

CHAPTER I

INTRODUCTION

1.1. Background of the Study

One out of the 17 sustainable development goals in the 2030 Agenda for Sustainable Development, which are adopted by all United Nations Member States in 2015 is to “End poverty in all its forms everywhere” (sustainabledevelopment.un.org, retrieved on 23 January 2019). An individual is deemed to be living in poverty if the real per capita expenditure (*pce*) of the household where they live in is under the poverty line (Strauss et al., 2004). It has been existed since human civilization emerged and embedded as part of economy wellbeing. Furthermore, poverty plays huge role to low level of Human Development Index (HDI), since it becomes a parameter that reflects quality level of human being, which measured by education (Gross Enrolment Ration), economy (Gross Domestic Product), and health (life expectancy) (Mariyanti & Mahfudz, 2016).

In 2015, 10% of the world’s population (736 million people) lived on less than US\$1.90 a day, which was down by 1% compared to 2013, and down from nearly 36% in 1990 (worldbank.org, retrieved on 23 January 2019). According to the Central Bureau of Statistics (2019), the percentage of poor people in Indonesia for September 2018 was 6.89% in urban area, 13.10% in rural area, and 9.66% in total, which was reduced from 11.47% in 2013. While in terms of the Human Development Index, Indonesia is ranked 116, with 0.694 point in 2017, while Norway has the highest rank with 0.953 point (hdr.undp.org, retrieved on 23 January 2019). Poverty inflicted some pain for millions of children, for it is the main reason that children could not get qualified education, obstruction to have health care, scantiness of savings and investment, lack of access to public services, employment, social security and protection of the family, and poverty has caused millions of people unable to fulfill their need of food, clothing, and shelter (Mubyarto, 2000).

Sachs (2005) suggests that the poverty at our time is able to come to an end, and likens the economic development with a four categories ladder of economies

attempting to or actually climbing the ladder, which are: (1) The extreme poor, which refers to the people who live in the developing countries with less than \$1 a day. These people are those who are too sick or starving to step onto the first rungs of the ladder; (2) The poor, which refers to those who are struggling in the cities and suburban to make ends meet. The chronic financial hardship that they are facing, makes they want death so much, although death has not come for them yet. These people have a foothold on the development ladder, and literally climbing; (3) Not-so-rich, refers to the people who still able to afford good meals, clothing, and transportation. Their children are still able to go to good schools; (4) The rich, refers to the people that currently live in the developed countries.

The countries that are listed under categories 1-3 above and any other countries that have similar characteristics are less developed, including Indonesia (Agbeibor, 2006). The poverty issue in Indonesia is not merely about the difficulty for the people to fulfill their food needs, but also about the lack of opportunities for the poor people to try. Hence, to reduce the poverty in Indonesia, government must comprehend about the importance of providing the opportunities for those people (kompas.com, retrieved on 24 January 2019).

Aishika (2010) stated that “Micro small medium enterprises have the tendency of increasing individual productive capability and create wealth when the products produced or services are sold from time to time. The evolvement of small and medium enterprises helps industrial dispersal thus stemming the rural-urban drift through creation and sales of goods and services that help individuals to directly mobilize domestic saving, which could be ploughed back into business to ensure growth and contribute to economic developments.” Thus, one instrument that government can use to provide the opportunities for people to build their business and improve the economy is by utilizing and supporting the small medium enterprises.

According to the Law of the Republic of Indonesia Number 20 Year 2008 regarding micro, small, and medium enterprises, article 1(1), micro enterprises shall be productive businesses owned by individual persons and/or individual business entitites that meet the criteria of micro enterprises as provided for herein. Moreover, in the article 6(1), the criteria of micro enterprises shall be as having

maximum net assets of fifty million Rupiah, exclusive of land and building of their place of business; or having maximum annual sales proceeds of three hundred million Rupiah.

However, although the MSMEs are already in existence, there are some difficulties that the MSMEs in Indonesia are facing. The head of Department of Cooperatives and MSMEs in East Java Province, I Made Sukarta (2016), stated that there are three main obstacles of the MSMEs in East Java, which are the production, funding, and market. In addition, he also stated that the local MSMEs are still unable to meet the high raw material requirements of the countries where the products are exported. Furthermore, the government is currently focusing on helping the MSMEs in developing the packaging, since the plain packaging are not selling in the international market, unlike in the local market (jpnn.com, retrieved on 31 January 2019). Moreover, Mochammad Rizal (2017), the vice president of trade and industry of East Java also stated that the local MSMEs do not have a fixed and sustainable market, especially the export market, which are troublesome for them.

