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The influence of regulation, competition and buyer power on supplier performance in modern retail supply chain in Indonesia

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Abstract

The purpose of this study is to understand the development of supplier performance in domestic packaged processed food supply chain which is influenced by regulations, competition and buyer power of retailers. The paper presents the results of a survey of suppliers of the package processed food of micro up to large scale enterprises. The findings of the research result indicate the heterogeneity of the performance of the package processed food suppliers in modern retail supply chains. How suppliers are faced with regulation, competition and buyer power in modern retail supply chains, but on the other hand suppliers tend to be influenced by the way suppliers deal with modern retailers. it may be indicated that some suppliers benefit from the presence of modern retailers, but they face some of the challenges posed that cause some terms of relationships to be unfair, unilateral price fixing, and poor supervision so that the development and growth of supplier performance are subject to limitations. The further research is needed to refine the results of this initial study.

Keywords: Supplier performance, Modern Retail Supply Chains, Regulation, Competition, Buyer power.

INTRODUCTION

The trade sector including the retail industry is an important and noteworthy industrial sector, especially in its contribution to the Indonesian economy. Various types of modern retail formats do business activities in Indonesia, but generally found three types, namely minimarket, supermarket and hypermarket. Retail sector has a large enough position and opportunity to develop from year to year. Modern retail growth annually records a range of 10% to 30%. This is indicated by the expansion of modern retail to the rural areas as well as entering the residential areas of the people (Pandin 2009).

Berasategi (2013) concluded that in anticipating unfair trade practice, the paradigm of thinking of competition authorities in advanced and developing nations is growing from the conventional, to evolution and to modern paradigm of thinking. Conventional paradigm of thinking puts forward observations about sellers' power that includes inter-brand competition and intra-brand competition (Moraga, 2013). Under such conventional paradigm, modern retailer having the strong buyer power could not only get lower buying price but also determine a lower selling price (Chen, 2008). At the evolution paradigm, modern retailers expand market share and market concentration, resulting in an increase in buyer power that would bring about unbalanced in bargaining power in supply chain (Stichele and Young, 2009). Modern paradigm stated that the platform of modern retailer is place having constraint and potential to bring about unfair competition (*competitive bottlenecks*) and have two-sided markets (Rochet and Tirole, 2003, 2005).

An increase in the buyer power of modern retailers results in transfer of risks and reducing the competition among suppliers and would influence consumers through reduction of innovation, long term losses, choices, and higher prices. The effect are often neglected, that affects sustainability of consumption and production (Nicholson and Young, 2012). The majority of modern retailers, in a bid to slow rising bargaining power of their suppliers, first increase their market share and market power of downstream. Control of market and dominant position could be used as an effective instrument in negotiating terms with suppliers in upstream market by setting more favorable conditions such as price discount by modern retailers (Roller, 2004).

Competition among modern retailers and their suppliers in Indonesia is very tight with the fast growing number of outlets of modern retailers and their suppliers, following the liberalization in the regulation on retail industry. Tight competition has led to concentration and strengthening of bargaining position, growing buyer power of modern retailers that result in the emergence of anti-competition move and caused an unbalanced condition in the supplier-modern retailer relationship that hurts the suppliers (Muslimin and Nuryati, 2007; Pandin, 2009).

Although the government has sought to prevent such malpractice by issuing a series of regulations and policies including Presidential Regulation (Perpres) 112/2007, Trade minister regulation (Permendag) no.53/2008, Law no.5/1999, Law no.8/1999, unfair competition continues. In 2005, modern retailer Carrefour introduced business relations which was not fair to its suppliers and in 2009, Carrefour increased market concentration and exploited the surplus in its suppliers, resulting in condition of being unbalanced and negative impact on competition. Competition authorities in Indonesia (KPPU), based on the competition policy of the Law /5/1999 have punished and fined modern retailer Carrefour on the two competition offences (KPPU 2009).

