



Supermarkets and Horticultural Development in Indonesia

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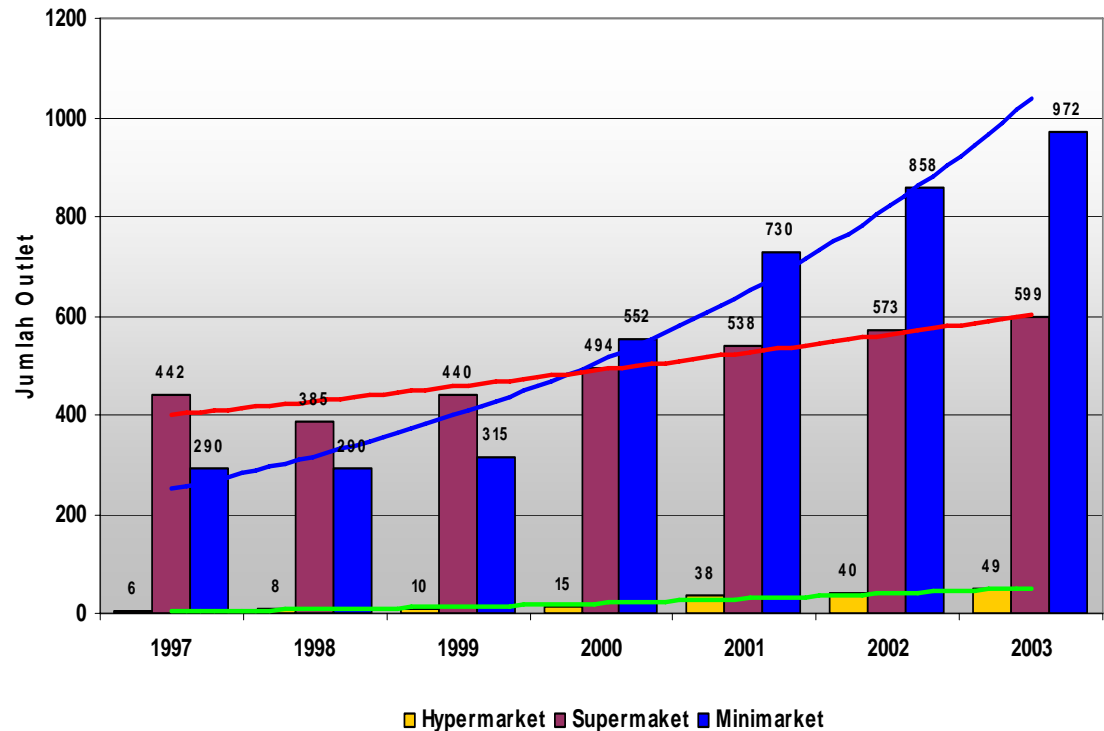
FAO's Sub Regional Seminar on Enhancing Capacity of
NGOs and Farmers Groups in Linking Farmers to Markets

