

Distribution Channel and Pricing Pattern for Five Main Commodities Contributing to Inflation in Ternate City

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Abstract

This research has four aims, namely: (1) to identify 5 major commodities contributing to inflation to Ternate City; (2) to identify the distribution channels of 5 major commodities contributing to inflation, starting from level of initial traders to consumers; (3) to identify the pricing process of 5 major commodities contributing to inflation, including profit margins; and (4) to identify the market structure of each commodity contributing to inflation. The research results found that five major commodities contributing to inflation in Ternate City are Rice, Cooking oil, Curl chilli, Sugar, and Skipjack. Distribution channels of rice and cooking oil in Ternate City are usually through two levels, namely from wholesalers and retailers or market distributors. Distribution channels of curl chilli, sugar, and skipjack fish are usually through 3 levels ie from producers, wholesalers, and retailers. The pricing for five commodities have 6 components, among others: (i) capital to buy commodities, (ii) transportation, (iii) labour, (iv) packaging, (v) other costs, and (vi) profit. The survey shows that largest average profit margin of 5 major commodities contributing to inflation of Ternate City are producer / skipjack fisherman, at 36%. For wholesalers and retailers, largest margin is sugar commodity, which amounted to 33%. This is due to skipjack and sugar are commodities with fairly large demand and price changes are very volatile. The market structure of five major commodities contributing to inflation in Ternate City generally are competitive market and oligopoly leading to quasi-competitive. The pricing power of traders and consumers is relatively balance. Nevertheless, in certain situations (such as Eid and other religious days), consumers are sometimes forced to accept a price level set by market traders. In addition, these commodities are imported goods that are generally affected by temporary shocks such as natural disturbance, harvest season, and distribution disturbances. This resulted in an oligopoly market.

Keywords: Inflation Commodities, Distribution Channels, Pricing Patterns, and Market Structure.

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Introduction

One important element to maintain economic stability is price stability. Price stability is needed to encourage productive economic activities in production and investment. This situation can be achieved if the inflation rate can be controlled. The inflation rate is used as a basis for decision makers to determine the next steps to overcome the price increase of goods and services, after studying the inflation causes. Inflation is most important economic issues and has always become concern of society and decision makers.

The monetary authorities efforts to control inflation are very reasonable. It mainly relates to inflation impact on economic growth. The inflation cost to government is enormous (Samuelson & Nordhaus, 2004). The inflation can distort relative prices, tax rates, real interest rates, people's incomes, false investments, and lower morale. Therefore, inflation management is the main target of monetary policy.

The inflation cause at local level will vary greatly. Efforts to control local inflation require information on any commodity with major impact on local inflation movements. It makes the inflation control efforts can be done more effectively. It is not enough to consider inflation from one model of money market / demand observation, but also the supply aspect of goods and its distribution channels. The product characteristics determine the length of distribution chain that must be passed by a commodity. Generally, 5 main commodities contributes to inflation in Ternate City are food ingredients where the commodity system in each commodity has a direct distribution chain from wholesalers and producers to retail / retailers.

The distribution path, especially for non-durable commodities, should be shortened. The commodity undergoes a price change through the distribution channel, a as a form of profit margin setting by the actors. There is no pattern of a large or significant profit margin, but the profit margin varies by commodity and party in distribution channel.

Based on above description, these research problems are below.

1. What are the 5 main commodities contributing to inflation in Ternate City?
2. How does the distribution channel (marketing chain) of 5 main commodities contribute to inflation in Ternate City, ranging from early traders to consumers?
3. How does the pricing process of 5 major commodities contribute to inflation in Ternate City, including the profit margin?
4. How does the market structure of 5 commodities contribute to inflation in Ternate)?

LITERATURE REVIEW

Inflation Definition

Samuelson and Nordhaus (2004) in their book *Macro Economics* define inflation as “the rise in general price levels”. The Bank Indonesia¹ defines inflation as tendency of prices increase generally and continuously. The real inflation reflects the stability of a currency value². The stability is reflected in stability of price level to influences the realization of economic development goals of a country, as basic needs fulfilment, income and wealth distribution, employment opportunities expansion, and economic stability (Siregar, 2001).