The condition of being unbalanced in the supplier-modern retailer relationships concerned complex factors, but what is worth research is how far the regulation, competition, bargaining power and buyer power could determine partnership or *relationships between suppliers and modern retailers in supply chain of modern retailers* and how much the impact on the performance of the suppliers. Therefore, this research is aimed: (1) Examining empirically the impact of regulations on competition and suppliers-modern retailers relationship, competition on suppliers-modern retailers relationship, buyer power on suppliers-modern retailers relationship, suppliers-modern retailers relationship on the performance of suppliers; (2) Developing buyer-seller relationships models based on the theory of relationship marketing within the scope of the content and implementation of regulation; (3) Improved regulation Perpres 112/2007, Permendag 53/2008 and competition policy UU/5/1999 amendments.

REVIEW OF LITERATURE

Regulations: A number of researchers have identified the main characteristics of regulation. Baldwin and Cave (1998) in Amod (2009) stated that regulation is: (1) Imposition of rules by the government with mechanism in

control and its upholding, normally applied through public agency; (2) Regulation is a direct intervention in economy and the intervention could be in any forms; (3) Regulation is all mechanisms of social control, consisting of all mechanisms of social control and have impact on all aspects of characteristics of sources intentionally or unintentionally.

In addition, Stigler (2003) stated that regulation is an act of the pressure group and produces law and policy supporting the business sector and protecting consumers, workers and the environment. Udayasankar *et al.* (2009) stated that regulation is a mandate, designed to protect shareholders or investors. Regulation could also be interpreted as a restriction on efficiency in business. Mayasari *et al.* (2011) stated that the main objective of deregulation is to increase and improve industrial competitiveness and efficiency, and reduce the price without sacrificing quality. Nugroho (2012) stated that regulation is issued by the government to serve the public, to control market competition, prevent monopoly which could endanger the country's economy.

Soekanto (1985) stated that effectiveness of regulation or law is reflected by the condition having been created and how far the target has been reached. From the point of views of culture, or law, a regulation is effective if implementation of the regulation is backed up by commitment, no conflict of interest, understanding of all concern, consistency, professional integrity or honesty, without discrimination (Sosiawan, 2011). Maloni and Benton (1999) stated that regulation would have impact on relationships between suppliers and buyers that could seen in the transactions they made.

Competition: Porter (1980, 1985) in Hunt (2001) stated that competition is a continued attempt by corporations to grab comparative advantage in resources that will give leading position in market competition and most important to have a super financial performance. Udayasankar *et al.* (2009) stated that competition is a mechanism of market operation that allows a company to operate naturally and has a tendency, if competition is tighter creating greater market efficiency. Competition is a match between companies in selling goods and service they produce (KPPU, 2009).

Competitive market structure can be divided into four categories that include perfect competition, monopoly, monopolistic competition and oligopoly. In markets characterized by perfect competition, there are many firms, each of which small relative to the entire market. A monopoly is a firm that is the sole producer of a certain type of goods or services in the relevant market. In a market characterized by monopolistic competition, there are many firms and consumers, just as in perfect competition. In an oligopolistic market, a few large firms tend to dominate the market. Concentration ratio measure how much of the total output in an industry is produced by the largest firms in that industry. The most common concentration ratio is the four-firm concentration ratio. Herfindahl-Hirschman index (HHI) is the sum of the squared market shares of firms in a given industry, multiplied by 10,000 (Baye, 2009).

The model of Porter's five forces explained that structure of an industry determines the characteristics of competition between companies, bargaining power of suppliers, bargaining power of buyers, threat of new entrants, threat of substitute products or services and competition among existing firms, and would make industry more attractive and potential to gain profit. Therefore, competition in an industry will depend on the five basic forces of competition (Porter, 2004). In competition, suppliers could have weak or strong bargaining power, which will have its impact on the terms and conditions of transactions made. Transactions between suppliers and buyers will create value for both sides. However, if the buyers have better bargaining power, the possibility of suppliers to earn a higher proportion of value would be smaller and the profit would be lower. The bargaining

power of buyers would determine the amount of profit earned by suppliers. The bargaining power of buyers is one of five forces that determine the intensity of competition in industry (Porter, 2004; Ehmke *et al.*, 2009).

