Traditional Retail Development Model In Facing The Consumer Behavior Shifting

Suwitho
Department of Management, Sekolah Tinggi Ilmu Ekonomi Indonesia (STIESIA)
Surabaya 60118, Indonesia

Corresponding author, Email address: suwitho@stiesia.ac.id

Abstract
The phenomena of modern retail development is growing rapidly in Indonesia. This condition worries traditional retailers. The aim of this research is to explore some potential problems by traditional business people in Sidoarjo, East Java. Data collection technique is using observation, and interviews with informans, namely retail traditional customers. Data analysis is using descriptive qualitative. Findings show that traditional retailers still have some potentials to develop as they have some competitive advantages such as bargaining when shopping as this is a culture and also Indonesian’s customer behaviour, closed-relationship between seller and customer and customer’s perception toward the price of traditional retailers which is relatively cheaper. The internal model development for traditional retailers must be flexible and always be improved by always adapting the shift of buyers. Externally, the local government must be involved in improving traditional markets in general.

Keywords: traditional retailer, trust, relationship marketing, loyalty

1. Introduction
The development of retails in Indonesia grows rapidly. However, there are gaps created between traditional and modern market. The growth of modern retails, especially minimarket, in the big cities threatened the existence of traditional retailers. Yet, the emerging of modern retailers give some advantages to customers due to the variety of products being offered. On the other hand, traditional retailers are worried to lose customers as they can’t compete with the minimarket.

This is because modern retailers are usually situated near traditional markets. Due to that reasons, it will reduce the revenue of traditional retailers. However, not all traditional retailers are impacted by the modern retailers. Some of the reasons are because they have different market segmentations. In some places, minimarkets are going out of business as they can not compete with traditional retailers. Buyers are still going to traditional market and only occasionally going to the minimarket.

Traditional markets have their own potential as they have their own market segmentation. The strengths of the traditional markets are (1) bargaining as this is a culture and Indonesian customer behaviour, (2) the relationship between seller and buyer, (3) customers’ perception in regards of a cheaper price at the traditional market, (4) customers can buy the minimum amount at the traditional market unlike the minimarket as they usually have been packed with the standard size.

Beside some of the natural strengths carried by the traditional markets. They also have some weaknesses as their basic characters which is hard to be changed. These are the design of the traditional markets and their appearance, atmosphere, lay-out, position, variety and quality of the merchandises, sales promotion, limited business hours as well as the optimization of the room space. These factors are the biggest weaknesses for the traditional markets in competing with the modern minimarkets. When the customers are expecting more in the value of the money they spent the traditional markets failed to compete. Due to modern minimarkets offer more facilities such as clean store with air-conditioners which traditional markets do not have. Therefore, customers are preferred to go to modern minimarket compare to traditional one. Hence, both modern and traditional retailers have their own strenghts and weaknesses. However, the opportunity for traditional retailers are still opened to grow their businesses.

One of the key success factors in the retailers business is the strategy of the relationship marketing (Crosby & Cowles, 1990; Huang, 2015; Jones, Reynolds, Arnold, Gabler, Gillison, and Landers, 2015). This is due to the customers’ expectation to develop good relationship between customer and retailers. One organization with customer centriss must continuously serve its customers with empathy and always empowered its customers other than only targeting customers. Therefore, other than the needs of developing
relationships some study argues that high quality service are needed by retailers in order to survive in this fierce competition in the market.

Marketing with customer perspective demands a company to focus its attention to obtain an ultimate satisfaction for its customers. This is due to customers are easy to change their mind to a different retailer with a better service although they had been satisfied. Customer switching intention in retail is very high. Products in retail businesses are very hard to be differentiated as they have low entry barrier (Berman & Evans, 2001), as a result customer satisfaction will only be obtained when a company is able to offer relatively different value compare to its competitors.

One of the strategy implementations in relationship marketing in retail businesses is an integrated activity with the aim of building relationship with customers in the long run. Customers’ positive perception toward retail businesses relationship can be indicated by positive communication perception, preferential treatment, and personalization as well as rewarding provided by the retail management (Levy & Weitz, 2004).

