

Analysis of Superior Products of Small and Medium Enterprises (SMEs) In Betet Village, Pesantren, Kediri-Indonesia

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Abstract: *SMEs play important role in economy. Utilizing local resource, SMEs trigger communities to invent superior products. Therefore, they can raise income. It is important to identify superior product of SMEs in Betet Village, Pesantren, Kediri recognize obstacles, and find solutions. This research used primary data from respondents in Betet Village, Pesantren, Kediri, East Java-Indonesia. There are four superior products of SMEs in Betet Village. They are peanut sauce (Sambal Pecel), salted eggs, tempe chips, and bamboo cages. SMEs in that village experienced several obstacles: lack of capital, limited production capacity, and lack of marketing strategy. To overcome obstacles, SMEs must strengthen cooperation among them, for example by make parcels that consist of SMEs product. It is also important to build exhibition centre, so that visitors or other prospective buyer easy to reach the. Other, government must support them through roadshow or exhibition to promote superior products of SMEs in Betet Village, Pesantren, Kediri, East Java-Indonesia*

Keywords: *small and medium enterprises, superior products*

I. Introduction

Small and Medium Enterprises (SMEs) play important role in national economy. Several research conducted to explore role of SMEs in economy, for example Savlovski (2001), Fan (2003), and Duarte (2004). In 2011, there were 51,3 million SMEs in Indonesia, equivalent to 99,91% of total enterprises. In workforce aspect, SMEs absorb 97,04% of total Indonesian labor force, especially they who live in rural areas, poor and low educated people. SMEs also plays strategic role in regional development. Because utilizing local resources, SMEs reflects one region's competitiveness.

Betet Village located in Kecamatan Pesantren, Kediri. Kediri is one region in East Java Province, Indonesia, known as the centre for one most famous tobacco industry in Indonesia, Gudang Garam. Nevertheless, not all population can be absorbed in that industry. The rest will work as farmers, government official, and small scale businessman/businesswoman.

Intention must be given to the SMEs. They reduce unemployment by employing local workers, especially they with low education and low skills. SMEs also use local resources found in the region. Thus, SMEs could generate income for communities.

Because of SMEs are easy to enter and easy to exit the market, it is important for SMEs to maintain their existence. SMEs have to produce one or more superior products to compete with others. This research explored superior products of SMEs in Betet Village, Pesantren, Kediri, Indonesia.

II. Theoretical Framework

Small and Medium Enterprises

The Indonesian Statistics Bureau (BPS) define small and medium enterprises by number of workers. Micro enterprises employ 1-4 workers. Small enterprises employ 5-19 workers. Medium enterprises 20-99 workers. Based on Indonesian Law (Undang-undang No. 9 Tahun 1995), one can be categorized as small enterprise if has net wealth maximum of Rp. 200.000.000 and annual sales income maximum of Rp. 1.000.000.000.

World Bank defined SMEs based on several criteria. One categorized as micro enterprise if has less than 10 employees, less than US\$100.000 in total assets, or less than less than US\$100.000 in total annual sales. Small enterprise is one that has 10 to 50 employees, US\$100.000 to US\$ 3 million in total assets, or US\$100.000 to US\$ 3 million in total annual sales. Lastly, medium enterprise is one that has 50 to 300 employees, US\$ 3 million to US\$ 15 million in total assets, or US\$ 3 million to US\$ 15 million in total annual sales.

SMEs plays important role in economy. Fan (2003) mentioned the importance of SMEs. First, SMEs are the engine of growth. SME sector is the largest provider of employment in most countries, especially creating new jobs. Others, SMEs are a major source of technological innovation and new products.

Second, SMEs are essential for a competitive and efficient market. It means that SMEs with high turnover and adaptability play a major role in removing regional and sector imbalances in the economy. In competitiveness aspect, easy entry and exit of SMEs and the large number of SMEs create competitive market

pressure. SMEs also play an essential role as subcontractors in the downsizing, privatization, and restructuring of large companies.