Buyer Power: Specifically a number of researchers describe the buyer power as a bargaining power or a countervailing power. But a number of other researchers define buyer power as a strength of demand for lower price that: (1) The buyer power is wider than the strength of monopsony; (2) The buyer power is more than just the ability to cut prices (Chen, 2008). Dodd and Asfaha (2008) cited a number of definitions of buyer power from three researchers: (1) There will be buyer power when a company has dominant position as a buyer of goods or services or because the company has a strategic advantage and leverage because of its economic scale or other factors, that it would have more favorable conditions of trade transaction with suppliers than other buyers from suppliers (OECD, 2008); (2) There is buyer power when a company or group of companies have more favorable conditions of trade transactions with suppliers than other buyers or are given lower prices or more favorable non price conditions than under normal competition (Dobson *et al.*, 2001); (3) Buyer power is a bargaining power of buyers, facing suppliers in business negotiation. With economic scale and the significance of purchases, the buyers have the ability to change alternative suppliers (Dodd and Asfaha 2008)

Buyer power is the ability of buyers to cut selling prices of suppliers to below the normal price level, that the buyers would earn larger profit or the ability of buyers to demand more favorable trade terms. Normal selling prices are prices that give maximum profit for suppliers under a situation when buyers have no power. Under perfect competition market structure among suppliers, the normal selling price of suppliers is a competitive price and buyer power is a monopsony power. Under a imperfect competition market structure among suppliers, the normal selling price is above the competitive price and buyer power is a countervailing power (Chen, 2008).

Buyers will have the biggest power when making big purchases. If suppliers sell to large scale buyers, the buyer will have a greater leverage to force suppliers to lower the price and give more favorable conditions for the buyers as the suppliers do not want to lose potential buyers. Buyers also have certain level of power facing suppliers, but the bargaining power is not always the same. They are not the same in sensitivity to prices, quality and services. The presence of powerful buyers would reduce the potential profit for suppliers. By demanding price cut, negotiating improvement of quality, increasing the services and arranging suppliers, the buyers would be able to increase their market competition and reduce the profit of industry (Porter, 2004).

Buyer-Supplier Relationships: Relationship marketing is a concept that includes interaction between buyers and sellers at a point where relationships or partnership is developed to provide room for future business deals. The goal of marketing relationship marketing is to expand and serve the consumers through partnership or relationships between suppliers and buyers. Buyer-seller relationships is mutually beneficial relationships or partnership. It would expand through exchange of mutual benefit. In order that the relationships could last, harmony, interaction, lasting period of exchange would be needed. Relationships is developed with interactions in a certain period. Relationships between two units (units could be organizations, persons, communities even states), each unit has a role to play and expected norms of characteristics (Walz, 2009).

The main definition of buyer-seller relationships is that there is at least an economic interaction. Further interactions are expected to take place. The parties involved must know the identities of each other, they must be convinced that there are relationships, interdependence. Definitions of relationships is that parties must share information, must trust each other, must be convinced that there is relationships, at least there is one economic interaction, parties must know the identities of each other (Walz, 2009).

There are a number of main factors determining relationships between suppliers and modern retailers to be integrated. They are commitment, conflict, conflict resolution, cooperation, trust (Maloni and Benton, 1999). Business needs other companies as partners, to share cost, risks, increase core competence and speed to reach the market (Reagan, 2002). The minimum degree of cooperation needed in relationships and closer cooperation reflects the degree of trust and mutual help. Relationships between suppliers and buyers is relationships between two or more companies, cooperating and involved in information sharing, harmonization of decisions and incentives aimed at achieving super performance (Simatupang and Sridharan, 2005).

Performance: From the point of view of suppliers, performance depends on elements of inter-relationships that is to expand closer trade cooperation to direct suppliers to boost business by focusing on management category decision related to consumer value, better understanding of the role of trade promotion, controlling management technology aspect effectively, seeking to understand concrete cost of supply chain and efficiently managing it, in line with respective targets of modern retailers (Hamister, 2007).

