are located in the city centres.

1.2 Problem Identification

Rapid development of retail sector in Indonesia in the last decade has been influenced by the significant growth of hyper- and mini-markets (Table 1.1), while the number of supermarket has declined since 2009. Two retailers, Hero and Matahari decided to close their supermarkets and changed them into the hypermarket format, namely Giant and Hypermart, due to competition and changes of consumers shopping behaviour.

Table 1.1 | Indonesia Retail Structure

Year	*Traditional Grocery Stores*	*Supermarkets*	*Mini-Markets*	*Hypermarkets*
2003	1,745,589	896	4038	43
2004	1,745,589	956	5604	68
2005	1,787,897	1141	6465	83
2006	1,846,752	1311	7356	105
2009	2,520,757	1149	12,599	125

Source: Nielsen (2005, 2007, 2010)

Due to the decentralisation system, local governments in municipality level have authorities to manage the development of modern retail in their area based on their own spatial planning and zonal regulations, which should be issued at least two years after the PP no.112/2007. Local governments have to pay attention to protecting and increasing the competitiveness of traditional retailers, for example traditional and small grocery stores and traditional markets (pasar) in spite of gaining benefits from allowing modern retailers to come into their area.

Traditional retail is characterised as small retail stores owned and managed by an individual or a family. There are two types of traditional retail in this study – small retail stores located in the neighborhood areas (kiosk, or warung, or convenience store) and those are located in the traditional markets (pasar). The term of traditional market emerged along with the phenomena of traditional markets in developing countries. Indonesia defines traditional market as a place where buyers and sellers meet directly to bargain and to do transactions (Muslimin, Farid, Nur, Mahatama, Santoso and Santoso 2010: 21).

A traditional market is perceived as an old building, wet and dirty, and unsafe. Hence, it creates an inconvenient shopping environment due to bad management. It is supported by the fact that 67% of current traditional markets were built between 1976 and 1979 and most of them have never been renovated (Muslimin et al. 2010: 22). Generally, there are three types of places where merchants sell their merchandises in traditional markets – *kios*, *los*, and *gelaran*. *Kios* are small stores, which merchants display their merchandises, and usually located in a *los*. *Los* is a place like a long alley where *kios* and *konter* are located. *Konter* is an open space store where merchants use desks for displaying their merchandises, and majority of them are merchants who sell vegetables and convenience goods. There are also some merchants who displays their merchandises on the floor called *gelaran* located at the ground floor of building among *los* and *kios*.

Generally, each traditional market has 250-500 *kios* and 150-500 *los*, which shows that traditional markets still survive with quite a big number of *kios* and *los* providing merchandises to fulfil needs of their consumers. In fact, most merchants in traditional markets own small scale businesses with limited capital, sales, and profit supported by a survey that there were 57.78% of merchants owned kios with space between 6-12 m^2, while 20% of them occupied spaces between 1-5 m^2, and 76.5% merchants employ less than five people (Muslimin et al. 2010: 24).

In order to give benefits to local economy, modern retailers have to cooperate with local partners i.e. local suppliers, local farmers, and *koperasi*. Unfortunately, only few municipalities e.g. DKI Jakarta and Bandung have issued or renewed the regulations regarding this. The main concern here is that the new regulations cannot be applied on past decisions, which means that if a hypermarket was allowed to open its outlet near the traditional market, it would not be possible to apply any penalties despite it does not comply with the zonal regulations.

The presence of modern retail is expected to contribute to local economy. According to Brammer and Tomasik (1995: 33), retail development is a dependent part of the regional/metropolitan economy (local economy), which consists of basic industries, supplier industries, and non-basic consumer (or retail) industries. Retail industry as non-basic consumer industries makes the local economy larger and more self sufficient, which has impacts on jobs and income, population and workforce, land and buildings, infrastructure demand, services demand, revenue generation, environmental impact, and standard of living.

As a potentially important market, Indonesia has attracted not only large foreign retailers to setup operations in this country, but has also stimulated the development of modern retail in Indonesia. Retail recruitment brings a new retail to a community, which attracts people from outside the community and stimulates them not to travel out of the community to acquire that service by providing facilities (Williams 1996: 54; Artz and Stallman 2006). Shopping centres can both perform the basic sector function of bringing income into locality and at the same time keep income within the area. The local economic growth can be achieved not only through attracting external income but also preventing the leakage of money out of the area (Persky, Ranney and Wiewel 1993). We will now discuss some of the issues resulting from the rise of modern retail in Indonesia.