Murray N. Rothbard (2007) gave the definition of inflation as follows "a condition to shows the amount of money circulation more than the amount of goods in circulation, which leads to lower purchasing power of money and subsequently the price increases." The countries with good economy well have inflation rate ranges from 2 to 4 percent per year. The inflation rate ranging from 2 to 4 percent is said to be a low inflation rate. Furthermore, inflation rate between 7 to 10 percent is high. However, some countries have more serious or very high inflation rate, such as Indonesia in 1966 with an inflation rate of 650 percent. This very high inflation is called hyper inflation (Amir, 2010).

Compared to deflation, inflation has a profound effect on society, whether good or bad. Deflation will benefit permanently to employees and employees, but harm to companies. Inflation will benefit entrepreneurs and traders but it will harm permanently to employee income. Generally, soft inflation, less than 5% a year, is considered health for developing country. But rapid inflation, 5% or more, hyperinflation, or sky rocketing inflation is perceived to be harmful to society. Based on the speed, inflation is divided into mild, galloping and sky rocketing or hyperinflation (Partadiredja, 2010).

Market Structure

The market structure describes the competition level in a particular market of goods and services. A market consists of all companies and individuals who want and can buy and sell a particular product. The most important market characteristic is many number and size buyers and seller as well as the degree of differentiation of products traded in that market. There are two main elements to determine the market structure namely number of buyers and sellers in market and product stability. These factors are influenced by nature of product, shape of industrial production function, and consumer characteristics. Below are descriptions of market structure

Perfect Competition Market

Microeconomic theory explains perfect competition market is a market with following characteristics: many sellers / buyers, homogenous goods, producers free to enter and out of market, production factors can perfectly to move, each buyer / seller has the same / complete information about the market atmosphere (Sudarman, 1987: 45). Both buyers and sellers individually act as price takers. Implications of a perfect competitive market are below.

- A manufacturer (individually) can not affect the prevailing market price; the price is determined by "market".
- The demand curve of a producer is a horizontal straight line, it means that he can sell any output at prevailing price level without causing a decrease in selling price.
- The decision a producer (to achieve maximum profit or equilibrium position) is how much volume of output it should be produced / sold; while the selling price is already determined by market.

Oligopoly Market

Oligopoly market structure is dominated by several large companies that dominate the market, they can individually affect the market price, for example kretek cigarette industry. The oligopoly market has a state where there are only a few (e.g. between 2-10) producers control the market independently (alone) or secretly cooperate (Nopirin 1994: 375). The characteristics of oligopoly market are below.

- Price rarely changes compared to competition (often called sticky price).
- A producer reacts if another producer reacts, e.g. a price change for actions taken.
- Producers will lose a lot of buyers if the company raises the price (elastic demand) will not get customers from other manufacturers if lowering the price.

Monopoly Market

The Monopoly Market is a Market where there is only one seller who sells unique goods (than others) and there is radiance for new producers to enter. The characteristics of Monopoly market are below.

- As a result of monopoly market traits, producer (monopolist) can set the marketable selling price of

¹ [http:// www.bi.go.id](http://www.bi.go.id).

² Bank Indonesia role to control inflation, 24 May 2007. <http://www.bi.go.id>.

market.

- Due to different selling price levels on every possible amount of sales output, the total profit of producers is not linear compared with output.
- A rational monopolist will always strive to produce an optimal level of output, it means that output can provide maximum gain or minimum loss.

Monopolistic Market

Monopolistic competition market is a form of market organization with many sellers of a different product, and entry and exit of the companies from industry is rather easy in long run. Monopolistic competition market is most common in retail sector in economy (Salvatore, 2003). Monopolistic competition market is a market structure that very similar to perfect competition market. However, there is little difference between the two because this monopolistic competition consumer knows the differences of products produced by different companies. Same as perfect competition markets, the above-normal earnings are only obtained in short term (Arsyad, 1993). The assumptions of monopolistic competition market are below.

