

# Toward a Model of Traditional Retailers and Sellers Empowerment in Improving Competitiveness Against Modern Markets in Banyumas Region, Indonesia

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With the rapid expansion of modern markets (i.e., supermarkets and minimarkets), traditional retail businesses are facing huge challenges in the Banyumas region, Central Java, Indonesia to survive and continue doing businesses. While modern markets are supported by huge number of resources, including unlimited funding, modern infrastructures, professional human resources, global networking, and so forth, traditional retailers and sellers lack these resources to compete with the new supermarkets and minimarkets. To promote populist economic system, the government's role in terms of policies, education and training, and funding assistance are very important in supporting the sustainable development of these traditional businesses. The aim of this research is to develop a model on traditional retailers and sellers' empowerment to improve their competitiveness against modern markets in Banyumas region. Implementing a mix method of qualitative and quantitative approaches, this study is conducted through questionnaire survey, observation, in depth interview, and focus group discussion. The findings of this research have identified the problems of traditional retailers and sellers' competitiveness against the modern markets, which are expected to be overcome through government, trade association, and community supports. The study also provides an alternative model to optimize the potential of traditional retailers and sellers in the face of competition with modern markets. The outcome of this research will help us develop a software—System Development Life Cycles (SDLC) approach—to help all traditional retailers and sellers in improving their professionalism and competitiveness in the business.

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*Keywords:* Traditional retailers and sellers, Modern markets, Populist economic system, Competitive environment, System development life cycle

Indonesia is an emerging economy with huge population, mass poverty, and unemployment. The country has suffered a lot from the Asian monetary crisis in 1997, although in recent years the economic recovery is noticeable through the government's efforts in adopting populist economic system and involving indigenous people to boost traditional businesses. To eradicate unemployment and poverty, the government encourages the people in the rural areas to engage in traditional retail businesses and contribute to the growth of the national economy. These types of businesses have been existing for generations among the Indonesian people. In fact, traditional retail stores have been running since the ancient era without facing any problems in terms of resource mobilization, market share, customer involvement, and other socio-economic aspects. However, in recent years, with the pace of globalization, these traditional businesses are facing challenges to survive economically and continue doing business due to the emergence of supermarkets and minimarkets. These modern markets, such as Alfamart and Indomaret that operate in the rural areas (Suyono, 1999), have marginalized the market share of traditional businesses. Traditional retailers and sellers are now left behind by modern markets for lack of competitive advantages. It is evident that modern markets have superior resources in both human and physical capitals as compared to traditional businesses. As a result, traditional retailers and sellers are threatened to be out of business and go bankrupt.

In Indonesia, local supermarkets have been established since the 1970s and concentrated on large towns only. The rise of competition among supermarkets stimulates the expansion of those modern businesses into small towns to broaden their market share by seeking and creating new customer base. Moreover, because of the change of government policy, since the late 1990s, foreign supermarkets started to enter into Indonesian market (Suryadarma, Poesoro,

Budiyati, Akhmadi, & Rosfadhila, 2007). With intense competition, supermarkets usually set low selling price of their products to attract customers and sustain or increase their market share and profitability. While such low cost of products is definitely regarded as an advantage to the customers, this trend is in fact detrimental to the survival of the traditional retailers and sellers in the market. Considering this reality, a shift in customer behavior is observed in recent years as compared to the 1980s. That is, in the 1980s only the high and medium income groups of society could afford shopping in the supermarkets, but since the 1990s the customers of supermarket expanded to all level of economic class of the society (Center for Policy and Implementation Study [CPIS], 1994). Similar tendency is also taking place in other developing countries (Reardon, Timmer, Barrett, & Berdegue, 2003; Reardon, Timmer, & Berdegue, 2004; Reardon & Swinnen, 2004; Collett & Wallace, 2006). The low selling price strategy of the supermarkets makes it difficult for the small businesses, particularly traditional retailers and sellers, to compete due to their limited resources. This reinforces the need to assess the negative impact of the increasing number of modern businesses onto the traditional businesses and, accordingly, develop a strategy for the traditional businesses to survive in the market place for the economic well-being of the country.

Following the above discussion, this research is important for the following reasons: (i) there is no previous research that analyzed the potential of traditional retailers and sellers in Banyumas region, Indonesia. It will be beneficial for the Banyumas local government to measure the impact of expanding modern markets to the traditional retailers and sellers, and then making suitable rules and regulations to handle this issue; (ii) high potential of traditional retailers and sellers could be a business alternative in generating employment, especially for those with low level of education, and alleviating mass poverty; (iii) the management of traditional retailers and sellers

is still far from its real potential and effectiveness, which needs specific strategies to increase its competitiveness in dealing with the modern markets; (iv) being a highly populated country, Indonesia needs to provide regulation as well as business supports to protect the businesses of indigenous people in the rural and semi-rural areas of the country for the economic well-being of the country. Based on these motivating factors, this research is conducted among the traditional retailers and sellers in Banyumas region for two years (that is, 2012 and 2013) to get first-hand information from the field regarding the challenges and problems faced by the traditional retailers and sellers in competing with modern markets, their potential to sustain and survive in business, and finally determining strategies to improve the competitiveness of traditional retailers and sellers with modern markets. In the context of populist economic system, this study will greatly encourage the growth of indigenous people's businesses (i.e. traditional stores) and optimize their empowerment with a view to strengthen the country's economy.

The paper is organized into five sections with the Introduction as the first section. Section 2 highlights the theoretical aspects and concepts relating to the economy, retail markets, and Indonesian government regulation on modern markets. Section 3 provides the literature review while Section 4 focuses on research methodology and data analysis. Section 5 elaborates the research findings and Section 6 extends the discussion on findings and conclusion of the paper.