Sanur, May 9-12, 2006

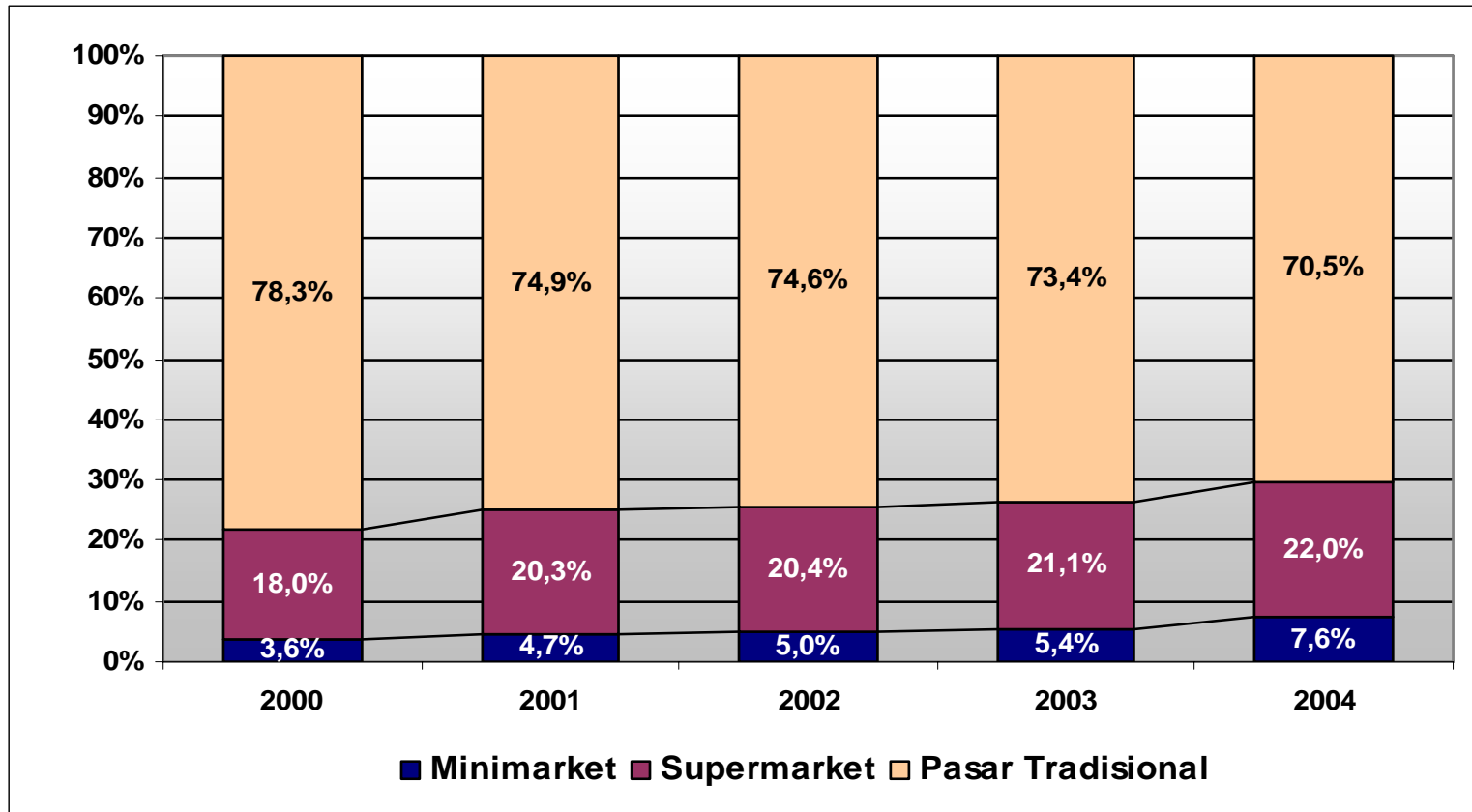
Rise of Supermarkets in Indonesia

From tiny share in mid 1990s to 30% food retail nationally 2005

- growing at 15% a year (versus 5% a year for traditional retail)
- rapidly displacing small shop (warung) in cities
- gradually replacing traditional market
- projection: by 2010, supermarkets will have > 50% of food retail Indonesia...



