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MARKETING STRATEGY FOR SMALL AND MEDIUM ENTERPRISE (SMES) OF COCONUT FURNITURE IN THE REGENCY OF TOMOHON MINAHASA, INDONESIA

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Abstract

North Sulawesi, one of the provinces in northern part of Indonesia has an abundant coconut plantation which covers the area of more than 2.5 hundred thousand hectares. The coconut timber of this region has a harder and high density and is considered as the best of its kind throughout Indonesia. The coconut lumber has been widely used as building construction components and furniture. The latter has attracted the small and medium enterprise in Tomohon Minahasa to produce a high quality furniture. With the help of a foreign investment in machinery, this enterprise has been able to compete in the domestic market. However, recently it has faced a growing and intense competition from other alternatives that has significantly reduced the marketability and competitiveness of the coconut furniture. The research focuses on

creating marketing strategy to this slow growth enterprise that will enable it to revive and recapture the lost markets and develop new ones. The research methods employs a combination of observation, interview and questionnaire, documentation and analyzed using IFE and EFE Matrices and Space Matrix . The finding shows that the enterprise is in Quadrant 4 which requires a competitive strategy. Product differentiation, backward and forward integration, networking and broadening marketing scale are among viable and feasible alternatives for this enterprise to not only survive but gain profitable end.

Keywords

Small And Medium Enterprise, Competitive Strategy, Coconut Furniture, Marketing Strategy, Differentiation

1. Introduction

1.1 Research Background

The prevailing opportunities available for ASEAN countries to declare ASEAN Economic Community (MEA) as an integrated single free market and production base resulted in various ends and initiatives. Among others are the creation and improvement of various competitive products, maximizing opportunities to develop an integrated region that provides benefit to all ASEAN countries. ASEAN is widely perceived as an open export market for all parties including SMEs from Indonesia. MEA provides chances for Indonesia to encourage exports especially engineered by Small and Medium Enterprises (SMEs). Exposed to this environment, the Government of Indonesia is expected to be able to facilitate the SMEs's entrepreneurs / craftsmen to expand the export market to ASEAN.

One of the obstacles faced by the majority of Indonesia's SMEs today is in marketing their products where intermediaries are needed. According to Obigemi (2010), the decision on how the products will reach their customers weather they will be supplied directly to the end buyers or will follow through various channel of distribution is critical in the international market. Other notable problem related to SMEs is the existence of agreed rules that hinder SMEs's competitive abilities. (Cavusgil,1996) explains some of the challenges faced by global marketers in international markets that prevent the company to survive and reach profitable end. The selected case addressed by Cavusgil (1996) is multinational companies, however the challenges are not alien to SMEs when entering international market. Those prevailing

challenges, among others, are export regulations, the length of distribution channel, the import conditions in destination countries, differences in currencies and the fluctuation in exchange rate (Onkvisit and Shaw, 2004), cost as specifically emphasized by Kotler and Armstrong (2012), various requirements for distribution abroad and documentation issues which have significant impacts in marketing SMEs products in the global level. All these factors have significantly restricted the ability of SMEs to openly and independently compete. In addition to this, the issues dealing with standardization, certification (Levitt, 1983), packaging and labeling resulted in the impending adjustment are significantly prevalent in the export markets. The challenges ahead faced by SMEs in relation to the global market is beyond survivability, it deals with the capability to compete in terms of product design, price (Tanner and Raymond, 2012), price elasticity of demand (Baye, 2010; Nicholson and Synder, 2012) and the substitute extend of the products.

Kaaten Village, located in the Regency of Tomohon, North Sulawesi Province, Indonesia is one of the primary centers of SMEs which focuses on producing coconut timber based furniture for domestic and export markets. This center has been operating since 1987 producing various kinds of furniture such as chairs, tables, cabinets, souvenirs in the form of egg cups, ash trays, walking sticks and housing components such as doors, windows, walls, frames and jalousies. It enjoyed a profitable growth and increased market share in between 1980s and 1990s. In 2014, it has been able to penetrate areas beyond Sulawesi Island such as Kalimantan and Java. It even ventures to European markets, South Korea and New Caledonia. Coconut Furniture has significantly contributed to the local economy by providing employment, income and production which is considerably critical to small town's growth such as Tomohon. From supply perspective, Coconut furniture in Kaaten has been abundantly surrounded with high quality coconut timber which is easily accessible for production.