## **CONCEPTS, THEORY, AND REGULATIONS**

### **Populist Economic System and Resource-Based Theory (RBT)**

Historically, the populist economic system originated from general awareness of improving

the economic condition of the general people who are socio-economically disadvantaged. This notion is more favorable to indigenous people who struggle to improve their economic condition after a prolonged colonial rule. As such, changing of the economic structure from a colonial to national economy would benefit these people. In case of Indonesia, the founding father of the country—President Soekarno—noted that the national economy is an economy that is characterized by increased people's participation in the mastery of capital or factors of production in the country. Hatta (1960 as cited in Baswir, 2000) also emphasized on the importance of promoting populist economy to achieve social justice in Indonesia. He wrote, political democracy alone cannot implement equality and fraternity, so political democracy must also apply economic democracy, that is, populist economic system. This idea evolved as the basic concept of the Indonesian economic system which is intended to improve the community's ability to control the course of the economy (Baswir, 2000). The statements of the Indonesian founding fathers on this theory are confirmed in The 1945 Constitution, article 33 which very clearly suggests that the implementation of a populist economic agenda is a major part of the ideal of Indonesian freedom (The 1945 Constitution, 1945). Therefore, the implementation of populist economic agenda requires guidance from an economic ideology that is clearly in favor of the people's interests who are able to raise the dignity by way of welfare. Under the populist economic principles, the state should not forgo the public affairs and welfare of the people in favor of foreign investors and a handful of local capitalists. It requires a strong commitment to build self-reliance in fulfilling the needs of its own and breaking economic dependence on outsiders.

Resource Based Theory (RBT) developed by Wernerfelt (1984) is a business approach to achieve competitive advantage by exploiting

external opportunities with focusing on existing resources in a new way rather than trying to acquire new skills for each different opportunity as explained by Jurevicius (2013). This theory is very suitable to identify the most appropriate strategy in improving the competitiveness of traditional retailers and sellers to modern markets, that is, supermarkets and minimarkets. By using this approach, traditional retailers and sellers can optimize their potential both internally and externally in order to improve competitiveness. Ultimately, after the traditional retailers and sellers map their own potency and optimize the resources, they can create their competitive advantages.

### **Modern Market and Preference of Customers**

The modern market uses the concept of *store environment* that focuses on retail and direct selling to the end-customers in a clean, safe, and comfortable environment. Modern market consists of mini market and supermarket. This concept has been developed since the 1970s in Indonesia, with three main characteristic, namely: store image, store atmospheres, and store theatres (Harmaizar, 2006). Minimarket is a self-service store that sells the basic necessities for the communities with one or two cashier machines. Meanwhile the supermarket is also a self-service market that sells all kinds of products the public need and with many cashier machines. The advantages of a minimarket or supermarket if compared with the traditional market are comfortable and safe environment, high quality of product, fixed prices of goods, and complete array of products to serve the people's needs (Harmaizar, 2006).

As mentioned earlier, the existence of traditional market is threatened by modern market because of the shifting customer preference. Levy and Weitz (2011) classified the customer's needs as: a) functional needs—the need which

has relation with product performance, and b) psychological needs—the need which has relation with satisfaction. The customer's behavior also gives a stronger role for modern market to fulfil customers' needs. Kurt Salmon Associates (as cited in Berman & Evans, 2004) stated that there are many reasons why the customer leaves the shop without buying, that is, products are not attractive, products are out of stock, products are not suitable, no one could answer the details of product information, difficulty of accessing the product, high price, not comfortable situation, bad layout setting, and the products are not in the new trend. All of those problems could be answered by modern market rather than traditional market.

### **Indonesian Government Regulation on Modern Minimarkets**

In order to protect the business of the indigenous people, there are many Indonesian government regulations relating to modern mini markets, such as:

1. Law of Republic of Indonesia No. 5 of 1999 forbids monopolistic practices and unfair competition. Act No. 2 states, "businessmen in doing their businesses should base on economic democracy with concern in equality of justice between business interest and public interest."
2. The Regulation of Indonesian President No. 112 of 2007 is about the arrangement and development of traditional markets, shopping centers, and modern retailers. The location of modern minimarket should be in accordance with the development of site planning of Banyumas region. It must be in-line with the social and economic condition of Banyumas region, such as stated on Act No. 4, point 1: "The establishment of shopping centre and modern market has to consider: the social

- and economic condition of the community, the existence of traditional markets, the existence of small and medium businesses.” The local government of Banyumas region should not give permission for the establishment of minimarket that does not give the chance for business relationship with the indigeneous people.
3. The Indonesian Ministry of Trading No. 53/M-DAG/PER/12/2008 on 12 December 2008 is about the guidance on arrangement and development of traditional markets, shopping centers and modern markets. The Act No. 3 point (9) states that “the establishment of modern minimarkets must consider: population density, development of new regency, transportation accessibility, infrastructure availability, and existence of traditional retailers and sellers.
  4. Presidential Decision No. 118/2000 is about the requirement of foreign direct investment on opened and closed business sector.
  5. Joint Decision between The Ministry of Trading and Ministry of Home Affair No. 145/MPP/Kep/ 5/97 and No. 57/MPP/1997 are about the arrangement and development of markets and stores.
  6. Decision of Trading Ministry No. 261/MPP/Kep/7/1997 is about the location setting of traditional markets and shopping centers.
  7. Decision of Trading Ministry No. 402/MPP/Kep/11/1997 is about business permission techniques for foreign businessman.
  8. Decision of Trading Ministry No. 420/MPP/Kep/10/1997 is about the guidance on arrangement and development of traditional markets and shopping centers.
  9. Notification Letter of Direktorat General of Trading No. 300/DJPDN/IX/97 is about the permission procedures in modern market establishment.
  10. Decision of Trading Ministry No.107/MPP/Kep/2/1998 is about the procedures for granting business license for the establishment of modern market.