Retail development offers a "win-win" deal for three major constituencies – government, citizens, and business, and contributes to regional economy by reducing trade leakage while improving the overall quality of life for the community through the diversification of services and expanded employment opportunities (Brammer and Tomasik 1995; Gibson, Albrecht and Evans 2003: 50). In addition, retail development benefits the community through increased sales and property tax revenue, which can be used as a strong incentive to produce interest among local politicians and citizens in a retail economic development program (Pittman and Culp 1995: 5).

Previous studies of modern retail and its impact on economic development mainly focussed on big box retailers i.e. Wal-Mart and its impact on employment and local tax revenue in developed countries such as United States (Barnes et al. 1996; Hicks and Willburn 2001; Nene and Azzam 2005; Golden et al. 2006; Ketchum and Hughes 1997; Basker 2005; Newmark et al. 2006; Basker 2007). Nowadays, rapid development of modern retail in Asia, particularly in China and Indonesia has lead to some critical questions regarding their contributions to the local economy despite controversies regarding their negative impacts on traditional markets and small retailers. Considering that phenomena, this study focusses on investigating the impact super- and hypermarkets in Indonesia on local economy in the urban areas where super- and hypermarkets have come up.

Modern retail business in Indonesia is dominated by mini-market (12,599 stores), supermarket (1149 stores), and hypermarket (125 stores) (Nielsen, 2009). They offer convenience goods categorised into four product categories- Food, Non-Food, General Merchandise, and Fresh (except for mini-markets which do not provide fresh goods). Super- and hypermarket products are dominated by food products (52.1%) followed by following products respectively – non-food (24.4%), general merchandise (6.8%), and fresh (16.7%). On average, 85-90% of goods sold in modern retail, particularly basic goods (rice, sugar, and snacks) and fresh goods (fruits, vegetables, meat, and poultry) are provided by local producers. There are some products that are imported such as fruits i.e. orange, melon, apple, grape, and pear and other products in food and non-food categories i.e. confectionaries, biscuits, chocolates, beverages, dairy products, liquid soap, and shampoo. Price is the main reason why those fruits have to be imported, while other products mentioned have to be imported because the local market cannot supply them insufficient quantities.

Realising that local food products dominate merchandise sold at modern retail in Indonesia, local food producers and food processors are an important part of modern retail value chain and local economy should benefit from doing business with modern retail. However, local food producers, particularly small-scale food producers do not have strong bargaining power when dealing with big retailers, and eventually they are forced to accept their conditions instead of losing the business. Based on that fact, this study analyses the impact of modern retail on local producers, particularly agricultural producers and local food processors. This study examines whether agricultural producers and local food processors benefit from doing businesses with modern retail.

Super- and hypermarkets source fruits and vegetables from a mix of (1) direct from farmers, (2) from specialised or dedicated wholesalers, and (3) from the wholesale market. Unfortunately, supermarket only source a small amount of products directly from farmers (only 10 to 30% of their total products), and usually supermarket prefers to source from medium and large farmers (Natawidjaja et al. 2007). Natawidjaja et al. (2007) found that leading super- and hypermarkets in Indonesia source fruits from large importers or wholesalers and large inter-island traders, but they increasingly source local vegetables from: (1) a new generation wholesalers who are specialised, capitalised, and dedicated to modern food industry segments such as super- and hypermarkets, fast food chains, restaurants, and hotels, and (2) grower/packer/shippers for some products using outgrow schemes. Realising that wholesalers are also a part of modern retail value chain, this study investigates whether wholesalers benefit from development of modern retail.

Another debate concerning modern retail development is whether they decrease the number of traditional retail stores and traditional markets. Previous studies found that most of traditional retailers have had difficulties in competing with modern retailers as indicated by decreasing market share, sales, and profit (Hernandez 2003; Peterson and McGee 2000, Seiders and Tigert 2000; Farhangmehr, Marques and Silva 2000; Arnold and Luthra 2000; Vance and Scott 1994). A qualitative study that was performed in West Java (Sunanto et al. 2010) found that there is decreasing number of traditional markets in this province from 800 in 2000 to 700 in 2010, or about 10% decline on average per year due to following reasons:

1) Shopping is not just an activity to fulfill basic needs, but people do shopping to spend their leisure time with family. Therefore, people prefer to go to the shopping centre or supermarket or hypermarket compared to traditional market;
2) Traditional markets are not able to fulfill consumers' needs of having nice and clean store environment when they do shopping;
3) Implementation of zonal regulations are still weak and inconsistent;
4) Local governments have conflict of interests between investors and traditional retailers.