- Companies decisions does not depend on other companies. Therefore, every company considers those competitors' prices, advertisements from competitors and others are no different from their own actions. Therefore, a price change by one firm is considered not to affect other companies reaction to change their prices.
- There are many companies in an industry and all produce the same basic product. Nevertheless, assumption that product is perfectly homogeneous is omitted, then each firm is deemed capable to discriminate its product at least in some degree from products rival companies.

RESEARCH METHODS

Types of research

This study is a combination of qualitative and descriptive research. Qualitative research is a procedure to produces descriptive data, which include words written or spoken from people who understand the research object supported by literature study to deepen of literature review, either in form of research data or numbers that can be understood well. Kirk and Miller (2002; in Moleong, 2006) define qualitative research as a particular tradition in social science that fundamentally depend on human observations within its own region in relation to such persons, language and terminology.

Descriptive research provides a more in-depth picture of certain social phenomena or life aspects of studied object. This approach can reveal a life-span relationship between various social phenomena, which can not be achieved by explanatory research (Mantra, 2004: 34).

Data source

This study samples are selected purposively at Gamalama market, Bastiong market, New Town market, and Dufa-dufa market. These markets distribute various basic commodities, including the five commodities contributing inflation in Ternate City. Furthermore, exploration is done to each location channel of five commodities, namely Ahmad Yani, Bastiong, Gamalama, and Dufa-dufa ports. The study involved 60 respondents covering producers, wholesalers / direct agents of marketing and retailers / market distributors for the five major commodities.

Analysis Method

This research uses qualitative method as an analytical tool. Qualitative research findings are not obtained through statistical procedures or other forms of calculation. Qualitative methods can be used to uncover and understand something behind an unknown phenomenon. This method can also be used to get insight of something with little information. Similarly, qualitative methods can provide details description about the phenomena that difficult to express by quantitative methods (Strauss and Corbin, 2003: 4-5).

Identification of 5 major commodities contributing to inflation in Ternate City will be done through observation of historical data from each commodity with large weight and contribution to CPI Ternate. The distribution channels and pricing process will be explored through a survey to market participants who have a major contribution in major commodities trade.

RESEARCH RESULTS AND DISCUSSION

Five Major Commodities Contributing to Inflation in Ternate City

There are 20 major commodities with largest contribution to inflation in Ternate City. The contribution of each commodity to inflation is based on monthly consumption value of each commodity and price change (CPI) during the period of January - December 2017, then judgment is done to determine the five commodities that

need to be explored the price forming process. The determination of five commodities also considers the commodity characteristics for Ternate City. Judgment results produce five main commodities namely rice, cooking oil, sugar, chilly and skipjack fish.

The rice commodity selection is based on consideration that rice is a staple food for Ternate people that can not be separated from community life. The cooking oil and sugar commodity are selected because these are the main raw material for people of Ternate to make cakes and snacks and other cuisines. Similar considerations are also made on chilly. The commodity is a basic vegetable requirement for Ternate people who have high level of consumption compared to other vegetables. Furthermore, selection of skipjack is based on consideration that commodity is the main food requirement compared to other substitute goods, such as meat, eggs and other fish product.

Distribution Channel and Pricing Pattern of 5 Major Commodities Contributing to Inflation in Ternate City

Product characteristics determine the distribution chain of a commodity. Generally, cultivation system of each commodity has three level distribution chains, from large distributor on distribution chain, so that from direct market distributors are related to producers. The rice commodities distribution channels go through two levels, i.e. from wholesalers to retailer or market distributors. These commodities are imported goods so that large traders directly distribute to retailers or market distributors. This gives significant profit margin in distribution channel.