While for MSMEs in Surabaya, the main problems that they are facing are the funding, human resources, and the correct market research, said Misbahul Munir (2017), the Head of Retail Business and Credit Bank Rakyat Indonesia in Surabaya (detik.com, retrieved on 31 January 2019). Although government had done something to support the MSMEs in Surabaya by establishing 43 culinary center for MSMEs, which able to contain 1458 food and beverages tenants. However, only 959 that are occupied (dinkop-umkm.surabaya.go.id, retrieved on 7 February 2019). The mayor of Surabaya, Mrs. Risma explained that the government built the culinary center to ease the regular inspection of the local food and beverages merchants by the officials, and to make it as a culinary destination for the culinary tourism in Surabaya. In essence, to boost the culinary tourism in Surabaya, the government built a lot of culinary centers (republika.co.id, retrieved on 11 September 2019).

One of the MSMEs center in Surabaya, which will be this research's object is the Sentra Wisata Kuliner Dukuh Menanggal, that is located on Jalan Dukuh Menanggal 1A, Dukuh Menanggal, Gayungan, Surabaya, East Java 60234. It has

been established for 5 years, with the capacity to contain 32 tenants. However, currently there are only 15 active tenants in there. The government has provided a complete facilities for the MSMEs, such as toilet, sinks, tables and chairs, and so on. This place is mostly crowded during the lunchtime, since it is located near several offices. Nevertheless, the head of Gayungan Sub-district, Soedibyo (2018), found out that most of the tenants were still trying out without giving their best. They were not aware that if customers nowadays are very meticulous and very loyal with the menu and taste of the foods despite the situation and condition of the place. That is why only certain kiosks who survived (Jawa Pos, 2 January 2018).



Figure 1.1 Sentra Wisata Kuliner Dukuh Menanggal
Source: Data (2019)

In order to sustain the development of MSMEs, there are several strategic method that can be applied. The context of discussion of this research revolves around strategic, marketing, and operational theories to sustain the development of MSMEs.

To begin with, one theory that will be used is the 8Ps Marketing Mix. Initially, marketing mix was introduced by Jerome McCarthy (1975) with the 4Ps notion – product, price, promotion, and place, which play major role in marketing manager’s decisions. Then, Lovelock (1996) enhanced the concept by adding more 3 Ps, which are personnel, physical assets, and procedures to the marketing mix, and created the 7Ps. Moreover, the marketing mix developed again into 8Ps, when personalization was added to the concept (Goldsmith, 1999).

Goldsmith (1999) classified product and personalization as the general factors that are applicable for both tangible goods and services. Furthermore, he classified place, price, and promotion are the marketing mix specialized for the tangible goods, while personnel, physical assets, and procedures are specialized for the service. The detailed factors of the 8Ps marketing mix by Goldsmith is shown in figure 1.3.

In addition, another theory that can sustain the development of MSMEs is the Diffusion of Innovation theory by Everett Rogers (1962), which elaborates on the diffusion of innovation within a firm. The theory implies that an innovation undergoes a five-stage process before thriving on the firm (Sharma, 2009). Rogers differentiated the 5 stages of the adoption process to provide a better understanding about the diffusion of innovation and to broader the possibility of examining the innovation adoption phenomenon. The stages of this theory is displayed in the figure 1.4.

According to Turnbull and Meenaghan (1980), the innovator is the most meticulously researched of all the adopter classifications, who are the pioneer of new idea or practice adoptions. These 2.5% are characterized as the most innovative group, who adopt the new idea before the general release. Next, the early adopters consist of the people who are the first to adopt the new idea after its general release. Rogers (1962) described these group as “respect”, since it consist of the leaders of opinion, who enjoy higher status. Subsequently, the early

majority is described as “deliberate”, because they behave more conservatively than the prior class due to the need of evidence of success. Then, followed with the late majority, as the skeptics, who will wait until majority opinion legitimizes the new product’s utility. Lastly is laggards, who are more traditionally oriented. They tend to be on the lowest on social status, income, and education, which could be referred as social isolates (Turnbull & Meenaghan, 1980).