The performance of suppliers is determined by a number of complex factors. In connection with the aspect of performance of suppliers, performance of suppliers constitutes results of the impact of factors, that is relationships between suppliers and buyers, asymmetric powers of two parties and intensity of competition (Chuah *et al.*, 2010). Business relationships between suppliers and modern retailers concerns transaction costs. Based on the relation contracting theory, an effective contracts could strengthen relationships between suppliers and buyers and create stronger competitiveness of buyers. If the competitiveness is applied to management of suppliers, it would increase the value of supply chain that will contribute to the better performance of suppliers (Chuah *et al.*, 2010).

Power is defined as a function, the opposite of relative dependence between buyers and suppliers. Power could and could not be mediated. Power asymmetry would result in variation in performance. Under a condition of power asymmetry, buyers would tend to maintain exploitation or integration (Maloni and Benton, 1999). Relationships between buyers and suppliers does not always without conflict. It is often that conflict would hurt the suppliers. Imbalance in power between modern retailers and suppliers would force both sides to maintain and rely on their respective powers. The power of mediation relationships tends to be bad for buyers and on the other hand the power that hurt suppliers does not always come to surface. Suppliers would look for ways of bringing balance to the asymmetric power (Maloni and Benton, 1999).

Conceptual Framework: Those theories and concepts and earlier research if combined are expected to support and provide a comprehensive study on models of combination of influence of regulations, competition and buyer power over relationships between suppliers and modern retailers and their influence on the performance of suppliers.

Hypothesis of Research: The hypothesis being presented is as follows: H₁: Regulation has its influence on competition; H₂: Regulation has its influence on relationships between suppliers and modern retailers; H₃: Competition has its influence on relationships between suppliers and modern retailers; H₄: Buyer power has its influence on relationships between suppliers and modern retailers; H₅: Relationships between suppliers and modern retailers has its influence on the performance of suppliers. The Figure 1 below shows the conceptual framework of research.

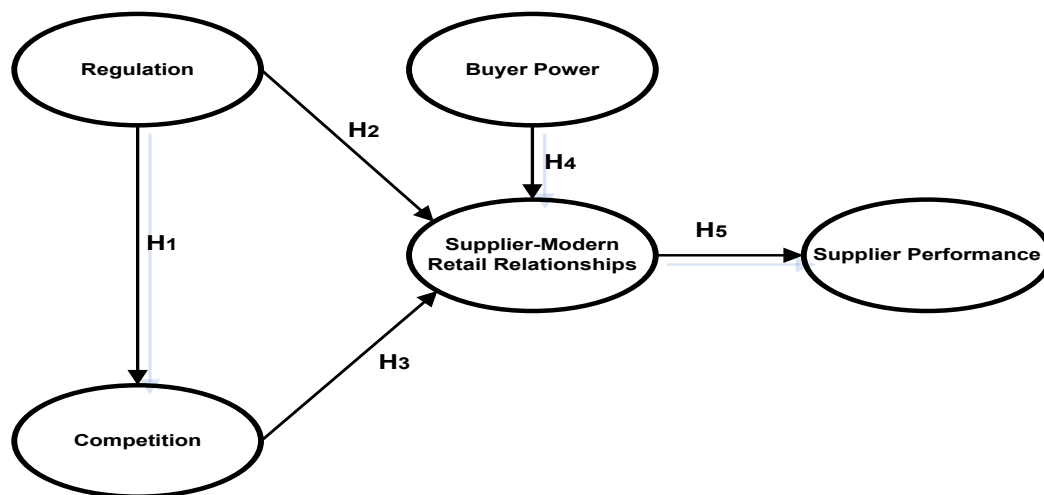


Figure 1: Conceptual Framework of Research

RESEARCH METHODS

This research is a quantitative research which is descriptive and verifying in nature. Population or units of analysis are 3555 supplier companies of foodstuff, mostly based and operating in the Greater Jakarta area. Supplier companies are large scale, medium, small and micro enterprises (Law on UMKM, 2008). 217 supplier companies are selected through sampling non-proporsional strata.