Basically, all regulations as mentioned above are to protect the weaknesses of small traditional retailers and sellers from expansion of modern minimarkets/supermarkets. Unfortunately, the implementation of those rules and regulations is not always in-line with their goals. In some occasions, corrupt government officials, for personal gain, often give permission to establish modern markets, even though it is not in-line with the existing rules. It is a big problem because it undermines the efforts in promoting populist economic system in Indonesia.

## LITERATURE REVIEW

Prior studies on the retail sector, such as those of Reardon and Berdegué (2002), Reardon and Hopkins (2006), and Traill (2006), analyzed two factors in developing countries that can be affected by modern markets, namely: (i) supply chain retailers and (ii) traditional business retailers. Supermarkets choose, manage, and engage the suppliers with medium or long term contractual agreements. These contracts usually provide positive impacts on suppliers’ businesses in the sense that the contracts encourage the suppliers to become more professional in fulfilling the contractual agreement, and that during the contract period the suppliers have a strong position on product price not to change. However, there may have some negative impacts as supermarkets normally do not engage with small suppliers who cannot fulfil the quality of product requirements and cannot make an agreement for medium or long term. On the other hand, Priyono and Ekapuri (2008) described the effect of wholesaler on retailer, supplier, customer, government, and the society using



cost-benefit analyses method. Their finding showed that wholesalers not only have a negative effect on retailers, that is, reducing traditional small retailer's revenue, but also have a positive effect on customer and supplier. It means that the existence of wholesalers, that is supermarkets, can threaten traditional retailers/sellers due to the customers tend to move their shopping activities from small traditional retailers/sellers to wholesalers. Hidayat (2008) found the rise of customer preference on modern markets due to better security, clean and comfortable location, while customer who chooses the traditional market is due to its offering of a "friendly price."

Considering the limitations of traditional market if compared with modern market, such as limited capital, incomplete product, and so forth, Halim (2008) argued that in the discourse of revitalization of traditional market, retail activities need to improve their performance in order to compete in the rapid changes of retail environment. Traditional retailers should properly be able to optimize knowledge for their resources. Implementing triangulation method (observation-survey-document analysis), Halim (2008) explored the characteristics of traditional retailers and various policies relevant to traditional market (i.e. retail business), and showed that the problem in strengthening merchant retailers to compete in market turbulence is the inability to develop and enhance their entrepreneurial proclivity and optimize their knowledge resources. To overcome these problems, Sorescu, Frambach, Singh, Rangaswamy, and Bridges (2011) suggested for the retailers with a three-element conceptualization of retail business model (RBMs) and a framework consisting of six design themes that they can use to design innovative business models. The three elements that comprise an RBM—format, activities, and governance—can help retailers to think strategically about the optimal locus of business model innovation, as well as any necessary updates to how these elements are

connected. The framework of design themes can also be used as a checklist of expected outcomes with respect to value creation and value appropriation associated with a business model innovation. In addition, the framework may provide performance benchmarks for retailers' current business models, and help them set up continuous improvement processes along with as many of the six dimensions as possible.

Makoka (2005) explained the rapid development of supermarkets in the East and Southern African region since the early 1990s into three stages. The first stage is the development of supermarkets in "richest" country within the region. The second stage involves the flow of foreign direct investment (FDI) from the rich country, leading to the establishment of supermarkets in poorer countries within the region. The third is the extension of the supermarkets into poor neighborhoods of large cities and towns in all the countries. The fact that supermarkets are slowly taking over the high-value segments of the food retail market in Malawi offer great opportunities for local suppliers to broaden and deepen their markets and consequently increase their incomes. Moreover, Makoka (2005) found that local suppliers face many challenges as they supply fresh fruits and vegetables to supermarkets in Malawi: first, local suppliers have to adhere to strict food safety and quality standards that are demanded by supermarkets; second, in the supermarket supply channel, suppliers are expected to deliver the agricultural produce directly at the backdoor of the supermarkets; and the third factor is undermining local suppliers' ability to participate in the supermarkets channel to remain consistent in their supply to the markets. Reardon et al. (2004) conducted a study on the transformation of agrifood systems in Africa, Asia (excluding Japan), and Latin America to describe the traditional retail and wholesale system in the midst of which emerged modern food retailing and its procurement system. They

also discussed the determinants of and patterns in the diffusion of supermarkets in the three regions as well as the evolution of procurement systems of those supermarkets, and consequences for agrifood systems from the perspectives of organizational, institutional and technological change. In their study they suggest that to help many small farmers grasp the opportunities, the changes apply in the short to medium run, and those that cannot arrange transition into other employment in the medium to longer run, development programmes will have a challenge and a mandate to assist small farmers to make the transition into emerging implications for farms and firms in the developing regions.

In the Indonesian context, CPIS (1994) conducted a study to observe the relationship between supermarket and traditional market and find that both traditional market and modern market have a different segment of customers. Traditional market gets customers from lower and middle income groups of the society, while modern market gets customers from middle and high income groups of the society. Moreover, they found that the products of both markets have complementary characteristics. However, the study was conducted before the government promulgated investment regulations in retail sector which enable foreign businessmen to invest in the country. In recent period, Suryadarma et al. (2007) measured the influence of supermarket on traditional market in cities within Indonesia by qualitative method, that is, difference in-difference (DiD) and in-depth interview. The findings showed that weaknesses of traditional market are dominated by internal problems that give the advantages to the modern markets. Therefore, to ensure the continuity of traditional market, it needs managerial improvement to improve its competitiveness with modern supermarkets and minimarkets. Susanti (2007) showed the different perceptions between the customers of Indomaret and Alfamart on the location, service, product completeness,