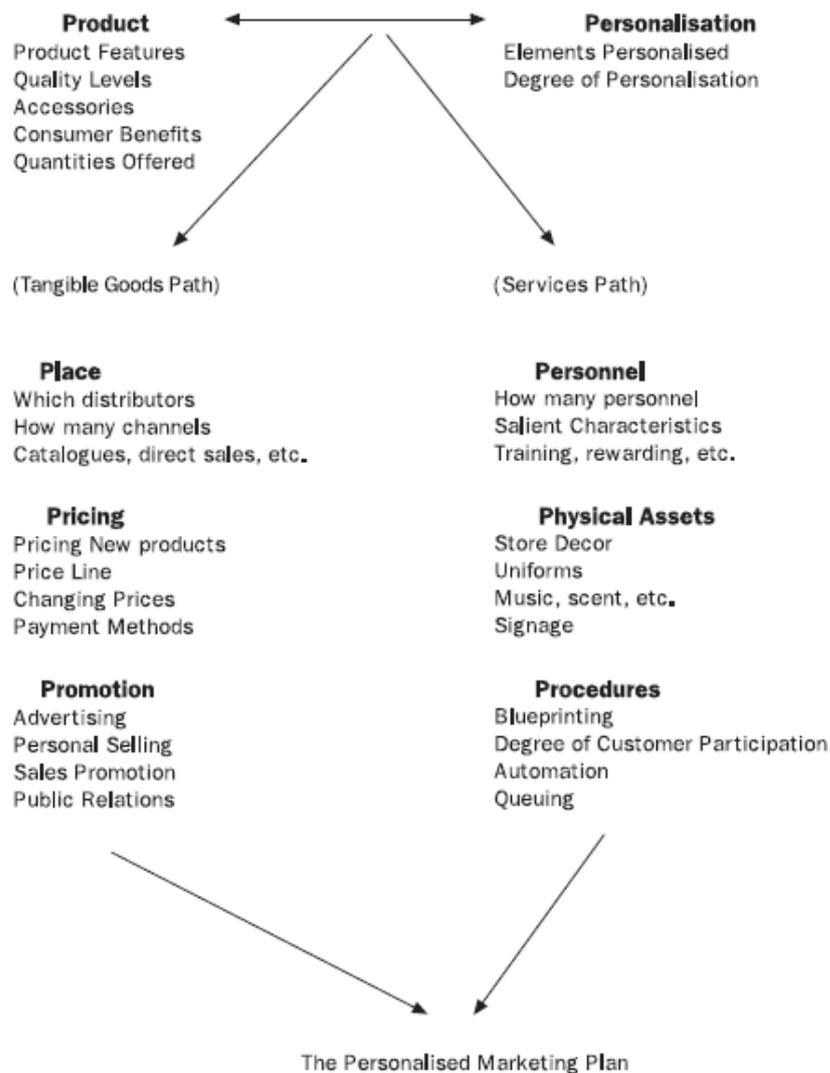


Figure 1.2 Marketing Mix Diagram

Source: Goldsmith (1999)

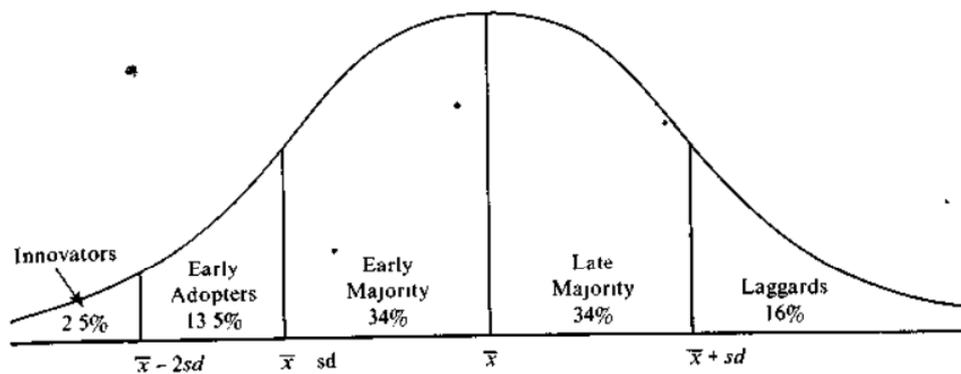


Figure 1.3 Diffusion of Innovation Stages

Source: Rogers (1983)