The furniture industry in North Sulawesi has grown to 7.26 % in 2013 from 5.56 in 2012 and this can not be separated from Coconut Furniture contribution to the whole economy (Gema Industri Industri Kecil. 2007). Seen from the development of small and medium enterprise, Coconut furniture is pressured by increasing competition not only from SMEs with similar products but also from increasing innovation in product design and differentiation, entrepreneurship skills of others SMEs and other types of furniture made of synthetic rattan, carved wood furniture from Java island, synthetic wooden furniture such as plywood. These products are considered more practical, much lighter and cheaper compared to timber furniture.

All things considered, the current trend in furniture industry has slowed down the sales growth of Coconut products and this needs to be seriously addressed to prevent more decline in the production and sales.

1.2 Research Objectives

In general, this study is aiming at formulating an appropriate and reliable marketing strategy for Coconut Furniture in Kaaten and at the same time, it will address the following specific objectives:

- To identify and analyze internal factor of strengths and weaknesses of Coconut furniture
- To identify and analyze external factors in the form of opportunities and threats that can be both captured and strategized by Coconut Furniture
- To determine the strategic positioning
- To create a reliable marketing strategy

1.3 The Urgency of Research

SMEs in the coconut lumber furniture has strategic roles beyond economic realm where it provides employment, income, business opportunities for all people involved. It also enhances local people confidence in their abilities to support their families relevant to the resources they have. The significance of empowering Coconut furniture in Kaaten to survive and compete is not only to boost local economy in sustainable way but also to enhance the sustainability of the environment. Without alternatives, aging coconut trees will end up as firewood if production ceases. Empowering this SMES will provide economically viable and environmentally sustainable community. Previous studies in coconut furniture have been conducted by several researchers, however they have been concentrating on the supply of raw materials (Patty Zeth 2015), manufacturing of coconut timber for domestic purposes (Wijaya Iwan K, Santosa Adi, 2014) and business strategy development of coconut furniture (Wuryaningtyas 2010). These studies are limited only to the supply side of the coconut furniture and they do not explore or further assess the industry's competitiveness in the market place.

1.4 The Expected Benefits Of The Study

- Small and medium enterprises (SMEs) of coconut furniture industry has the right marketing strategy to increase the volume of its business not only for the survival but also for economically sustainable profits.

- Applicable marketing strategy model that can be adapted by the business owner provides new approach that will enable the center to reclaim the business and create profitable ends.

2. Research Method

2.1 Data Collection

The method employed in this research is qualitative where the respondents are approached in their natural environment. The research was conducted in one year in 2017 through 2018 in the Village of Kaaten where the center for furniture is developed. With a combination of observation, interview, questionnaires and documentation data were collected. From the perspective of the problems, 39 respondents of Coconut furniture including business owner and workers were interviewed to gain a whole insight of the research.

2.2 Data Analysis

The following analytical tools developed by David F.R (2004: 285-286) are employed in this research. David F.R (2004) proposes chronological stages in strategy formulation in relation to decision making where the stages start from the creation of viable alternatives, evaluation of the selected alternatives and lead to the selection of alternatives to be implemented. The following figure depicts the stages with its relevant components.