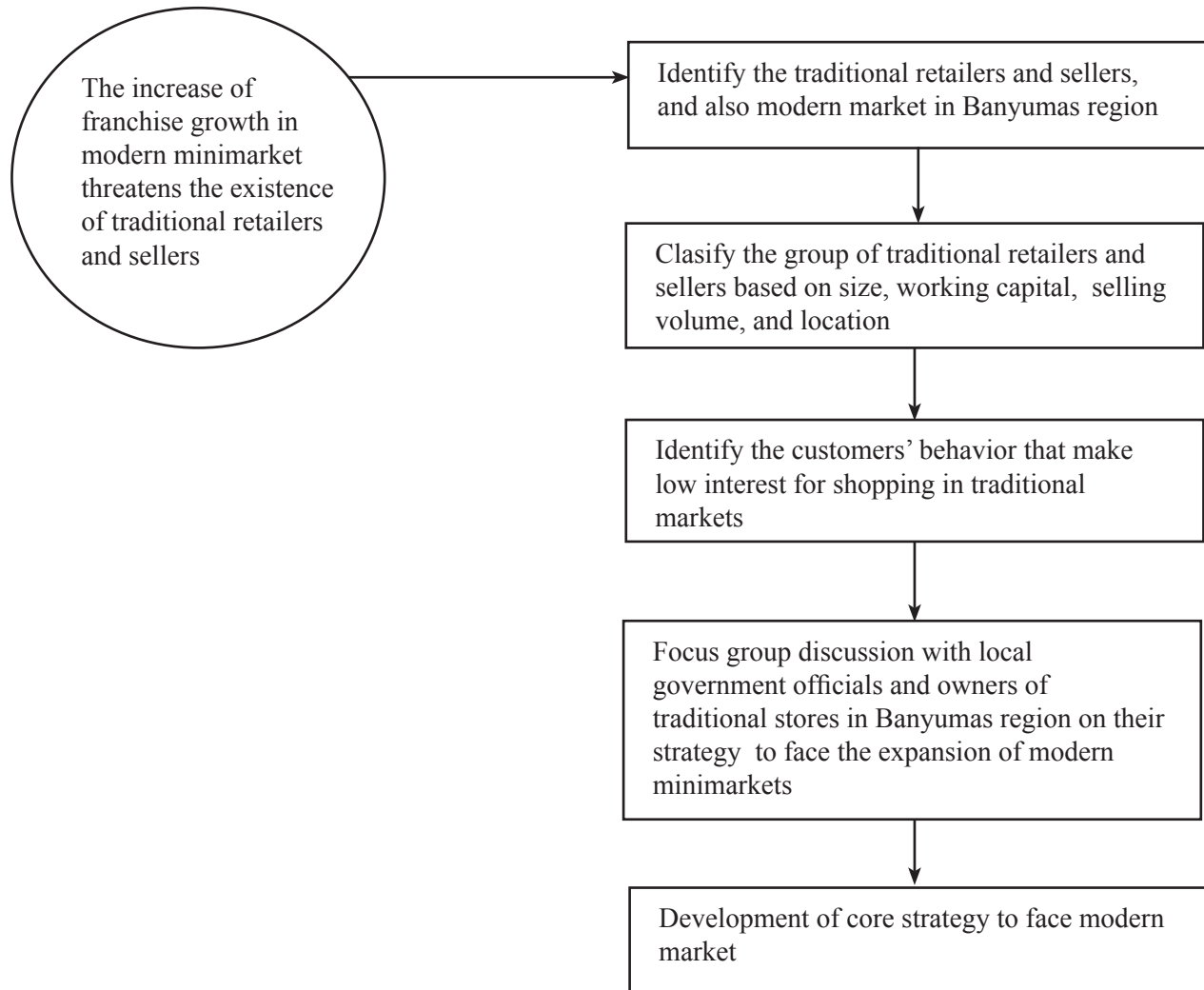
price, and promotion. It was found that there are no differences on environmental conformity because both minimarkets have a similar facility. Poesoro (2008) also measured the impact of supermarkets on traditional markets in urban centers in Indonesia using DiD qualitative statistical methods as well as in-depth interviews. The study found no statistically significant impact of supermarkets on earnings and profits of traditional markets, but a statistically significant impact on the number of employees, which suggest that the decline in traditional markets is mostly caused by internal problems in traditional markets from which supermarkets are getting 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 with supermarkets.

### **Research Design, Sample Selection and Data Analysis**

Following the research framework presented above, this study observes the potential of traditional retailers and sellers in Banyumas region, Indonesia, by collecting information on their businesses. This research uses questionnaire survey method, in-depth interview, and focus group discussion as mix method of qualitative and quantitative approaches. It is developed on the basis of chain of research cycle, started at *need assessment*, then *action-reflection-evaluation*, and finally *innovation*. Need assessment is designed to identify profile and potency of traditional retailers and sellers in Banyumas region, identify the problems in the face of modern markets and weaknesses in competitiveness of traditional retailers and sellers, and then develop some strategies to improve the professionalism of traditional store's management, where based on the findings of previous studies, traditional store is generally left behind in the professionalism of

## RESEARCH METHODOLOGY AND DATA

### Research Framework



*Figure 1.* Research Framework

its management compared to modern store. Data collection method on this research consists of observation, questionnaires distribution, in-depth interview, and Focus Group Discussion (FGD) with traditional retailers and sellers, and also with local government officials of ministry of trading in Banyumas region. The survey respondents of this research are all owners of traditional stores from 27 districts of Banyumas region. Cluster random sampling is used to collect the data with

at least 10 samples from each district. A total of 1,000 questionnaires have been distributed during September 2011 to August 2012 period, and 303 questionnaires were answered and returned, which indicate a response rate of 30.3%. These survey data and data collected from in-depth interview and focus group discussion are analyzed following an interactive model of analytical techniques, which consists of data collection, data reduction, data presentation, and