Porter's Five Forces Model is also another theory that can be used in MSMEs development. In 1980, Michael Porter formulated a concept of competitive strategy to analyze an enterprise's position in a complex strategic environment. He stated that there are 5 forces which affect the nation competitiveness in a particular industry, which are the supplier power, the buyer power, the entry barriers to entry, the threat of substitution, and the degree of rivalry (Yunna & Yisheng, 2014), as displayed on this following figure:

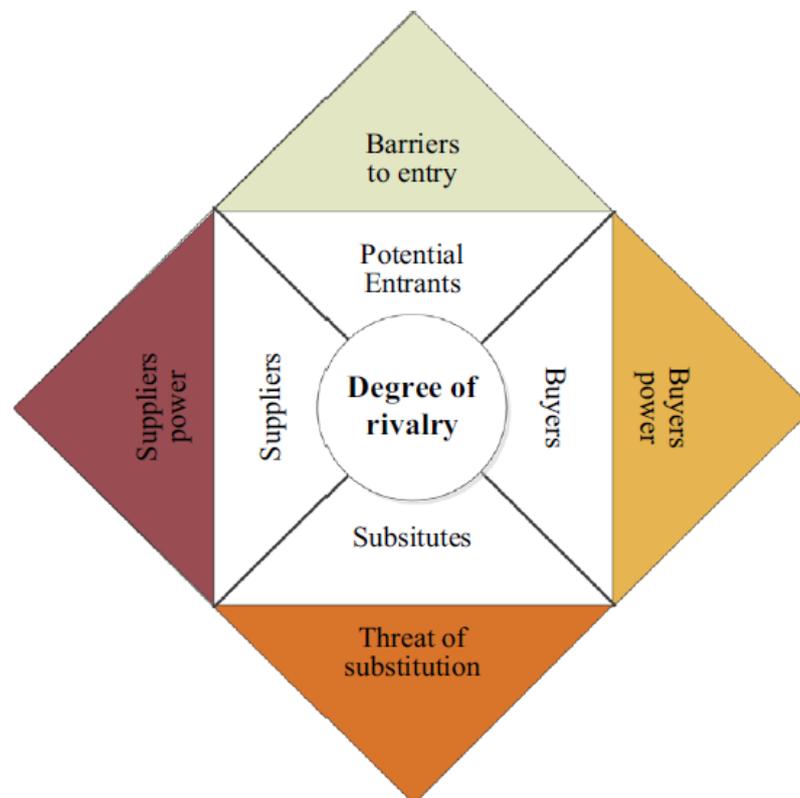


Figure 1.4 Porter's Five Forces Model

Source: Yunna et al. (2014)

The five forces in this model framework, is highly interdependent with the other subsystems, instead of being relatively stand-alone (Grundy, 2006). David & David (2015) suggests that in order to use this five forces model to prove whether a firm can make a significant profit in a certain industry despite the competition, by identify, evaluate, and decide according to the implication of the five forces toward the firm's key aspects. The degree of rivalry is the most powerful among others, since it occurred amid the same size and capability of firms. Barriers to entry determine whether the intensity of the competitiveness among firms would escalated or not, when new enterprise enters the market competition. Buyers' power reflected consumers' ability to control the intensity of the competition, considering the concentrated or large in number or buy in volume. Whilst, suppliers' power affect the competition when there are only few good substitute raw materials, which increased the concern of the reasonable prices, development of new services, improved quality, reduced inventory costs, and just-in-time deliveries. Nevertheless, the threat of substitution controls the market competition in a way where firms are in tight competition with producers of substitute goods and services in other industries, which most likely will establish the price ceilings to be charged before the consumers alter their product preferences (David & David, 2015).

