Supermarkets and Horticultural Development in Indonesia

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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

Sumber: AC Nielsen, 2005
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.
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”