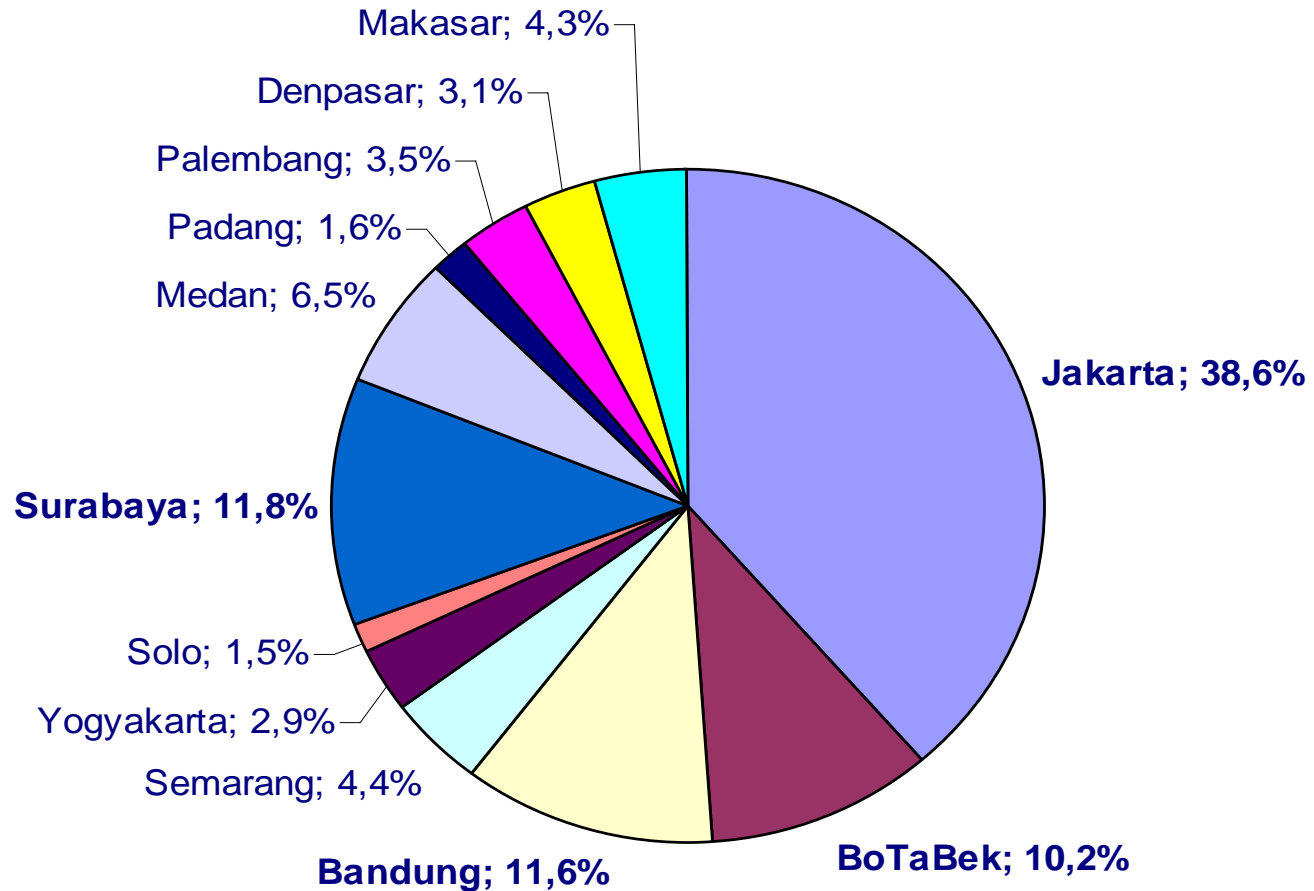
Estimate: 2% per year drop in market share of traditional retail



Geographic and socioeconomic spread

- 5 years ago nearly all supermarket market in Jabotabek, now only about 50%
- Supermarkets spreading to other islands, to secondary and tertiary cities and even large rural towns on Java
- Supermarkets started on “A consumers” now moved to B and C (lower middle and working poor)

Supermarket Geographic Spread



Source: AC Nielsen, 2004

Product Category spread

- While supermarkets have 30% of overall food market, only about 10% of FFV retail
- typical over countries: processed foods first, later fresh
- share of fresh food in supermarket sales rising fast: about 30% of food sales
- share of produce in supermarket sales from near 0 in mid 1990s to 8% now... (recent upturn)

Product Category spread

- About 65% of FFV sales of supermarkets are fruit, 35% vegetables
 - About 80% of fruit are imported
 - About 20% of vegetables are imported
- ➔ About 60% of FFV sales are from imports
- ➔ Roughly TWICE as high import share as in comparable countries... !

Challenges and Issues

- **Huge gap between local supply base and supermarkets' needs**
 - Retailers cite huge problems of availability, quality, consistency of local supply, postharvest
 - Can import high quality Chinese carrots for same price as bad local carrots!
 - Same with oranges!
- ➔ China (and Thailand) are capturing local market opportunity in Indonesia!
- ➔ Indonesian farmers are not competitive in their own backyard...

Challenges and Issues

- **The very poor (compared to comparable countries...) wholesale market structure adds another constraint on the supply side...**
 - ... poor infrastructure, congested, dirty
 - ... huge availability fluctuations except in key fruit
 - ... wholesale markets here similar to those in similar-income countries... 25 years ago

Challenges and Issues

- **The extremely high transaction costs to source locally**
 - ... high cost of bribes
 - ... high cost of fuel
 - ... poor roads
 - ... added to the inter-island distance...
 - ... severe lack of cold chain
 - ... institutional problems (contracts, trust)