Questionnaires: Questionnaires served as an measurement instrument according to conceptual framework and practical ways. All primary data were collected from the answers to the questionnaires. Questionnaires used five-point Likert scale and hybrid ordinal-interval scale (Hermawan, 2009).

Modeling: This research is verifying in nature, to see the relationships between variables through hypothesis and modeling as well as solution techniques using the method of Structural Equation Modeling (SEM) analysis was utilized using Partial Least Square (PLS). PLS is part of SEM, but it gives an advantage of providing sample of data being not too big, theory could be in the form of government regulation, could analyze reflexively, formatively, etc. (Chin, 2000; Chin, 2001; Yamin and Kurniawan, 2011 ; Ghazali, 2011 ; Mateos, 2011).

RESULTS

Results of Evaluation of Measurement Model:

The results of processing of all constructs of studies are descriptive and factor loading and cronbach's alpha. Test of validity and test of reliability of instrument in the questionnaires was made by using SPSS 18. The test of samples in 30 supplier respondents, which gave value of factor loading of all indicators that formed dimensions, factors or constructs already had bigger value (0.553-0.960) than 0.55 (Hair *et al.*, 2006). It is concluded that all indicators are valid where--- value at more than 0.55 means that there is internal consistency of statements in the questionnaires that construct of the entire dimensions could be formed. Similarly with coefficient of cronbach's alpha all dimensions or construction with a number of questions, all bigger (0.797-0.960) than 0.60 which means all constructs are reliable.

Evaluation of Model of Measuring

The discriminant test of the validity of first phase through *cross loading* value produced indicators which have good discriminant validity. Second phase test to evaluate the discriminant validity of construct by seeing the value of Average Variance Extracted (AVE). Based on the root value of AVE all constructs have good discriminant validity. Output latent variable correlation is used to compared the maximum value of construct correlation with the root value of AVE. The result is dominated by construct which has higher root value of AVE than the correlation maximum value. Therefore, all constructs of dimension have good discriminant validity. Table 1 below shows the value of AVE and root of AVE.

Table 1: Value of AVE and root of AVE of Research Construct

Constructs	AVE	Root of AVE	Reliability of Root of AVE > AVE
KM	0.812337	0.9012974	Good
TT	0.589027	0.76748094	Good
PM	0.78579	0.88644797	Good
Regulation	0.278109	0.52736041	Good
RT	0.599505	0.77427708	Good
PS	0.594549	0.77107004	Good
Competition	0.517544	0.71940531	Good
BB	0.805688	0.89760125	Good
HR	0.768502	0.87664246	Good
SS	0.988888	0.98877999	Good
Buyer Power	0.573441	0.75725887	Good
KO	0.611776	0.78216111	Good
KF	0.593164	0.77017141	Good
MK	0.553904	0.74424727	Good
KJ	0.522353	0.72273993	Good
KP	0.501744	0.7083389	Good
Relationships between PS-RT	0.221517	0.47065593	Good
KE	0.903057	0.95029311	Good
KN	0.805223	0.89734219	Good
Performance	0.220652	0.4697361	Good

Source: Output SmartPLS version 2.0

Evaluation concerning reliability of internal consistence could be examined in the value of composite reliability and cronbach's alpha. The output of composite reliability and cronbach's alpha shows that the value of composite reliability for all constructs is more than 0.7, indicating that all constructs in the model is estimated to meet the criteria of discriminant validity. The lowest value of composite reliability is 0.859191 on MK dimension construct. In the cronbach's alpha, the value recommended is more than 0.6 (Chin, 2000; Yamin and Kurniawan, 2011; Ghazali, 2011). The result showed that the value of cronbach's alpha for all constructs is more than 0.6. The lowest value is 0.698987 (HR). Therefore, it could be concluded that all constructs being tested have good reliability. Table 2 below shows the value of composite reliability and cronbach's alpha.