Third, SMEs are important for poverty reduction. SMEs tend to employ poor, low-educated and low-income workers. Otherwise, poor people sometimes earn money from self-employment. Make SMEs the only resources for raising income. Furthermore, SMEs commonly grow in poor regions and rural areas, make them the only resources to alleviate poverty. Fourth, SMEs play a particularly important role in developing countries as seen in figure 1.

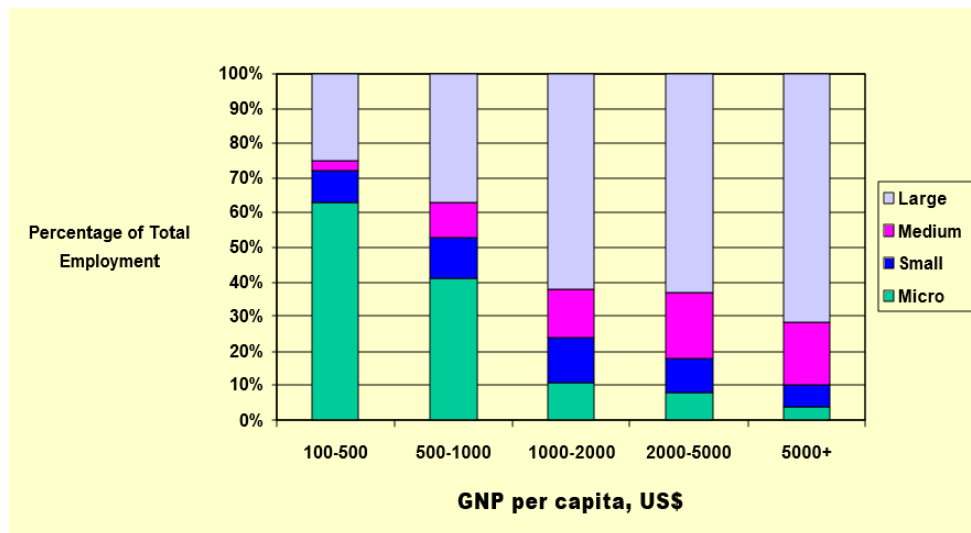


Figure 1. Distribution of Employment by Firm SizeSource: Fan (2003)

Figure 1 shows that SMEs play important role in low-income countries. As a country developed, indicated by the rise of GNP per capita, role of SMEs is decreased.

Local Economic Development

SMEs play significant role in local economic development. Helmsing (2003) in Duarte (2004) distinguished three categories of local economic development in which SMEs play role: community economic development, enterprises development, and locality development.

On the community economic development, SMEs contribute to housing improvement and settlement upgrading, for basic service delivery, and as a way to stimulate community economy. On enterprises development, the clustering of SMEs contribute to the emergence of agglomeration economies. This agglomeration might bring to local producers knowledge spillovers, spin-off activity advantages and the creation of new start-ups. Finally, on locality development corresponds to management of the entire local territory, it includes all the local planning, infrastructure development, and the creation and expansion of socio-economic overhead capital. (Helmsing, 2003, in Duarte, 2004) SMEs play important role in local economic development.

One Village One Product

The 'One Village One Product' (OVOP) movement was initiated in Oita Prefecture, Japan, in the late 1970s. It aimed to vitalise the prefecture's rural economy. The original concept of OVOP was to encourage villages in Oita each to select a product distinctive to the region and to develop it up to a nationally and globally accepted (Natsuda, 2011)

Recently, OVOP movement spread out to Asia, Europe, America, Africa, and Australia (http://www.ovop.jp/en/ison_p/gaiko.html), made the movement bring prosperity into each regions. The founding father, Mr. Morihiko Hiramatsu, previously Governor of Oita Prefecture, was awarded the Ramon Magsaysay Award in 1995 for his contribution in the economic independence and development in Asian countries.

OVOP development is seen as a way to enhance local communities' entrepreneurial skills by utilizing local resources and knowledge, creating value adding activities through branding of local products, and building human resources in the local economy. In particular, the use of local resources and knowledge is a critical element of OVOP development.