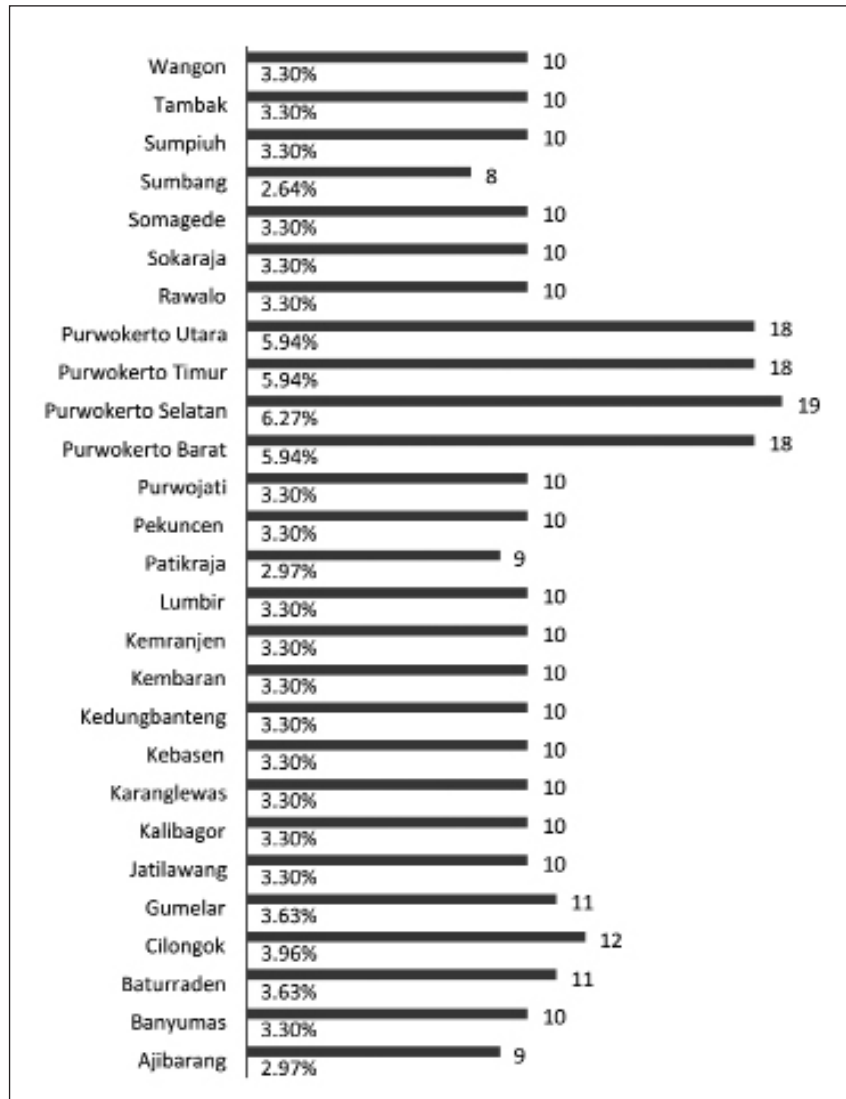


Figure 2. Geographical distribution of respondents per district

conclusion (Miles & Huberman, 1994). It is done continuously from the beginning data collection to the completion of the study.

**FINDINGS FROM THE SURVEY QUESTIONNAIRE**

**General Description of Respondents**

The graphical distribution based on geographic area of respondents in Banyumas region is

presented in Figure 2. It explains that most respondents are from four districts, that is, Purwokerto Selatan with 6.27% and followed by Purwokerto Utara, Purwokerto Timur, and Purwokerto Barat with 5.94% for each. These districts are located in central local government of Banyumas region. The other 20 districts have respondents that range from 3.30% to 3.96%. The least respondents are from Sumbang with eight respondents and Patikraja and Ajibarang with nine respondents each.

**Respondent distribution based on gender and age.** Table 1 shows that respondents are male predominant with 56.11% and 43.89% are females. The age of the respondents ranges from 20 to 69 years old. Majority of the respondents, 31.35% and 29.04%, belong in the 30-39 years and 40-49 years age groups.

**Respondent distribution based on level of education.** Table 2 presents the education level of respondents where Senior High School is predominant at 48.84%, followed by Undergraduate, Junior High School, Elementary School, Diploma, and Master at 16.17%, 15.51%, 12.21%, 6.60% and 0.66%, respectively.

### Profile of Traditional Retailers and Sellers in Banyumas Region

**Legal form of business.** Table 3 shows that the most dominant legal form of business is the sole proprietorship consisting of 209 respondents (68.98%). Traditional retailers/sellers who have no legal form are about 16.83% while others 12.87%.

**Number of owners.** Table 4 explains that from 303 owners of traditional stores as respondents, 283 stores are owned by one person (93.40%). It means that single owner dominates the ownership of traditional retailers/sellers in Banyumas region, Indonesia. It also clarifies

**Table 1. Respondent Distribution Based on Gender and Age**

Gender/Age	Male	Female	Total	Age group					Total
				20-29	30-39	40-49	50-59	60-69	
No. of respondent	170	133	303	30	95	88	69	21	303
Percentage	56.11%	43.89%	100%	9.9%	31.35%	29.04%	22.77%	6.93%	100%

**Table 2. Respondent Distribution Based on Level of Education**

Education	Elementary school	Junior high school	Senior high school	Diploma	Undergraduate	Master	Total
No. of respondent	37	47	148	20	49	2	303
Percentage	12.21%	15.51%	48.84%	6.6%	16.17%	0.66%	100%

**Table 3. Legal Form of Business**

Legal form	Sole proprietorship	Corporation	Partnership	Commercial venture	Others	Without legal form	Total
No. of respondent	209	1	0	3	39	51	303
Percentage	68.98%	0.33%	0.00%	0.99%	12.87%	16.83%	100%

**Table 4. Number of Owners**

No. of owners	1 owner	2 owners	3 owners	>3 owners	No explanation	Total
No. of respondent	283	12	3	1	4	303
Percentage	93.40%	3.96%	0.99%	0.33%	1.32%	100%

that there is only one business which is owned by more than three persons.