The study found that rice commodity has six pricing components: (i) capital to buy rice, (ii) transportation, (iii) labour, (iv) packaging, (v) miscellaneous costs, and (vi) profit. In addition to be differentiated by time frame, pricing is also grouped into two categories: (i) wholesalers, and (ii) retailers, as shown in table 1.

Table 1. Distribution Channels and Pricing Patterns of Rice Price In Ternate City (% per Kg)

Pricing components	Distribution channel of rice	
	Wholesalers	Retailers
• Capital to buy commodity	98.28	92.54
• Transportation	1.60	1.49
• Labour	1.075	0.25
• Packaging	-	-
• Miscellaneous expenses	0.11	3.23
• Profit	0.001	2.49
Total	100,00	100,00

Source: Interview Result, processed data.

The survey was done by direct interview technique to respondents or wholesalers of rice commodities. They inform that in every purchase of rice commodities need capital of IDR 3,500,000,000 or 98.28 percent for once purchase of twenty containers. Retailers need IDR 9,300,000 for a single purchase of 30 bags rice. The wholesalers (agents) charge for transportation of IDR 10,965,000 per container, and IDR 150,000 for retailer. The wage for full time labour is IDR 1,000,000 per month / people, and IDR 1,000 / people/ sack for part time labour. Fulltime labours are 4 people and part time labours are 2 people for loading and unloading. Retailers incur their employees IDR 3,000,000. Wholesaler incur other costs as electricity, water, taxes, are IDR 1,500,000 / month, and retailer spend IDR 286,000 / month. The wholesalers (agents) usually earn a net profit of IDR 6,720,000 per month, and retailers of IDR 750,000 from 150 bags.

Another survey finding is information on price margin in each distribution channel of rice commodity. This information becomes very important to see the profit of chain in trade. This information can be used as an analysis material to assess the strength of price creation by each chain in trading system. The calculation of average price margin is shown in table 2 below.

Table 2. Profit Margin of Rice Traders in Ternate City

Trader type	Rice commodity ¹		
	Buying price	Selling price	Profit
Wholesaler/agent	235,000	300,000	27.66%
Retailer	300,000	315,000	5%

Source: Interview Result, processed data.

Table 2 shows the most prices formation for rice commodities is done by retail / retailers. This is because retailers usually sell rice in kilograms, so the profit margin obtained is quite large. While large traders usually sell it per sack (20 kg - 25 kg). The profit margin earned by Agents / wholesalers is 27.66%. Meanwhile, retailers

¹ Wholesaler sell rice per sack or 25 kilograms. Retailers usually sell rice per kg. The most popular rice merks in Ternate are Fag Spesial, Bola Mas, Pandan Wangi, Matahari, Putri Thailand, dan Mutiara.

earn a profit margin of 5%. The observation result shows that fluctuation of rice price in Ternate City depends on price outside the city (Java) because this commodity is imported goods. The monitoring results of DISPERINDAG and historical data and most of people said that average price of rice is still quite stable. But near Ramadan month the rice prices began to rise slowly.

Similarly, pricing for cooking oil commodity has 6 components, among others: (i) capital to buy cooking oil, (ii) transportation, (iii) labour, (iv) packaging, (v) miscellaneous costs, and (vi) profit. In addition to being differentiated by time frame, pricing is also grouped into two categories: (i) wholesalers, and (ii) retailers.

The pricing for bulk cooking oil commodity in Ternate City does not differ with rice commodity. However, the business actors cover only two, namely: (i) retailers and (ii) wholesalers. This is because there is no butter producer in Ternate City. Capital purchase of commodities is the largest component in cooking oil pricing in range of 63.09 to 89.10 percent, while the profit respectively reached 31.55 percent for wholesalers and 16.52 percent retailers. Other pricing components are below 2 percent. For these two commodities, other costs include warehouse leases, security services, levies, and other unofficial levies.