III. Methods

This research was conducted in the Betet Village, Pesantren District Kediri, Indonesia. Data used in this research are primary data, which obtained from the respondents. Respondents in this research were Betet Village officials and businessman/businesswoman in the that village. This research also used secondary data obtained from documents/publications/reports from departments/agencies and other supporting data sources. Primary data was collected by:

Survey method

Survey method was used by collecting data using oral and written questions submitted by the respondent. Therefore, data collected in this survey method include opinions, attitudes, experiences or characteristics of the individual research subject and groups. Data collection techniques in this survey method were interview and questionnaire. In addition, this survey method is also expected to obtain information regarding to: 1) Socio-economic and cultural characteristics of the local community, particularly commodities and business patterns. 2) Public perception of the planned development of certain commodities as superior commodities in the region. 3) The level of community participation in development, particularly related to the development of superior commodities in the region.

3.2. Observation Method

Observation method was conducted by recorded the pattern of use of natural resources found in the study site. This method was also aimed to collect data of potential commodities that are expected to contribute in the development of the region. Through observation, it was expected to obtained information on: 1) The condition and status of utilization of natural resources in the region. 2) The condition and characteristics of both land and water area that used to compose structure of the location of commodity development.

Additionally this research conducted focus group discussion to map products, challenges, opportunities, and barriers experienced by SMEs in Betet Village.

IV. Result and Discussion

This research found that superior products of Betet Village, Kediri are peanut sauce (*sambal pecel*), salted eggs, *tempe* chips, and bamboo cages. Peanut sauce (*sambal pecel*) is main dressing for *pecel*. *Pecel* is one of traditional Javanese cuisine that consist of mixed vegetables, served with chips, tempe, rice or compressed steamed rice (*lontong*) and lasty poured with peanut sauce. Peanut sauce is sauce that made from fried peanuts, finely ground with spices and water.

One home industry that produce peanut sauce is “Sambal Pecel Mbak Lis”. Consumers said that the product is quite different with others especially from other regions. It tastes more delicious because it made from different composition of ingredients. The industry was established since 1990s. In the beginning, it starts with only two workers but now can employ 20 employees.

The problem faced by this industry is lack of capital. The owner said that it is difficult to get cheap loans to expand her business. Banks are affraid to give loans because she has no adequate collateral. Besides, banks’ loans requirements are seemed to difficult to fulfill, e.g. need copies of documents which need time and costly. As a result, the owner only run her business by order. Other problem faced by this industry is lack of accounting capability. The owner did not write down earnings and expenses from the industry in a special method. Poorly, she did not separate business activity from household cash flows.

From focus group discussion, researchers introduces banks that provide special loans for SMEs which have relatively low interest rate. Also, it is suggested for the industry to join national and international exhibition to promote it’s products. It can be implemented by contact local government officials. To overcome lack of capital, it is suggested to the industry to not only depends on capital obtained from external parties but also to enhance itself by product diversification. It is believed that by implementing this step can boost its monthly sales by 20%.

Product diversification is also needed to attract new consumers so that they can run the business throughout the year. Product diversification can be implemented if business knows the characteristics of prospective consumers. Therefore, it is urgent to shift the mindset from product orientation to consumer orientation. Researchers also suggest the owner of “Sambal Pecel Mbak Lis” to conduct accounting principles in her business. By better accounting technique, owner can easily monitor her business’ productivity and easy to accumulate capital.

Another superior products of Betet Village, Kediri, is salted eggs. Salted eggs are made from ducks’ eggs, packed in damp, salted charcoal. Ms. Ismawati is the owner of this business and employ 10 workers in her house which serve concurrently as workshop. She bought eggs from local duck breeders, processed them for 14 days, and ready to sold. In one period of production (*theyek*), she can produce maximum of 400 salted eggs. They are always sold out, making nett profit Rp.50.000.

Lack of capital is the main problem of the industry. The other problem is the owner never count the production cost for each unit of output. So she newer know profit per unit. Lastly, the owner did not have a standard quality of output, e.g. some eggs are to salty whereas others are not salty. This is caused because she never filter fresh eggs from suppliers.