**Business license.** Under Indonesian Business Law, there are different types of business licenses, namely (i) Surat Izin Usaha Perdagangan (SIUP) or trading license, (ii) Surat Izin Tempat Usaha (SITU) or domicile certificate, (iii) Tanda Daftar Perusahaan (TDP) or sign company list, (iv) Hinderrodonantie (HO) which explains that there are no objections from communities around the company, (v) AKTE is an official document issued by the notary according to article 1870 of the Civil Code and Article 165 HIR (Rbg 285) which has the absolute and binding strength of evidence, and (vi) others. These types of business licenses show the level of completeness. SIUP is the most complete one, wherein a business that has a SIUP means that it also has SITU, TDP, HO, and AKTE. Table 5 describes that most traditional retailers/sellers

have SIUP (46.35%) as formal license from the government. Surprisingly, 116 retailers/sellers (32.58%) operate without any legal license from government or in other words operate illegally, while the rests have only minimal business license, such as SITU, TDP, HO, or others.

**Age of the firm.** Table 6 illustrates that 32.01% of the traditional retailers/sellers have operated within 1-5 years, while 21.78% within 6-10 years, and 15.84% more than 20 years. Only five firms have operated less than one year.

**Number of employees.** Table 7 shows that, generally, traditional retailers/sellers have 1-5 employees which represent 62.38% of the sample. It also documents that 87 stores (28.71%) have no employees, meaning that the owners work alone in managing his/her business, while only one store has more than 20 employees.

**Table 5. Business License**

Business License	SIUP	SITU	TDP	HO	AKTE	Others	Without License	Total
Numbers	165	8	3	35	5	116	24	356
Percentage	46.35%	2.25%	0.84%	9.83%	1.40%	32.58%	6.74%	100%

**Table 6. Age of the Firm**

Age of the firm	< 1 year	1-5 years	6-10 years	11-15 years	16-20 years	> 20 years	No explanation	Total
No. of respondent	5	97	66	56	28	48	3	303
Percentage	1.65%	32.01%	21.78%	18.48%	9.24%	15.84%	0.99%	100%

**Table 7. Number of Employees**

Number of employees	Without employee	1-5 employees	6-10 employees	11-15 employees	16-20 employees	> 20 employees	Total
No. of respondent	87	189	18	7	1	1	303
Percentage	28.71%	62.38%	5.94%	2.31%	0.33%	0.33%	100%

**Table 8. Employee's Level of Education**

Level of education	Elementary School	Junior High School	Senior High School	Diploma	Total
Numbers	138	265	244	32	679
Percentage	20.32%	39.03%	35.94%	4.71%	100%

**Table 9. Information on Bookkeeping and Reporting**

Type of bookkeeping and financial recording	Numbers	Percentage
Total sales	157	26.88%
Merchandise Inventories	95	16.27%
Cost of goods sold	59	10.10%
Operating expenses	26	4.45%
Income after tax	8	1.37%
Total accounts receivable and customers	90	15.41%
Total accounts payable and suppliers	89	15.24%
Total units and nominal amount of fixed assets	6	1.03%
Others	8	1.37%
No bookkeeping/no explanation	46	7.88%
	584	100.00%

**Employee's level of education.** Table 8 explains that the education levels of employees are predominantly Junior High School which exhibits 39.03%. It is followed by Senior High School, Elementary School, and Diploma with 35.94%, 20.32%, and 4.71%, respectively.

### **Information Related to the Business in Banyumas Region**

**Bookkeeping and reporting.** Table 9 illustrates the activities of bookkeeping and financial recording and/or reporting by traditional retailers/sellers. These types of bookkeeping are complementary to one another. For instance, it shows that 157 stores (26.88%) only have records on total sales which represent minimum level of recording. On other side, only eight stores (1.37%) manage income after tax which indicates

that they also manage records on total sales, cost of goods sold and operating expense. Moreover, 59 stores (10.10%) only manage records on cost of goods sold and 26 stores (4.45%) with records on operating expense. Beside those records on the component of financial statement (that is, total sales, cost of goods sold, operating expenses, and income after tax), the findings also show that 95 stores (16.27%) manage records on merchandise inventories, 90 stores (15.41%) on total account receivables and customers, 89 stores (15.24%) on total account payable and suppliers, six stores (1.03%) on total unit and nominal amount of fixed assets, and eight stores (1.37%) on other types of recording. Surprisingly, 46 stores have no type of recording or provide no explanation on their recording of business activities. In other words, they manage their business without recordings and/or reporting.

**Sources of business information.** Table 10 explains how the traditional store owners get any information and/or updates associated with their business activities. The findings show that the most traditional store owners, which consist of 150 traditional store owners (21.68%), get information from related business network. Other store owners get business information from customers (16.18%), other businessmen (13.29%), spouse (12.43%), friends (12.28%), own knowledge and experience (12.14%), family (11.13%), association of small and medium enterprises (0.43%), and government agency (0.14%). In addition, two store owners did not provide any explanation how they get business information.

**Association involvement.** Table 11 presents surprising data where only 13 store owners (4.29%) from the respondents are involved in an association of traditional retailers and sellers. The majority of the respondents are not involved in an association either because they do not understand or there is no such association in their districts, particularly in the rural area.