Table 3. Distribution Channel and Pricing of Cooking Oil Price

Pricing components	Distribution channel of cooking oil	
	Wholesalers	Retailers
• Capital to buy cooking oil	63,09	89,10
• Transportation	1,05	1,65
• Labour	2,94	-
• Packaging	-	1,24
• Miscellaneous expenses	1,37	0,50
• Profit	31,55	16,52
Total	100,00	100,00

Source: Interview Result, processed data.

Table 3 shows that capital to buy cooking oil at wholesalers (agents) is IDR 35,000,000 for 100 gallons, and at retailer level is IDR 3.500,000 / 10 gallon. Wholesaler pay transportation of IDR 750,000, and retailer of IDR 100,000 for retailers. While the cost incurred for payment of wage labour of IDR 750,000 and IDR 850,000 for warehouse workforce. Other costs incurred by wholesalers such as electricity, water, retribution and other charges are IDR 650,000, retailers only spend IDR 12,000 for levies and garbage. The wholesalers earned a profit of IDR 15,000,000, and retailers earned a profit of IDR 400,000.

The survey results for cooking oil commodity showed that margin for wholesalers and retailers is significant, as shown in Table 4.

Table 4. The Margin of Cooking Oil Selling in Ternate City

Trader type	Cooking oil commodity		
	Buying price	Selling price	Profit
Wholesaler/agent	245.000	265.000	8%
Retailer	265.000	300.000	13,21%

Source: Interview Result, processed data.

Table 4 shows retailers get larger profit margin for cooking oil commodity than wholesaler. The profit margin obtained by retailers is 13.21%. However, wholesalers get larger profit for overall expenditure and profit in each month. Bulk cooking oil is the most widely consumed by society, because the price is quite affordable, and also has become an option that has been for so long to fulfil basic needs. Bulk cooking oil purchased and sold by wholesalers / agents is usually in fairly large quantities, 1 ton / week or 50 gallons. Retailers usually buy once, as much as 3 to 5 gallons.

The pricing pattern for curl chilli commodity has 6 components, among others: (i) capital to buy curl chilli, (ii) transportation, (iii) labour, (iv) packaging, (v) other expenses, and (vi) profit. In addition to being differentiated by time frame, pricing is also grouped into two categories: (i) wholesalers, and (ii) retailers.

The pricing for curl chilli is grouped into two groups namely: (i) retailers, and (ii) wholesalers, as shown in Table 8. Capital to buy commodities and raw materials in each category of business actors is the largest component in pricing. Capital to buy commodities is the largest component of curl chilli pricing, in range of 76.50 up to 82.57 percent, while the profit is 16.51 percent for wholesalers and 15.48 percent for retailers. Others pricing components are up to 2 percent.

Table 5. Distribution Channels and Curl chilli Price Formation Patterns in Ternate City (in% per Kg)

Pricing components	Distribution channel of curl chilli	
	Wholesalers	Retailers
• Capital to buy cooking oil	82.57	77.40
• Transportation	0.004	3.87
• Labour	0.004	1.55
• Packaging	-	0.77
• Miscellaneous expenses	0.91	0.93
• Profit	16.51	15.48
Total	100.00	100.00

Source: Interview Result, processed data.

Table 5 shows traders need capital of IDR 20,000,000 to buy 500 kg curl chilli. Retailers need capital IDR 7,000,000 to purchase commodity curl chilli curly. The wholesalers have to spend transportation costs of IDR 1,000,000 to sell 1 ton of curl chilli, and retailers spend transportation costs IDR 500,000. While other costs incurred by wholesalers is IDR 221,000, and retailers is IDR 150,000. The profits earned by wholesalers is IDR 4,000,000 and retailers is IDR 1,000,000.

The survey results for Curl chilli commodity shows that for each trader is quite different. Based on observations, profit margin of curl chilli is shown in Table 6.

Table 6. Profit Margin of Curl chilli Traders in Ternate City

Trader type	Curl chilli commodity		
	Buying price	Selling price	Profit
Wholesaler/agent	25,000,000	30,000,000	20%
Retailer	30,000,000	33,000,000	10%

Source: Interview Result, processed data.