Morgan & Hunt (1994), Crosby & Cowles (1990) and Dorsh et al. (1998) in Zeithaml and Bitner (1999) argue that commitment will be formed through the maintenance of the relationship by providing quality of services. Therefore, a company needs to understand customers’ expectation and interaction with retail businesses. Hence, it will help to achieve company’s mission. This had been studied in the previous research in retail similar to Teas (1993), Dabholkar et al. (1996), Finn & Lamb (1991).

Kotler & Keller (2009) argued that maintaining customers are more beneficial rather than acquiring the new ones. This is due to the cost to acquire a new customer is five times more expensive than the cost of maintaining the existing ones.

The emerging of modern market in the form of minimarket, supermarket and hypermarket had been considered by many people to beat the existence of traditional retailers. Hence, million of small businesses will lose their income. Surprisingly, not all traditional retailers are going out of businesses. They are still growing with a good performance. The shifting of the customer’s behaviour in purchasing through the modern retailers had forced some traditional retailers to be creative. This is in the form of implementing strategy that will fulfill customers’ demand. Hence, it needs a model to help traditional retailers to be exist in the competition.

2. Material and Methods

The object of this study was at traditional retailers situated in Larangan Market Candi and Ngaban Market, District of Sidoarjo in East Java Province. Data was collected through interviews with traditional retailers, customers and government officers who handled traditional retailers. Data analysis technique was descriptive qualitative.

3. Result and Discussions

Legislation of the Sidoarjo District

The legislation which regulate traditional retailers are legislation of Sidoarjo District No. 1 Year 2018 regarding arrangement, management and empowerment of Community Market. In this regulation, the government has the obligation to protect community market, micro, small, and medium businesses. In addition, co-operation needs to be existed and able to grow to become a quality and better business. From the aspect of management and physically is able to compete with modern retailers such as self-service supermarket, shopping center and similar businesses. In reality, the management, training, and supervising as well as traditional market reporting in the region has not fully comply with the practice of a good governance in the market. The orientation of the market management tend to pursue the original income from the region (PAD) in the form of retribution. And they are not able to increase the system for managing a business entity which can be independent and aware to the changing in the economic situation and customer’s taste.
The Image of Customer Profile in Traditional Retailers

From the observation in the field and interviews with respondents indicate that traditional retailer customers generally dominated by relatively older people (more than 35 years old), only small portion from the young people. This is due to unattractive appearance of traditional retailers in the perspective of the young customers. Young people like to go to comfortable, clean place and they do not like to bargain. This condition is only being offered by modern retailers. Majority, the customers at the traditional retailers are women. This is because they are mostly purchasing food which is the daily need in the household. The purchasing frequency is three times per month. This data shows that the purchasing frequency is quiet often as it is more than three times. And they had been a customer for more than three years. It means, the interaction between customer and traditional retailers relatively long (loyal customer).

As a matter of fact, traditional retailers in Sidoarjo had implemented relationship marketing with a slightly different implementation compare to modern retailers. In the modern retailers, relationship marketing can be in the form of memberships or distributing catalogs directly to customers. However, in the traditional retailers can be in the form of communication both directly and indirectly between customers and retailers. This communication is in the form of greetings, price-cut to loyal customers, and also souvenirs packages in certain times (for example during Feast Season). They also pay a visit during the sick-time, inviting each other for special occasion and etc. The success of traditional retailers in maintaining the relationship with their customers will have a positive impact to their business performance.

The role of marketing relationship to customer’s loyalty can be informed from the interviews with one of the respondents:

“Relationship communication was developed with the seller during shopping experience, it was because the seller was very kind and the vibe was good. This situation made me always want to stick with the same seller. Every once in a while I went to modern retailers with my family, it was because my children can choose their own favourite things. In addition, modern retailers also have clean and comfortable place. However, I bought most of my things at my favourite traditional retailers. Every year near lebaran (festive season) I also received gift from them. But, this was not the only reason I bought from them. The hospitality and closed relationship were the most important for me to be loyal. I also recommend my neighbours to shop at this place”.