From focus group discussion, researchers persuade Ms. Ismawati to calculate profit per unit output. It is important because by knowing profit per unit we can calculate the optimal production by using “return to scale” approach. Secondly, it is important for producer to maintain high standard quality. This can be conducted by ensure the best raw material for production. It is important for Ismawati to filter fresh eggs from suppliers so that only best fresh duck eggs used in the production process. Therefore, taste consistency can be achieved. Thirdly, it is important to Ms. Ismawati to know her consumers well. Because salted eggs are relatively homogenous products, their consumers are easy to switch to buy from other producers, e.g. one who offering lower price. Ms. Ismawati must implement marketing principles: recognizing potential buyers, focus on consumers’ loyalty, and maintain products’ quality

The next superior products from Betet Village, Kediri, is *tempe* chips (*Keripik tempe*). *Tempe* is one traditional food from Indonesia, which made from fermented soybeans. The *tempe* chips industry is being run for five years and still use traditional processing steps. The *tempe* chips industry processes soybeans into *tempe* and then fry them to make *tempe* chips. In one production process, the industry can processes 5-10 kg soybeans. It will doubled in public holiday. The industry can produce 200-300 packs of *tempe* chips. Then, they will sold to the consumers through stalls or kiosks in Tulungagung and Madiun.

Obstacles faced are: (1). The price of raw material, (2). Competitors, (3). Limited production facilities. The producer uses imported soybeans, which has unstable price. Local soybeans does not available in market, due to limited production. Because of unstable price, producer tries to reduce cost by select affordable other raw material, e.g. rice flour, tapioca flour, garlic, and cooking oil. Reducing price could be done by buy commodities directly to manufacturer or through distributors.

The second obstacle is the other competitors. *Tempe* chips is relatively easy to made, make many people try to produce the same product. Therefore, producers must attract loyal consumers through the quality (taste, crispiness), packaging, and the availability of product. The third obstacle is the limited production capacity. This faced especially in public holiday like Idul Fitri or school holiday. The increasing demand cannot fulfilled with the existing machines. Besides, this caused producers cannot achieve higher economies of scale and difficult to expands marketing area.

The last superior products of Betet Village, Kediri, is bamboo cages. The cages is made for chicken and birds in different size. The main material is bamboo. Commonly, bamboo is growing wild near river. Bamboo trader usually explore to the remotest area, select bamboo based on varieties and age, then cut bamboo in certain size—usually 5 meter length—and sell them to industries.

Bamboo cages’ producers also need other supporting material, e.g. wood, nails, and wire. Because cages are handmade, they need special skills and time to finish. The owner only work alone, producing only one piece of bird’s cage on average. The producer sells cages directly to consumers who come to the workshop. Beside that, he sells thorough kiosks. Surprisingly, he able to send his product to Surabaya, the capital of province. The producer does not have adequate resources to increase the production capacity, due to lack of workers who has relevant skills. Thus, he could not able to enhance the product’s quality, for example from the finishing aspect and innovation. This is disconcert, because at the same time he faces competitors who offer better product.

From focus group discussion, SMEs in Betet Village are introduces one method to colaborate: through exhibition centre. The centre may build in their village, by their inisiative or by government-inisiative. The exhibition could be joined in (perhaps) restaurant, cafe, or community center. Then, SMEs colaborate to produce joint products, e.g. parcels for tourist, which contain peanut sauce (*sambal pecel*), salted eggs, and *tempe* chips in a bamboo container. This needs good coordination among SMEs about design, content, price and marketing of parcels. By using parcel packaging, local government also can promote easier to tourists or other potential buyers. Others, by better consolidation, it will be easier for SMEs to obtain external fundings, e.g. from banks or investors.

V. Conclusion

SMEs in Betet Village, Kediri, producing several superior products. They are peanut sauce (*sambal pecel*), salted eggs, *tempe* chips, and bamboo cages. SMEs play important role in economic, because they employ local workers, utilize local resources, and could enhance welfare.

Capital is the main obstacle faced by SMEs in Betet Village, Kediri. With no adequate capital, producers not able increase the production capacity and make innovation. Others, they cannot expand the market area and vulnerable to new competitors.

Solution offered is joint product through an exhibition centre. By doing a collaboration, SMEs could help each other to increase the sales. Beside that, it will be easier for government to promote the products, making easier for consumer to identify superior products from that village, and increase the opportunity to obtain external fundings.

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