Table 6 shows that profit margin of curl chilli commodity for wholesalers are larger than retailers. The profit margin obtained by wholesalers is 20% and retailer only 10%. However, overall monthly expense is not too different for wholesalers and retailer / agents of curl chilli are not too big difference in profits. Curl chilli is usually sold by wholesalers in 500 kg - 1 ton. Meanwhile, retailers sell it in 1 - 2 kg per plate at a price of IDR 10,000 or IDR 30,000.

The pricing for sugar commodity has 5 components, among others: (i) capital to buy Sugar, (ii) transportation, (iii) labour, (iv) other expenses, and (v) profit. In addition to being differentiated by time frame, the pricing is also grouped into two categories: (i) wholesalers, and (ii) retailers.

The sugar pricing is grouped into two categories: (i) retailers, and (ii) wholesalers, as shown in Table 10. Capital to buy sugar and raw materials in each category of business actors is the largest component in pricing. Capital to buy sugar is the largest component in sugar pricing in range of 70 to 90 percent, while the profits reached 3.78 percent for producers, and 14.23 percent for wholesalers and 3.57 percent for retailers. Other pricing components are up to 2 percent, as shown in table 7.

Table 7. Distribution Channels and Sugar Pricing in Ternate City (in % per Kg)

Pricing components	Distribution channel of sugar	
	Wholesalers	Retailers
• Capital to buy cooking oil	71.17	89,25
• Transportation	3.56	0,89
• Labour	7.12	3,57
• Packaging	-	0,75
• Miscellaneous expenses	3.91	1,96
• Profit	14.23	3,57
Total	100.00	100.00

Source: Field Research Results, 2017.

Table 7 show that capital to buy is IDR 10,000,000 for wholesalers and IDR 1,000,000 for retailers. The traders have to spend transportation costs of IDR 500,000, and retailers spend transportation costs IDR 50,000. While other costs are IDR 550,000 for wholesalers, and IDR 50,000 for retailers. The profits earned by wholesalers is IDR 2,000,000, and retailers is IDR 200,000. The wholesalers profit is quite large compared to retailers.

The margin obtained by each trader is quite different. Based on observations, profit margin of Sugar

commodity is shown in Table 8.

Table 8. Profit Margin of Sugar Traders in Ternate City

Trader type	Sugar commodity ¹		
	Buying price	Selling price	Profit
Wholesaler/agent	900,000	1,200,000	33%
Retailer	1,200,000	1,575,000	31%

Source: Interview Result, processed data.

Table 8 shows that profit margin that wholesaler profit margin for sugar commodity is larger than retailers. The wholesalers profit margin is 33%. This is because retailers sell in units or per kg so that margin obtained is smaller. In addition, the Sugar Sand price is quite fluctuate, it makes wholesaler get a larger margin. Wholesalers usually sell Sugar in a large enough quantity, as 1000 kg. This commodity is the basic needs of communities, so the demand from outside the area is quite high.

The pricing for skipjack commodity has are 5 components: (i) capital for purchase, (ii) transportation, (iii) labour, (iv) other costs, and (v) profit. Besides differentiated by time frame, pricing is also grouped into two groups: (i) fisherman / producers, and (ii) retailers, as shown in table 9.

Table 9. Distribution Channel and Pricing of Skipjack Fish in Ternate City (in% per Kg)

Pricing components	Distribution channel of Skipjack	
	Wholesalers	Retailers
• Capital to buy cooking oil	71.17	89.25
• Transportation	3.56	0.89
• Labour	7.12	3.57
• Miscellaneous expenses	-	0.75
• Profit	3.91	1.96
	14.23	3.57
Total	100.00	100.00

Source: Interview Result, processed data.

The skipjack fish pricing pattern is grouped into two groups: (i) retailers, and (ii) producers, as shown in see Table 10. Capital to buy commodities and raw materials in each category of business actors is the largest component in pricing. Capital to go to sea or start-up capital is the largest component skipjack's pricing in range of 55.36 up to 66.58 percent, while the profit is 21.63 percent for producers and 26.63 percent for retailers. Other pricing components are up to 11 percent.