In addition to those theories, the Strengths-Weaknesses-Opportunities-Threats (SWOT) Matrix can also be applied to develop the MSMEs. It analyzes the external opportunities and threats as well as the internal strengths and weaknesses of the firms, which play a major role in strategy formulation and development of the enterprise. It aims for the evaluation of whether the company is able to seize the opportunities and avoid the threat while facing the turbulent environment; and also to evaluate the internal works of the firm (Chang & Huang, 2006).

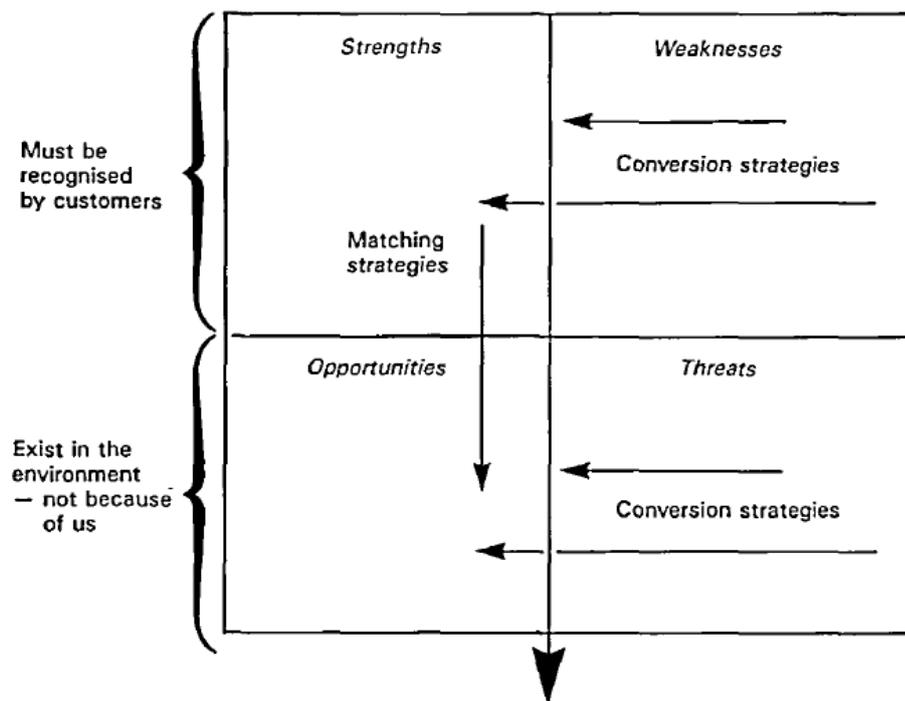


Figure 1.5 SWOT Matrix

Source: Chang & Huang (2006)

This SWOT matrix support the evolvement of strategy, into four different type of detailed strategies. After understanding the SWOT of a firm, the firm will be able to develop the SO, ST, WO, & WT strategies. SO (Strengths-Opportunities) strategies emerged from how the enterprise could use their internal strength to take advantage of the external opportunities. The ST (Strengths-Threats) strategies originated from how the firm's strengths could be used to minimize or avoid the impact of the external threats. Moreover, WO (Weaknesses-Opportunities) strategies are targeting on internal weaknesses improvement, by utilizing the external opportunities. Lastly, the WT (Weaknesses-Threats) strategies are the defensive tactics to minimizing the internal weaknesses and avoiding the external threats (David & David, 2015).

Lastly, the Blue Ocean Strategy is also applicable to develop MSMEs in Indonesia. Kim and Mauborgne (2004), stated that, "competing in overcrowded industries is no way to sustain high performance. The real opportunity is to create blue oceans of uncontested market space." They explained that the business universe is consist of two distinct kinds of space, which are the red oceans and the blue oceans. Red oceans are the market space where industry boundaries are

defined and accepted, and the competitive regulations of the game are well comprehended. It is also the market space where many companies are trying to outperform their competitor in order to get the bigger portion in the market. As the number of competitors is always increasing, the market space becomes more crowded, which reduced the prospects for profits and growth. Products become commodities, and the keen competition, makes the water in the market space, “bloody” (Kim & Mauborgne, 2004).