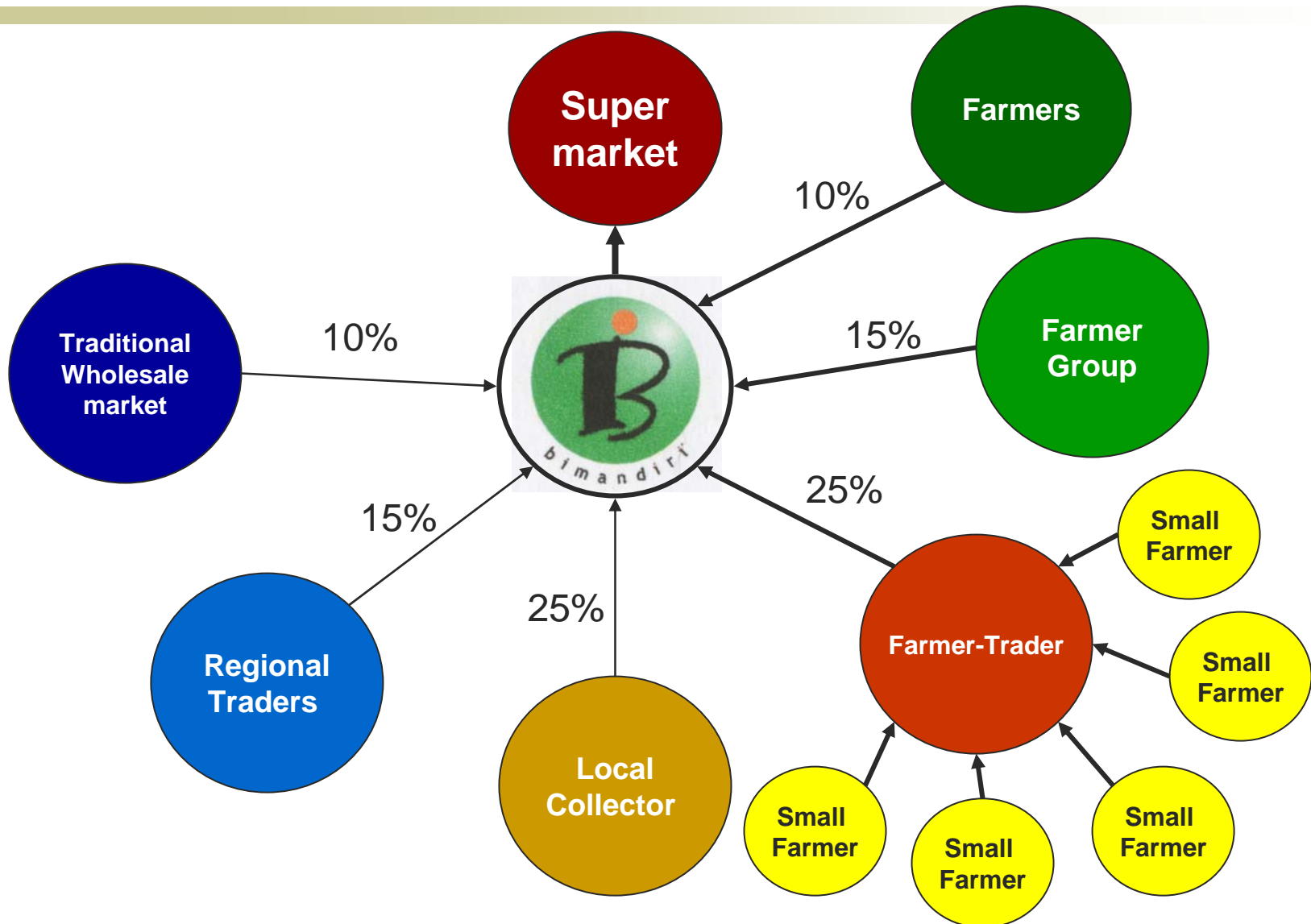
Challenges and Issues

- From **supplier's side**, say:
 - Extension service absolutely useless to them for the new “quality market”
 - Supermarket market was more profitable until last year, but “fees” are going up and the margins are shrinking
 - Their input costs (fuel, chemicals) are rising

Adoption of Organizational Innovations

- Shift from reliance on spot markets (in particular, traditional wholesale markets and brokers) toward growing use of specialized/dedicated wholesalers.
- Compare with other countries, in Indonesian case, Supermarket shifting faster in very early stage because of problems in the traditional wholesale system
- The non-traditional players are specialized in a product category and dedicated to the supermarket sector as a main or the main client.
- Puts together a preferred supplier list and enters an implicit, informal contractual relationship with several farmers associations and individual farmers, all very small farmers.

Supermarket Supplier Procurement System



Adoption of Organizational Innovations

- Developing and experimenting a new institutional relationships with farmers and other supporting party
- Specialized wholesalers cut transaction, coordination, and search costs, and enforce private standards and contracts with suppliers on behalf of the supermarkets
- Specialized/dedicated wholesalers are expanding their operations beyond their point of origin to “follow” the expansion of supermarket chains they supply
- **Bimandiri** is one of “the specialized wholesalers”