Table 2: Value of Composite Reliability and Cronbach's Alpha

Constructs	Composite Reliability (>0.7)	Cronbach's Alpha (> 0.7)	Construct Reliability
KM	0.896308	0.775556	Good
TT	0.918776	0.898037	Good
PM	0.948103	0.930712	Good
Regulation	0.842474	0.817297	Good
RT	0.936765	0.924643	Good
PS	0.935881	0.923525	Good
Competition	0.95474	0.949332	Good
BB	0.892251	0.764579	Good
HR	0.869091	0.698987	Good
SS	0.999899	0.999997	Good
Buyer Power	0.868975	0.809915	Good
KO	0.924955	0.904894	Good
KF	0.877666	0.839065	Good
MK	0.859191	0.791765	Good
KJ	0.929056	0.916585	Good
KP	0.937469	0.928258	Good
Relationships between PS-RT	0.959759	0.957184	Good
KE	0.965428	0.946018	Good
KN	0.925301	0.879787	Good
Performance	0.959751	0.957184	Good

Source: Output SmartPLS Version 2.0

Effect of Factors, Path Coefficients, t-Statistics and Significances

Based on evaluation of structural model coefficient values of path coefficient values and t-statistics of all constructs could be determined that relationships between variables and impact of variables on other variables (significance), strength of relationships between variables, effect of independent variables on dependent variables to test the hypothesis of the research, could be seen (Yamin and Kurniawan, 2011; Ghazali, 2011). Table 3 below shows effect of factors, path coefficients, t-statistics, and significances.

Table 3: Effect of Factors, Path Coefficients, t-Statistics and Significances

The Effect of Factors/Constructs	Path Coefficients	t-stat	Sig.
Effect of regulation on competition	0.421	2.191	p<0.05
Effect of regulation on relationships between PS-RT	0.102	2.901	p<0.05
Effect of competition on the relationships between PS-RT	0.366	5.246	p<0.05
Effect of buyer power on the relationships between PS-RT	0.066	2.005	p<0.05
Effect of dimensions of KO, KF, MK, KJ, KP on The relationships between PS-RT :			
Commitment-KO	0.164	2.005	p<0.05
Conflict-KF	0.064	2.184	p<0.05
Conflict resolution-MK	0.085	2.804	p<0.05
Cooperation-KJ	0.244	5.152	p<0.05
Trust-KP	0.346	6.442	p<0.05
Effect of relationships between PS-RT on suppliers performance	0.998	449.631	p<0.05

Source: Output SmartPLS Version 2.0

DISCUSSION

Regulations including Presidential Regulation (Perpres) 112/2007 and Regulation of The Trade Minister 53/2008, have greater details on partnership, trading terms and nurturing, while supervision of consumer welfare and protection with the Law/5/1999, on prohibition of monopoly and unfair business competition and the Law /8/1999, on protection of consumers. The regulations rule that cooperation between suppliers-modern retailers, must be implemented under the principle of mutual benefit, clear, reasonable, fair and transparent and trading terms must be clear, reasonable, fair, mutually beneficial and agreed upon by both sides without pressure. Regulations have effect on the relationships between suppliers and buyers in interaction of exchange between the two sides. Profit between the two sides could often be explained through bargaining power where there is transactions (Maloni and Benton, 1999; Hertog, 1999; Stigler, 2003; Nugroho, 2012).

In order that the regulation is effective, it is necessary to promote the Presidential Regulation and The Regulation of The Trade Minister into laws, as law regulations are more binding for business players or policy makers in retail industry. Sanctions, process of law enforcement and the law enforcers must be determine in greater details in the law regulation. As for the law enforcers, there must be an institution which functions specially to uphold the law. Through the model, the position of controlling retail industry would be very strong and would be very strong to bind all stakeholders in retail industry (KPPU, 2009).

Competition has its effect on the relationships between suppliers and modern retailers and the impact is strong, but not sufficiently effective. The finding in the research on competition confirms the opinion that competition tends to create the potential of collaboration of closer relationships between suppliers-modern retailers in supply chain and encourage development of products and improvement of quality, price reduction, flexibility, service and innovation (Maloni and Benton, 1999; Reardon and Berdegue 2006; Zhang *et al.*, 2005).