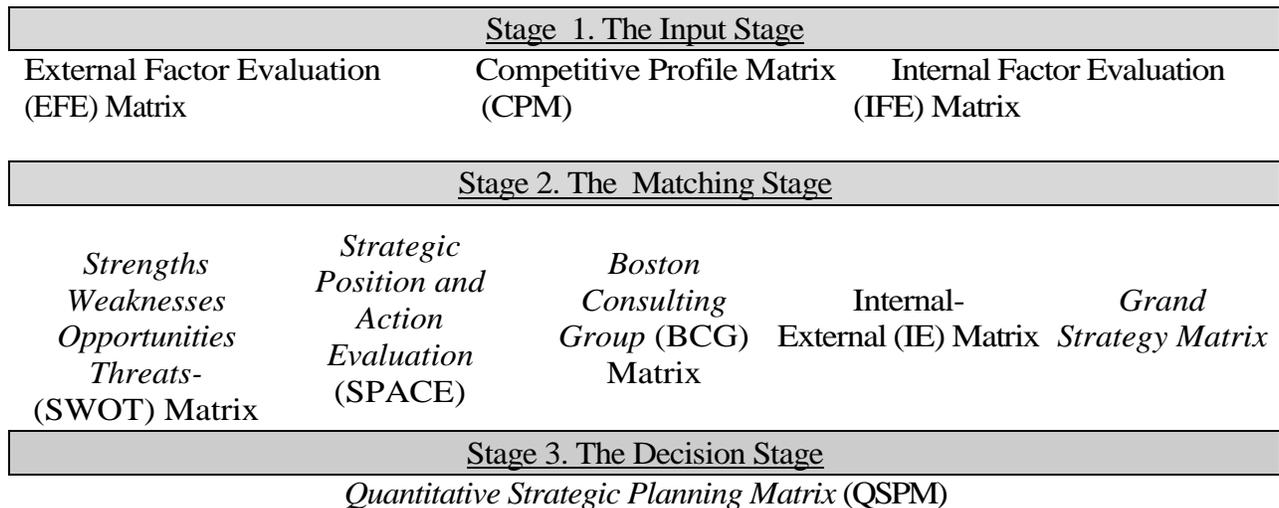


Figure 1: Strategy - Formulation Analytical Framework

Based on the above stages, a qualitative analysis is used to identify and analyze the problems faced by Coconut Furniture by developing IFE and EFE matrix where the former identifies and analyze internal factors of strengths and weaknesses and the latter identifies and

analyses the external factors of opportunities and threats faced by Coconut Furniture. IFE and EFE matrices have two important variables. Those are rating and weighted scores where the former with the scale from 1 to 4 refers to the effective response of company's strategy toward the factor and the latter with the scale from 0.0 to 1.0 refers to "relative importance of that factor to being successful in the firm's industry" (David, F.R, 2004). The second phase is building SPACE (Strategic Position and Action Evaluation) matrix, each of which contains two internal and external dimensions respectively. While the internal dimension consists of Financial Strength (FS) and competitive advantage (CA) the external contains environmental stability (ES) and industry strength (IS). The matrix is used to evaluate the strategic positioning of research object. This step is followed by developing SWOT (Strengths-Weakness-Opportunities-Threats) matrix to identify and audit the organization and its environment (Rangkuti, F. 2006). The SWOT matrix can be described as follows:

- SO strategy: This strategy is designed to enable the research object to utilize all the strengths to seize opportunities.
- ST Strategy: Strategy developed to enable the SMES to capitalize on its strength and deal with threats.
- WO strategy: It deals with the ability to utilize the existing opportunities by minimizing existing weaknesses.
- WT Strategy, this strategy is based on the defensive activities of the organization to survive

3. The Result

The results are broken down in the following descriptions

3.1 Internal And External Factor Analysis

3.1.1 Internal Variables

The following table shows the IFE of Coconut Furniture

Table 1: IFE Matrix of Coconut Furniture in Terms of Strengths

No	Key Internal Factors	Weight	Rating	Weighted Score
	Strengths			
1	Product Quality	0.1462	3,50	0.5467
2	Good Design	0.1507	3,47	0.5537
3	Raw Material Quality	0.1909	3,43	0.4891

4	Mastery of Production Technology	0.1437	3,36	0.4953
5	Simple Ordering Process	0.1322	3,31	0.4384
6	Strategic Location	0.1417	3,35	0.5005
7	Human Capital	0.1495	3,44	0.5947
	Total	1.0000		3.3895

As can be seen from the table above, product quality followed by good design and human capital have higher rating compared to other variables. The ordering process positioned at the lowest level. The following data displays the weaknesses of Coconut Furniture

Table 2: IFE Matrix of Coconut Furniture in Terms of Weaknesses

No	Key Internal factors	Weight	Rating	Weighted Score
	Weaknesses			
1	Foundation Owned Capital	0.1706	- 2,69	- 2930
2	Expensive Product	0.1723	- 2,66	- 0.3878
3	High Labor Cost	0.1491	- 2,55	- 0.2075
4	Monotonous Promotion	0.1695	- 2,80	- 0.3519
5	Monotonicity of Product	0.1657	- 2,69	- 0.2395
6	Market Expansion	0.1728	- 2,64	- 0.3625
	Total	1.0000		- 1.8422
	Average			- 0.2302

Monotonous promotion gains the highest rating of -2,80 and followed by foundation owned capital and monotonicity of product which positioned at -2,69 respectively.

3.1.2 External Variables

The following two tables below show external variables in terms of Opportunities and Threats.