The field survey results show that fishermen in Ternate City require capital IDR 6.400,000 to go to sea, it is used to finance the needs as 3 drums solar with cost of 1,000,000 / drum, 25 litre gasoline at price per litre IDR 4,500, and 5 litre oil with price IDR 25,000 / litre. Fishermen usually go to sea 3 - 4 days with workforce (ABK) 14 people. Fishermen have to take care of permit with cost IDR 170,000 per one travel. The profit from fishery products is IDR 2.500,000 per ton. The catch obtained in sea is usually 6 - 8 tons. Retailers usually buy directly from fishermen, at initial capital of IDR 1,000,000. Transportation costs usually IDR 40,000, with wages or labour costs IDR 50,000. The other costs as levies and garbage are IDR 12,000. Retailers earn a profit of IDR 400,000. Pricing at retailers level tends to interact between traders and buyers. The strength of interaction depends on state of season. When the moonlight season, price tends to rise, the bargaining position of traders becomes stronger given the relatively fewer fish supplies and vice versa. Therefore, skipjack fish market structure tends to be perfectly competitive.

Furthermore, survey results for skipjack showed that profit margin for each trader is quite different, as shown in Table 10.

Table 10. Profit Margin of Skipjack Fish Traders in Ternate City

Trader type	Skipjack commodity		
	Buying price	Selling price	Profit
Wholesaler/agent	9,595,000	13,095,000	36%
Retailer	40,000	50,000	25%

Source: Interview Result, processed data.

Table 10 above shows that profit margin of skipjack producers / fishermen is larger than those retailers. The profit margin obtained by fishermen is 36%. This is because their catches for skipjack are sold in fish units (2 kg), not in tons. In addition, if the weather is not good, fish price will increase, so the fishermen will get larger profit. In one day, producers / fishermen in Ternate City are only able to produce fish as much as 16 tons. Meanwhile, community's need is very high for skipjack as a mainstay commodity in Ternate City. Thus, this will

¹ Retailers sell the sugar per kg, consist of various merk.

encourage the increasing inflation rate in the region.

Two agricultural commodities of curl chilli and sugar have a different level of demand elasticity than other three commodities. In contrast to previous two commodities, namely rice and cooking oil are durable goods, the public's sensitivity (elasticity) is less elastic than the commodities of. Price fluctuations in both agricultural commodities are more influenced by seasonal factors in broad sense, season in terms of social phenomena as well as natural phenomena. If price fluctuations are caused by social phenomena, then prices are formed by demand and supply, so when the season has passed the price will immediately adjust itself. Meanwhile, skipjack fish commodities is a normal goods, although there are substitution goods, the people's appetite to the commodity is high enough with demand level is quite large.

Market Structure in Five Major Commodities Contributing to Inflation in Ternate City.

Generally, the market structure of studied commodities are competitive market and oligopoly that leads to monopolistic-competitive. The pricing process has relative balance strength between traders and consumers. The strength of retailer pricing is still dominated by distributors / wholesalers. Although there are many sellers and buyers, but it is sticky price. It means that the pricing is still dominantly determined by wholesalers and retailers so the consumers become as price makers, accepting the prices from sellers.

The market structure of five commodities contributing to inflation in Ternate City can be summarized below.

1. Rice and Cooking Oil

Rice and cooking oil are durable goods and imported commodities from outside, there is no direct producers in Ternate City. In addition, these two commodities are the daily basic needs of people with a stable level of demand. Therefore, market of rice and cooking oil are tend to oligopoly power, the consumer receives the price set by trader. In addition, because there are many sellers, market trend of rice and cooking oil leads to a monopolistic competition market.