Findings of previous studies on the impact of modern retail on consumer shopping behaviour and traditional retailers in Indonesia are presented in chapter 4 and 7. With regard to the modern retail development in Indonesia, this research focusses on investigating the impact of modern retail development on agricultural producers, local food processors, wholesalers, traditional retailers, consumers, and local economy.

1.3 Research Objectives

The objectives of this study are:

1) To investigate the impact of modern food retail development, in particular super- and hypermarkets development, as a strategy of local economic development on the actors on the upstream side of the food value chain who managed to become suppliers of super- and hypermarkets in West Java Findings of this study will help policy makers, in this case governments at the municipal level, to manage the development of modern retail in their municipalities in order to increase the welfare of local producers by providing more benefits from the development of modern food retail.
2) To examine whether consumers shift their store preferences from traditional retailers to modern retailers due to the development of modern food retail.

3) To investigate whether local food producers and local food processors benefit from doing businesses with modern food retailers.
4) To investigate whether wholesalers benefit from doing businessess with modern food retailers.
5) To investigate whether modern food retail development affect traditional retailers.

1.4 Research Questions

The major research question of this study is what are the effects of modern food retail development, in particular the rise of super- and hypermarkets in West Java as a part of local economic development program on actors on upstream side of the food value chain who managed to become supplier of modern food retail ?

Minor questions are:
1) What are the impacts of modern food retail development on consumers? Do consumers shift their store preferences from traditional retailers to modern retailers?
2) What are the effects of modern food retail development on agricultural producers? To what extent do they benefits from doing businesses with modern retailers?
3) What are the effects of modern food retail development on local food processors? To what extent do they benefits from doing businesses with modern retailers?
4) What are the effects of modern food retail development on wholesalers? To what extent do they benefits from doing businesses with modern retailers?
5) What are the impacts of modern food retail development on traditional retailers?

1.5 Significance of the Study

This study intends to make a contribution in the following areas: theoretical, empirical and practical. There is limited research on the impact of modern retail development on the local economy, particularly in developing countries. Moreover, previous studies on retail development usually only focus on the economic impact, although it is also realised that retail development has potential impact on social life and the environment.

This study wants to make a contribution to the retailing literature. Retailing is commonly perceived as a part of marketing channel. Its main function is to deliver value to consumers. In recent years, the literature on retailing has developed into the role of retailing for the local economy, particularly focussing on retail development (in this case is development of modern food retail as a strategy to develop the economy). Literature shows that modern retail influences consumer behaviour, traditional retailers, agricultural producers, and local economy. This study shows how modern food retail development affects the local actors in a local economy by examining the impacts of development on agricultural producers, local food processors, and wholesalers. Development of modern food retail in Indonesia provides knowledge that enriches literature of retail development and its impact.

Based on the findings, the researcher will develop specific policy recommendations for policy makers in Indonesia with regard to development of modern retail. It is expected that local government organisations in each municipality are able to encourage economic growth of their areas through policies or regulations that benefit all stakeholders in the local economy.

1.6 Organisation of the Thesis

This thesis consists of eight chapters.

Chapter 1 introduces the background of the study, presents research problem, and identify significance of this study.

Chapter 2 presents the literature review and theoretical framework of this study. The chapter also proposes the hypotheses of this study.

Chapter 3 describes the research method proposed for the study. The chapter consists of research design, operationalisation variables, specific research method used in the investigation, and analytical tools used in the data analysis.

Chapter 4 provides the overview of modern retail development, in particular modern food retail in Indonesia. This chapter also presents findings from previous studies conducted by the researcher on modern retail development and consumers in West Java.

Chapter 5 presents findings and discussions of super- and hypermarkets impacts on agricultural producers and local food processors based on the data analysis performed in the study.

Chapter 6 presents findings and discussions of super- and hypermarkets impacts on wholesalers and all actors on the upstream side of the food value chain who managed to become supplier of super- and hypermarkets in West Java.

Chapter 7 presents findings from previous studies conducted by the researcher on modern retail development and traditional retailers in West Java.

Chapter 8 draws conclusions based on previous analysis. The major findings of the study are identified and implications are drawn. Future research is recommended based on limitations of the study.