Table 3 : EFE Matrix of Coconut Furniture in Terms of Opportunities

No	Key External Factors	Weight	Rating	Weighted Score
	Opportunities			
1	Available Bank Loans	0.1638	2,29	0.3756
2	Availability of Adequate Raw Materials	0.1581	1,77	0.2802
3	Business Strategy	0.1767	3,03	0.5359

4	Development of Information Technology	0.1728	2,55	0.4413
5	Availability of Markets in The ASEAN Region	0.1536	2,45	0.3774
6	Community Lifestyles	0.1750	2,70	0.4737
	Total	1.0000		2.4841
	Average			0.4140

Business Strategy has the highest opportunity rating and followed by community lifestyles

Table 4: EFE Matrix of Coconut Furniture in Terms of Threats

No	Key External Factors	Weight	Rating	Weighted Score
	Threats			
1	Low Public Buying Power	0.2073	- 3,63	- 0.7526
2	The Availability of Competitive Product	0.2003	- 3,17	- 0.6358
3	The Presence of Copy Cat Competitors	0.1980	- 3,33	- 0.6608
4	Competitors Dominate and Control SMEs Markets	0.1998	- 3,22	- 0.6449
5	Increase in Production Cost	0.1945	- 3,21	- 0.6259
	Total			- 3.3201
	Average			- 0.6640

The biggest threat to the Coconut Furniture is public buying power and the rise of copy cat competitors. These two are closely connected in potentially destroying the marketability of the coconut furniture.

3.2 SPACE Analysis

SPACE matrix analysis (David, F.R, 2004) displays Coconut furniture's position is in quadrant 4 which indicates a competitive position. Company at this quadrant is faced with a strong competition and exposed with slow industry growth. The company has the power to transform diversification programs into promising and growing business areas. At this point, it has a high cash flow rates. The following detail shows results of the analysis.

Table 5: The SPACE Matrix Analysis of Coconut Furniture

POSITION KEY INTERNAL FACTORS	RATING	POSITION KEY EXTERNAL FACTORS	RATING
FINANCIAL STRENGTH (FS)	3,4434	ENVIRONMENTAL STABILITY (ES)	
1. Human Capital		1. Low public buying power	-3,6304
		2. The availability of competitive products	-3,1739
		3. The presence of copy cat competitors	-3,3370
		4. Competitors dominate and control SMESs markets	-3,2283
		5. Increase in production cost	-3,2174
Total	3,4434		-16,59
Average	3,44		-3,32
FS + ES = 3,44 + (-3,32) = +0,12			
COMPETITIVE ADVANTAGE (CA)		INDUSTRY STRENGTH (IS)	
1. Foundation owned capital	-2,6957	1. The Availability of bank loans	2,2935
2. Expensive products	-2,6630	2.The availability of raw materials	1,7717
3. Higher Labor Cost	-2,5530	3. Business strategy	3,0326
4. Monotonous Promotion	-2,8043	4.Development of information technology	2,5543
5. Monotonicity of the products	-2,6957	5.The availability of ASEAN markets	2,4565
6. Market Expansion	-2,8978	6.Community lifestyles.	2,7065
Total	-16,3108		14,8152
Average	-2,7185		2,4692
CA + IS = (-2,7185) + 2,4692 = -0,2493			

The positioning SPACE Matrix of Coconut Furniture is depicted below

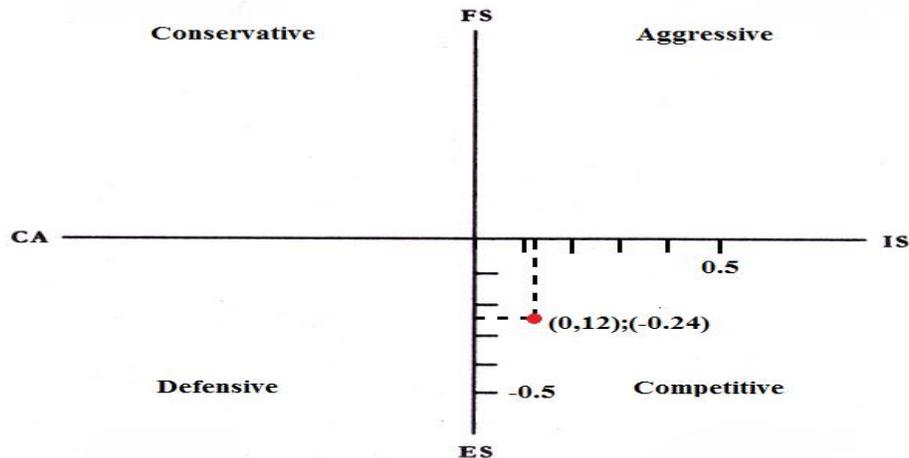


Figure 2: Strategic Positioning of SMEs of Coconut Furniture

3.3 SWOT Analysis and Strategy Implementation.

Based on the analysis of internal and external factors, eight alternative strategies with their corresponding programs are designed for SMEs of coconut furniture:

1) Market Expansion. SO1 (S1,2,3,4) and (O2,3,5).