2. Curl chilli and Sugar

Curl chilli and Sugar as agricultural commodities are not durable, leading to more perfect market competition. This is because the pricing process is usually based on strength of demand and supply, both traders and consumers will receive the price in the market. In addition, these two commodities have substitution so that consumers and sellers can not affect the price.

3. Skipjack Fish

Skipjack fish is the basic daily necessities of community, the demand level is quite high. Despite the rise in prices, it can not directly shift the public demand to substitution goods. Pricing at retailers tends to interact between traders and buyers. The interaction strength depends on state of season. At moonlight season, price tends to rise so that bargaining position of traders becomes stronger given the relatively fewer fish supplies and vice versa. Therefore, skipjack fish market structure tends to become oligopoly competitive.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

Based on research problems and after qualitative and descriptive analysis, the research conclusions are below.

1. Based on historical data observations of price changes and consumption of various commodities in Ternate City as well as calculation of weight and contribution to inflation, the determined five main commodities as contributors to inflation Ternate City are Rice, bulk cooking oil, Sugar, and Skipjack.
2. Distribution of the five commodities are classified into two major groups, namely wholesalers and retailers. Meanwhile for skipjack commodities, distribution directly from producers to retailers. Due to absence of direct producers of rice, cooking oil, curl chilli, and Sugar, the four goods are imported from outside the region, among others; Manado, Bitung, and Surabaya.
3. The pricing process of commodities for retailers generally consists of 6 components, namely (1) capital, (2) transportation costs, (3) labour cost, (4) packaging, (5) cost others, and (6) profit. However, wholesaler and producers only grouped into 5 components, because they do not spend on packaging. Through the pricing process, both wholesalers and retailers will take into account the profit margins from the commodities. It is very reasonable, because the main purpose in doing business is to make maximum profit.
4. The survey results on five commodities shows that largest average margin obtained is the skipjack producer, equal to 36%. Meanwhile, for wholesalers and retailers, the largest margin is sugar commodity, equal to 33%. This is because both commodities have selling value or market price that tend to fluctuate and high demand (consumption) of society.
5. In general, market structure of the studied commodities are competitive market and oligopoly that leads to quasi-competitive. Agricultural commodities such as curl chilli and Sugar usually have perfect market competition conditions, where the strength of traders and consumers are relatively balance in price setting. The rice and cooking oil tend to lead to oligopoly market, because this commodity is a staple requirement

with quite stable demand, and absence of direct producers in Ternate City so imported from outside the region. Furthermore, skipjack fish has perfect market competition power. However, under certain circumstances, such as poor weather, the catches are little, resulting in higher selling prices.

Research Suggestion

In order to obtain a comprehensive study on local inflation control, it is necessary to conduct similar researches that can reveal the widespread of inflation problem. The suggestions that can be given are below.

1. The distribution channel of five commodities contributing to inflation are only from wholesalers directly to retailers, but it can contribute to inflation in Ternate City. Therefore, it need an effort or policy from local government to be able to regulate the market price.
2. The five commodities contributing to inflation are imported food from outside the region. Therefore, policies are needed to reduce the dependence on imports, as well as efforts to produce these commodities at local level. Furthermore, wholesalers of food commodities need to be exempted from import tariffs / fees that directly affect the pricing process.
3. Knowing that market structure of five commodities contributing to inflation is toward more monopolistic competition market, government needs to review the pricing base at trader level by knowing carefully the pricing process and nature of five commodities.
4. It is expected that there will be a coordinated policy between various related institutions. The most important thing that needs to be done by local government is to monitor the distribution channels and set a fair market price for all market participants. In addition, improving the infrastructure to facilitate the distribution of goods, as well as encourage the entry of investment, especially for goods that become the main needs / basic community, which tend to contribute to local inflation.
5. With their information, related agencies such as DISPERINDAG and BULOG should proactively identify the sharp price fluctuations (such as the 10% price fluctuation limit). The relevant agency should be able to explain instability problem. In this context, market operations must be undertaken by BULOG and DISPERINDAG in markets and in warehouses of wholesalers or distributors.

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