**Primary barriers in business.** Table 12 documents that competition (51.24%) with modern minimarkets is the foremost business barrier in operating a profitable a traditional store. The second main business barrier is difficulties in access to sources of capital (22.14%) followed by business location, bank interest rate, other barriers, safety from theft, and transportation

**Table 10. Sources of Business Information**

Source of business information	Numbers	Percentage
Own knowledge and experience	84	12.14%
Spouse	86	12.43%
Family	77	11.13%
Friends	85	12.28%
Other businessmen	92	13.29%
Customers	112	16.18%
Business networks	150	21.68%
Association of traditional retailers/sellers	3	0.43%
Government agencies	1	0.14%
No explanation	2	0.29%
	692	100.00%

**Table 11. Involvement in Association of Traditional Retailers and Sellers**

Involvement	Numbers	Percentage
Yes	13	4.29%
No	226	74.59%
No association	64	21.12%
	303	100.00%



with 6.97%, 5.22%, 3.23%, 2.99% and 1.74%, respectively.

**Business risk.** Table 13 illustrates that the main business risk for traditional retailers and sellers is business competition (29.43%) followed by health of owner, uncollectible account receivable, natural disaster, theft of assets, environmental damage and climate, and theft of merchandises with 12.09%, 11.85%, 11.60%, 11.10%, 10.47%, 9.60% and 3.87%, respectively. In addition, 31 store owners (3.87%) did not provide any explanation on major business risk issue.

### Impact of Modern Minimarket on Traditional Retailers and Sellers in Banyumas Region

**Strategies in competing with modern minimarkets.** Table 14 explains the strategies performed by traditional store owners in the face of competition with the expansion of modern minimarkets, that is, Indomaret and Alfamart. The most widely adopted strategy by traditional retailers and sellers in competing with the modern minimarket is to provide complete and diversified product in their stores (98 respondents or 32.34%). The second strategy is to provide

**Table 12. Primary Barrier in Business**

Primary barrier	Numbers	Percentage
Bank interest rate	21	5.22%
Difficulties in access to sources of capital	89	22.14%
Competition	206	51.24%
Business location	28	6.97%
Transportation	7	1.74%
Energy availability (electricity/fuel)	0	0.00%
Safety from theft	12	2.99%
Others	13	3.23%
No explanation	26	6.47%
	402	100.00%

**Table 13. Business Risk**

Ranking of business risk	Numbers	Percentage
Business competition	236	29.43%
Health of owners	97	12.09%
Uncollectible accounts receivable	95	11.85%
Natural disaster	93	11.60%
Theft of assets	89	11.10%
Environmental damage and climate	84	10.47%
Theft of merchandises	77	9.60%
No explanation	31	3.87%
	802	100.00%

competitive price (96 respondents or 31.68%). The third strategy is promoting their products and providing excellent service to the customers (81 respondents or 26.73%). The fourth strategy is selecting strategic business location (five respondents or 1.65%) and the fifth strategy is strengthening the capital (four respondents or 1.32%). Nineteen (6.27%) remaining store owners are implementing other strategies.

#### **Problems in implementing a strategy.**

Table 15 shows that 128 respondents (42.24%) did not mention any specific problem or obstacle in competing with modern minimarkets such as listed in the questionnaire. Nevertheless, they expressed other constraints, such as lack of government assistance. Moreover, 95 respondents (31.35%) explained that limited

capital is a major problem in competing with modern minimarkets which have much larger capital base. Other problems are high purchasing price of merchandises (27 respondents or 8.91%), business competition (19 respondents or 6.27%), difficulties in access to transportation (13 respondents or 4.29%), limited human resources (12 respondents or 3.96%) and limited supply of products (nine respondents or 2.97%).

#### **DISCUSSION ON FINDINGS AND CONCLUSION**

Based on the questionnaire survey findings reported above, it is evident that traditional retailers and sellers face many drawbacks with the expansion of modern supermarkets and

**Table 14. Strategies in Competing with Modern Minimarkets**

Types of strategies	Numbers	Percentage
Product diversity	98	32.34%
Competitive price	96	31.68%
Strategic business location	5	1.64%
Excellent service and promotion to the customers	81	26.73%
Capital strengthening	4	1.32%
Others	19	6.27%
	303	100%

**Table 15. Problems in Implementing a Strategy**

Problems in competing with modern minimarkets	Numbers	Percentage
Limited supply of products	9	2.97%
High purchasing price	27	8.91%
Difficulties in access to transportation	13	4.29%
Business competition	19	6.27%
Limited capital	95	31.35%
Limited human resources	12	3.96%
Others	128	42.24%
	303	100%

minimarkets. The drawbacks could be seen from many perspective, namely: inadequacy in business license, limited capital and access to the sources of capital, number of employees and education level, inadequate bookkeeping and reporting, limited sources of business information, and limited involvement in the association of traditional retailers and sellers.

The inadequacy in business license appears as a key problem for traditional retailers and sellers, as the survey indicate that nearly one-third of traditional stores operating in Banyumas region have no legal license from the government. Inadequacy or the absence of a business license would hinder business activities, especially when they require financing from the bank because the bank will not provide funding to entrepreneurs operating a business without a license. It is because, generally, Indonesian banking industry has strict requirements for businessmen who apply for credit loans, including the need to already have a business license. However, in-depth interviews and focus group discussions reveal that some traditional retailers and sellers are reluctant in getting a complete business license due to complicated bureaucratic procedures as well as the expense involved in getting it.