Capitalizing on the strengths in product quality, good design, raw material quality, mastery of production technology and seizing the opportunities in the availability of adequate raw materials, business strategy and development of information technology, the Coconut Furniture will increase its revenue and expand its markets beyond its prevailing borders.

Relevant Programs:

Capitalizing on government's lower interest loans, the company is expected to reconcile and combine its own strategy with government's effort to go beyond the prevailing markets by penetrating the potential markets.

2) Taking proactive measure and continuous improvement (S5,6) and (O3,6)

The combination of simple ordering process where customers can easily and directly access the Coconut Furniture and strategic location, specifically for domestic markets can provide a leverage to pursue much broader markets of ASEAN.

Relevant programs:

The company is encouraged to proactively and actively involve in understanding its own markets and other potential markets by gathering information and continuously searching the market

trends and interests to allow itself develop needed products. Instead of taking a passive stance, it is expected to aggressively create demands on its products.

3) Strategy to Raise Capital (W1,2,3,6) and (O1,3)

The current weaknesses owned by the Coconut Furniture is related to the lack of capital, the product is expensive in relation to other types of furniture and the cost of labor during production is higher. However it can capitalize on the availability of loans and shape the business strategy.

Relevant Programs:

The company needs to raise its capital by lending from traditional lenders such as banks that offers small business loans with surprisingly great terms and favorable interest rates. The warranty of funding provided by traditional lenders is needed to provide guarantee in times of uncertainty (Mutalemwa, 2009; Irwin & Scott, 2010; Okpara, 2011; Hys, 2011)

4) Strategy to increase promotional efforts (W4,5) and (O3,4,6)

Relevant programs: Actively partnering and collaborating with government for free access of promotion expenditure. The government has a routine and regular program for national and international expo covering major local products including intangible products such as arts and culture. Coconut Furniture could capitalize on this opportunity by aggressively inserting its own products and seize the opportunities provided by information technology.

5) Strategy to sustain products quality (S1,2,3) dan (T2,3,4)

The threats of competition is real in relation to furniture markets in Indonesia. For SMEs such as Coconut Furniture, the product design can be easily copied and no legal standing is handily available to defend their design from being stolen. In the face of intense competition from wood, rattan or other synthetic based furniture, Coconut Furniture should continuously enhance its strengths in relation to product quality, good design and finest raw material quality.

Relevant Programs:

Customer's perceived quality is a combination of subjective and objective assessment made by customers on certain products and sometimes it might greatly differ from company's own perception on quality. The company needs to go beyond manufacturing and product based quality to meet the quality requirement perceived by the customers by continuous involvement of customers preferences and interest in the selection of raw materials, production, delivery and maintenance of after sales relations. Maintaining customer relation is a part of customer retention program

6) Strategy for product innovation (S1,2,3,4) dan (T2,4)

The strengths of Coconut Furniture in relation to product quality and design, the raw material quality and mastery of production technology are undeniable. However, the competitive market requires more than all these positive attributes. Continuous development in innovative design of furniture or new product development beyond the furniture domain should be considered as other alternatives.

Relevant Programs:

Company needs to transform its traditional and monotonous design to meet the changing mood and trends in the market. All the furniture developed so far follows the same pattern and design and even the same quantity of sets. In addition to this, the symmetrical position of coconut furniture in the interior design of house or building does not provide the element of surprise or novelty especially for experienced and knowledgeable customers.

7) Strategy for Cost Control (W1,3,5) and (T1,5)

The strong combination of higher labor cost and monotonicity of product is worsened by the combination of the increase in production cost and lower public buying power. In this defensive position, the Coconut Furniture needs to address the cost of labor and other relevant cost of production such as longer working hours due to the absence of working performance indicators set as parameters to assess the job productivity level. Labor cost in the area is considerably higher compared to other regions of Indonesia such as Java Island or South Sulawesi Province. In addition to this restriction, the people in the area does not inherently have the artistic talents of carving or sculpture compared to Balinese or Javanese. The shortage of skilled workers in SMEs business will further prevent process of innovation (Kamalian, Rashki and Arabi, 2011). The fact that the product is considered monotonous after decades of production can preliminarily confirm this fact.