This result is aligned with Oderkerken (2003). He argued that higher level communication, privilege treatment and level of personalization, level of reward and level of relationship with customers will produce customer retention orientation for the retailers. Findings of Wu et al. (2008) claimed that (1) Relationship Marketing Tactics (direct mail, privilged treatment, interpersonal communication, retaliation and promotional activity) as well as relationship management activity (core service, performance, recognition for contribution, member interdependence enhancement, dissemination of organizational knowledge and reliance of membership requirement) have significant relationship. (2) The relationship quality has a strong relation to member behavior (co-production, participation and retention). Retail traditional businesses need to develop trust and commitment so that loyal customers do not shift their purchase to modern retailers (Morgan & Hunt, 1994), maintain customer satisfaction, product and service quality include pricing (Bei & Chiao, 2001; Caruana, 2002; Fullerton & Taylor, 2002, Sivadas & Prewitt, 2000). Customers need to have a friendship in the communication, negotiable price and honesty in explaining product quality. This matter needs to have a serious attention by traditional retailers. If traditional retailers are able to maintain a good relationship with their customers and fulfill their needs as a result it will have perceived long-term relationship (Tseng, 2007). This includes improving the store image. Findings of this study found that there is a positive relationship between store image, store satisfaction, attitude toward store and store loyalty (Koo, 2003). In the pricing process involves bargaining as it is similar to the study of Leksono (2009). He claimed that traditional retailers usually have sliding price system. Traditional businesses do not have a rigid price unlike modern retailers. Pricing is formed through the process of negotiation between sellers and buyers. This is the culture of Indonesian customers and behaviour. And also the competitive advantage of traditional retailers. Because price negotiation is impossible in the modern retailers. The negotiation mechanism leads to information equality and accommodate customers’ purchasing power. While sellers are still making a profit. Price discrimination is not based on the products quality, but it depends on who will purchase it. As a result, it still carries egalitarian social value and humanity.
Long-term relationship had been created, thus, pricing perception set by the retailers will be cheaper for loyal customers. Thus, loyal customers do not have to bargain the price anymore. In addition, respondents are usually happy to shop at the traditional retailers during the festive season (Iedul Fitri) as there is a gift in the form of cash or merchandise. Different treatments by traditional retailers reflect relationship marketing which include communication, privileged treatment, personalization and retaliation.

As a result, sustainable competitive advantage had been rooted from their ability to maintain customers, and also long term relationship is needed which is customer-centric approach (Lin, 2013; Ou et al., 2011). More importantly, retailers admit the important to develop the strong relationship in order to maintain customers (Beneke, Blampied, Cunming & Parkfelt, 2015; De Cannière, De Pelsmacker & Geuens, 2010).

Another findings from this research is that traditional retailer customers need to have clean market condition, neat product shelving arrangement, fresh air circulation and good lighting. Although, the government’s role is needed to improve the physical condition of the traditional market which traditional retailers do not have a capability to do so.

This condition reflects in an interview with one of the respondents at the traditional retailers below: “……I am more comfortable to shop at this place as it has parking space availability, convenient location near to my house and I also hope that there is a good arrangement between retailers which have good lightings and cleanliness. I hope retailers are able to arrange their goods neatly so it will be convenient for me to shop. As a customer sometimes I negotiate the price and seller did not hesitate to drop the price a little. As result, I felt very happy although it did not happen to every goods.

In order to anticipate fierce competition with the growth of the modern retailers. Therefore, the development model of traditional retailers can be done in two sides. Internally, traditional retailers need to maintain good relationship, trust with their customers as well as maintaining the cleanliness of their store. In addition, they also need to arrange the display of their goods neatly. Externally, government needs to manage parking professionally, re-arrange the lay-out of the markets and other physical facilities. Moreover, the policy must be made in favour of to keep the existence of the traditional retailers.

4. Conclusion

The existence of traditional retailers which are located at the traditional markets internally need to be improved in managing their businesses so that they are able to compete. This is important as the customers are shifting in their purchases to modern retailers. The traditional retail businesses need to improve their services to their customers, develop long-term relationship and honest in regards of their products information so that customers’ trust will be developed. The aim is for customers’ satisfaction and loyalty. The main market segmentation for traditional market is buyers who want to have some interaction with sellers in the purchasing process. In addition, negotiation process is also needed as it is a culture in Indonesia which needs to maintain. Furthermore, the role of the government is very important in protecting traditional retailers such as retail moderns zoning, and the most importantly improving physical facility for the market as the buyers want a clean, comfortable and safe traditional market.

Reference


Legislation of Sidoarjo District No. 1 Year 2018 Regarding Arrangement, Management and Empowerment of Community Market