Limited capital and access to the sources of capital is one of the major problems for many traditional retailers and sellers. While banks require them to provide adequate collateral to get funding, majority of traditional retailers and sellers cannot fulfill this requirement. Therefore, government policy is very important to help the traditional retailers and sellers have better acces to sources of capital. This could be done by directing the banks, particularly government banks, to make easier requirements that enable them in getting access to the sources of capital. This policy will help traditional retailers and sellers in solving the problem of limited capital. Findings from focus group discussion on this issue reveal that the local government of Banyumas region has allocated a special funding

for traditional stores known as “dana bergulir” or shift fund, which can be borrowed by traditional businessmen with easy requirements and at very low interest rate. However, only a limited number of traditional entrepreneurs are aware of this kind of funding availability, indicating that there is inadequate effort on the part of local government to make this information public.

With regards to the number of employees and education level, it is found that more than a quarter of traditional retailers and sellers manage their stores by themselves and without any employee. If they have employees, most of the employees appear to have low level of education. These conditions make the management of traditional stores left behind as compared to modern supermarkets and/or minimarkets. To improve the knowledge and professionalism in managing traditional businesses, local government should arrange proper training and education to traditional retailers and sellers through relevant agencies. Findings from the focus group discussion reveal that a small number of employees can help the traditional store to operate at low cost, as compared to modern markets, if managed effectively. With this advantage, the traditional retailers and sellers can control operating cost; thus, can ultimately offer a lower selling price of products to compete with modern minimarkets.

Inadequate bookkeeping and reporting can be regarded as a great concern for traditional businesses, as the evidence shows that only a few stores maintain a complete reporting system showing their income after tax. While similar numbers of stores have no bookkeeping and reporting, others only maintain partial book keeping and reporting, such as total sales, cost of goods sold, operating expenses, and so forth. This requires urgent attention to improve bookkeeping and reporting of traditional stores. Government agencies should provide training and education support to traditional retailers and sellers on bookkeeping and reporting techniques,

so that they can manage their financial activities efficiently and ensure profitability, solvency, access to bank funding, employee welfare, and so forth.

Limited sources of business information is another problem for traditional businesses to remain competitive with modern markets. It is revealed that traditional stores predominantly rely on private sources to get business information and less than a quarter of the traditional stores have link to business network, government agencies, and trade association to receive any information and/or updates relating to their business. It is also found that only a few traditional stores are involved in the association of traditional retailers and sellers in Banyumas region because in some districts there is no trade association in existence, which show low effectiveness of association's role in facilitating a variety of information needed by traditional retailers/sellers. These conditions reflect the ineffectiveness of the role of government agencies and association of traditional retailers/sellers in providing business information to all traditional store owners. Therefore, this requires an urgent attention to mitigate this problem to bring synergy between the traditional store owners, government, and association of traditional retailers/sellers. It is also important to create a social networking system that is effective in disseminating information relating to business activities, so that they can communicate with each other in implementing the strategy to compete with modern supermarkets/minimarkets.

Focusing on business strategies (such as product diversity and completeness, competitive price, excellent service and promotion to the customers, strategic location, and strengthening of capital) that the traditional retailers and sellers are interested to implement to face competition with modern minimarkets, it is observed that there remains huge problems in the implementation process of these strategies.

For instance, product diversity and completeness can be achieved if they have large capital base. With limited capital, this strategy could not be implemented. Therefore, local government should take initiative to provide easy access to funding for traditional retailers/sellers.

Creating competitive price by traditional retailers and sellers also face the problem of high purchasing price of merchandises from the suppliers due to not having good networking in procurement of merchandises and raw materials. This is very different from modern minimarkets who have certain suppliers which operate within all provinces, regions, and districts in Indonesia. To overcome this problem, the focus group discussion suggests strong role of association of traditional retailers and sellers, so that this association would create networking in procurement of merchandises, therefore can create lower purchasing price. Another suggestion from the focus group discussion reveals that if the stores locations of traditional retailers/sellers are close to modern minimarket, they can sell products that modern minimarkets do not sell.

Further, to provide excellent service and promotion to the customers, traditional retailers/sellers need good quality of human resources, which is bellow the average of modern supermarkets/minimarkets. It is very important to make coordination between local government agencies, traditional retailers and sellers, and the related association. They can design the appropriate training and education to improve the quality of their human resources in order to manage this business professionally.

Finally, data obtained from focus group discussion and in-depth interview show that the traditional retailers and sellers are much left behind in equipments and information technology if compared with modern supermarket/minimarket. Modern supermarkets/minimarkets manage their business with computerized system, whereas traditional retailers and sellers manage

their business manually. Therefore, in order to improve their competitiveness, this research will design “point of sales software package” based on open source system that will be implemented to respondents in Banyumas region who have computer facilities to manage their business (that is, 47 respondents). Implementation of this software will help the traditional retailers and sellers in managing their business and improving their professionalism. For this purpose, we will be developing a suitable information system to manage traditional store. By implementing the system development life cycle (SDLC), we can plan, analyze, design, implement, and evaluate the most suitable information system for traditional store.

Thus, from the discussion above it can be concluded that the traditional retailers and sellers in Indonesia, particularly in Banyumas region, have many weaknesses in facing the expansion of modern minimarkets, that is, Alfamart and Indomaret. Even though there are several government laws and regulations concerning the protection of traditional retailers/sellers in the face of modern markets, these regulations are not functioning optimally to protect the traditional retailers/sellers due to several undisciplined government officers. Therefore government role, initiative, and strong commitment are essential to resolve these problems. These efforts will be successful if there is synergy and cooperation between traditional retailers/sellers, government agencies, the association of traditional retailers and sellers, and all interested parties to provide optimal support. To succeed in competing with modern minimarkets, traditional retailers/sellers should map their tangible and intangible resources accurately. Considering the drawbacks of traditional retailers/sellers and consistent with the concept of populist economic system and resource-based theory in supporting the businesses of indigenous people, we will be formulating an appropriate model to empower traditional retailers and sellers to improve their

competitiveness on modern minimarkets in Banyumas region, Indonesia.

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