Relevant Programs:

The company needs to undertake a common process of investigative, diagnostic, corrective procedure to assess and improve its own financial management in order to optimize profit. Instead of hiring a full local employee for production, the Coconut Furniture could consider to hire a talented worker from Java Island. They are well known for their artistic capabilities and patience which is much needed during the longer working hours. They also require much lower wages compared to the local people. By doing this SMEs has overcome two chronic problems: labor cost and monotonicity of product. At the same time, the hired worker

from Java can be a trainer for local people so that the transfer of skills can be done much more easily. Continuous monitoring during the production is critical to minimize unnecessary expenditure. The indicators of job performance needs to be set and agreed upon during the production as the basis of wages payment and assessment for future recruitment in the production. As the labor cost can be demanding, it needs to be addressed seriously.

8) Strategy for Marketing (W4,5) and (T3,4)

Monotonicity of promotion and product in the midst of highly competitive markets is not a desirable environment. The Coconut Furniture needs to break away from this symptom that prevents it to expand the market.

Relevant Programs:

Coconut Furniture needs to build close forward linkages with relevant companies and organizations such as furniture retailers, restaurant, hotels, government offices to enable it market and display its products to the relevant customers. It should venture beyond its traditional way of current product promotion which is only passively waiting for customers to first approach. The proactive measure can be taken by venturing to the local malls that often provide spaces for SMEs to promote their products. Certain companies with their CSR (Corporate Social Responsibility) program such as government banks and telecommunication companies can be contacted to help promote the products to their customers.

4. Conclusion

Overall the study shows that Coconut Furniture in Tomohon City is in competitive position. In the midst of great challenge, according to David F.R (2004: 181), the company needs to adopt the following strategies:

1. Forward Integration: This strategy encourages the SMEs to take control of the channels of distribution. As indicated above in point 8, the potential distribution channel such as furniture retailers or unusual independent customers such as hotels and restaurants, government office or religious organizations which are abundantly available in the region can be targeted by the Coconut Furniture. The North Sulawesi region where the City of Tomohon is located experiences the growth of tourist arrival number in the last decade. Many new hotels and restaurants are built and coconut furniture can be a good alternative for hotel and restaurant interior.

2. Backward Integration: This strategy seeks to obtain control of supply. In relation with coconut timber supply, the Coconut Furniture does not have any problem with this. However, dealing with skilled labor supply, the Coconut Furniture needs to control and improve the recruitment process. As noted in point 7, the cost of local labor is much higher compared to other areas in Indonesia, Java and South Sulawesi, for example. In addition to this, the artistic talent of the workers from Java Island in furniture production is comparatively higher than the local workers. Recruiting one or two workers from Java Island with their artistic talents is considerably much cheaper than recruiting the full extend of local workers. The workers can also be employed as trainers to employer and employees where most of SMEs is lacking in the training (Richbell et al., 2010; Jones, 2001). The potential impacts of training and education to innovation in SMEs business have been confirmed by Kato et,al. (2015)
3. Market Penetration & Development: These two strategies concentrate on different markets. The former focuses on existing markets while the latter emphasizes on the new market. In the midst of slow growth in furniture industry, the existing market of furniture has not been saturated yet as many potential markets have not been exploited. Point 8 refers to market potential that have not been capitalized by Coconut Furniture. Point 4 also refers to the new way of taking advantage of market availability provided by government funding. International and national expo by various government bodies can be used as an instrument to expand and explore new markets. Tourism sector has always developed expo booths in various global and national expo and convention. This will provide free promotion for Coconut Furniture. The rise of internet marketing where sellers could reach their end buyers
4. Product Development: The Coconut Furniture has a significant rating of monotonicity of product. In a competitive position, market and customer driven industry requires innovation (Adner and Levinthal, 2001). Improving the present design or create a new design can be alternatives for Coconut Furniture as referred to in point 6.

The study has its own limitations. It is manly focused on the supply side of the market where in this research the respondents are the owner of Coconut Furniture and his workers. A further research on the demand side of the market needs to be addressed in order to have a more comprehensive and balanced results. In addition to this, the marketing strategy developed in this study needs to be empirically tested to assess their effectiveness and productivity levels. New variables are needed to be introduced in the future study.

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