Buyer power has its effect on the relationships between suppliers and modern retailers. However, the effect is not significant. The finding from the research confirms opinion that buyer power in relationships between suppliers and modern retailers could absorb suppliers' surplus with discount and cost to be paid by suppliers. Such condition could weaken the competitiveness of the suppliers and cause distortion of competition in the market of suppliers. Suppliers will reduce investment and spending on development of new products or innovation, resulting in a decline in the quality of products and there would be less choices for consumers (Dodd and Asfaha, 2008 ; Chen, 2008; OECD, 2008 ; Ehmke *et al.*, 2009, Nicholson and Young, 2012). Buyers have power especially big buyers as large purchases, concentration and bargaining power are significant to force price cut and relaxation of terms in their favor as the suppliers do not want to lose their potential customers. The suppliers are in a weak position that the relationships becomes asymmetry (Dodd and Asfaha, 2008; Chen, 2008; Ehmke *et al.*, 2009).

The five dimensions of formative forms – commitment, conflicts, management of conflict, cooperation, trust have effect on the relationships between suppliers and modern retailers. The effect could be weak or quite strong. Results of research show that the most important dimension with greater effect among the five formative factors is trust. The finding from the research about the dimensions of KO, KF, MK, KJ, KP, corroborate opinion that a number of main parameters that make relationships between buyers and suppliers become integrated are commitment, conflict, conflict resolution, cooperation, trust and information technology (Maloni and Benton, 1999; Duffy and Fearn, 2006; Sheu *et al.*, 2006 ; Chou *et al.*, 2011).

The relationships between suppliers and modern retailers has effect on the performance of suppliers and the effect is very strong. The finding from the research is related to the construct of financial performance and non financial performance. Implementation of financial performance and non financial performance could improve the performance of suppliers and modern retailers. The most important factor with greater effect among the two factors of performance is non financial performance. The higher the level of integration of relationships of business players would result in better performance (Maloni and Benton, 1999; Duffy and Fearn, 2006; Ou *et al.*, 2010).

CONCLUSION

Regulations have strong effect on competition showing the importance of regulations in determining whether competition is good or bad. However, the impact of regulations is not effective partly because the regional administrations have not succeeded in fully or effectively arranging zonation and distance between retail modern outlets and weak regulation on licensing procedure that competition is not conducive.

Regulations have weak effect on the relationships between suppliers and modern retailers as indicated by the domination of the bargaining power of modern retailers resulting in imbalance in the relationships between suppliers and modern retailers despite the regulation on competition. The weak impact is caused by regulation being not effective, not firm in slapping sanctions and implementation being not clear.

Competition has fairly strong impact on the relationships between suppliers and modern retailers. The tighter the competition the closer would be the relationships between suppliers and modern retailers. However, the effect of competition in its implementation is determined more by the characteristics of modern retailers in competition which are expansive in building up its bargaining power that the bargaining power of supplier is weak facing modern retailers.

Buyer power has weak effect on the relationships between suppliers and modern retailers. As shown by the study, not all aspects of the relationships between suppliers and modern retailers are influenced by the buyer power. The effect of buyer power is marked only by the big cost burden imposed on suppliers.

Relationships between suppliers and modern retailers in modern retail supply chain has strong impact on the performance of suppliers. Asymmetry in power which is controlled by modern retailers causes strong effect of relationships between suppliers and modern retailers on the performance of suppliers in improving the performance of suppliers.

Big suppliers and those selected by modern retailers have showed an improvement in performance but other suppliers such as micro and small suppliers have remained in the doldrums. Therefore, improvement is necessary in The Presidential Regulation Number 112/2007, Regulation of The Trade Minister Number 53/2008 and in the implementation of the competition policy UU/5/1999. The regulations have to be properly implemented and there should be coordination between the central government and the regional administrations. Detailed and clear guidelines should be provided in maintaining good relationships between suppliers and modern retailers. Micro and small suppliers should be effectively involved. Socialization needs to be intensified and violations should be strictly dealt with sanction.

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