On the other hand, the blue oceans consist of the businesses that are not in existence today, which refer to the unknown market space, clean and uncontaminated by competition. In this type of market space, demand is created, not fought over, so there is plenty opportunity for growth that is rapid and profitable. In order to create the blue oceans, there are two different ways that can be chosen. The first way is to create a whole new industry, such as the creation of eBay with their online auction platform. The second way, which is the most common way, is by altering the boundaries of an existing industry, within the red ocean area. The essence of creating a blue ocean is by: “cost down, value up”, as stated in this following figure (Kim & Mauborgne, 2004).

The creator of this theory, Kim & Mauborgne (2004) explained that the blue ocean is created in the area where a firm’s actions will affect its cost structure and its value proposition to buyers. Saving some cost will be created by eliminating and reducing the factors an industry competes on. On the other hand, buyer value is improved by raising and creating elements that never emerged on the industry. As the time goes by, costs will further decreased as a result of economic scale, and the high sales volumes due to the exceptional value generation in the market space.

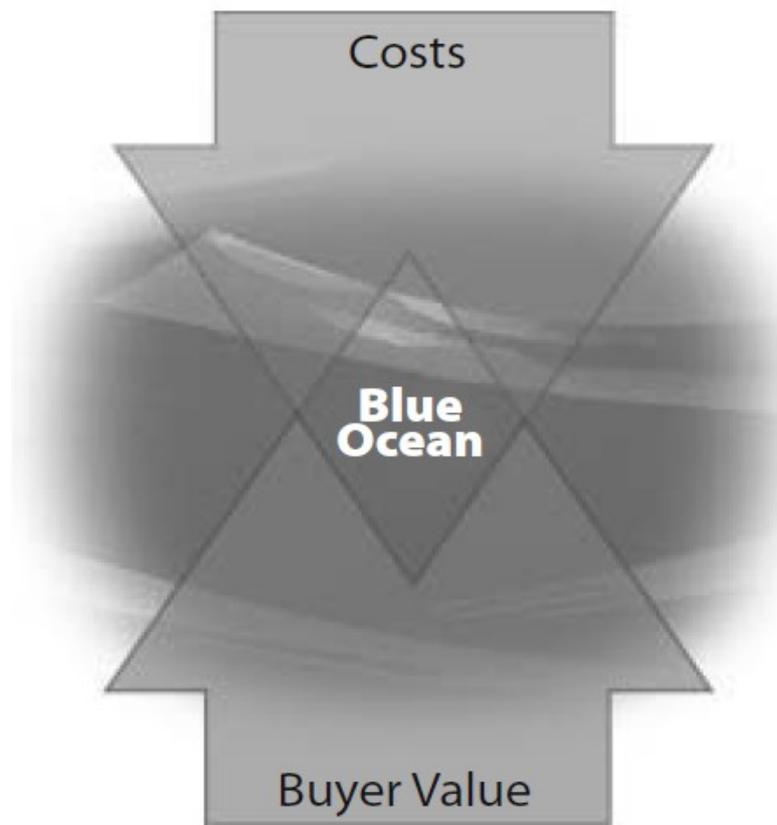


Figure 1.6 Blue Ocean Strategy
Source: Kim & Mauborgne (2004)

1.2 Research Problems

According to the research background, the research problems are:

1. How does the Marketing Mix assist the development of Sentra Wisata Kuliner Dukuh Menanggal?
2. How does the Diffusion of Innovation theory assist the development of Sentra Wisata Kuliner Dukuh Menanggal?
3. How does the Porter's Five Forces Model assist the development of Sentra Wisata Kuliner Dukuh Menanggal?
4. How does the SWOT Matrix assist the development of Sentra Wisata Kuliner Dukuh Menanggal?
5. How does the Blue Ocean Strategy assist the development of Sentra Wisata Kuliner Dukuh Menanggal?
6. What is the best strategic method to assist the development of Sentra Wisata Kuliner Dukuh Menanggal?

1.3 Research Objectives

According to the research problems, the research objectives are:

1. To examine the effectiveness of Marketing Mix in assisting the development of Sentra Wisata Kuliner Dukuh Menanggal
2. To examine the effectiveness of Diffusion of Innovation theory in assisting the development of Sentra Wisata Kuliner Dukuh Menanggal
3. To examine the effectiveness of Porter's Five Forces Model in assisting the development of Sentra Wisata Kuliner Dukuh Menanggal
4. To examine the effectiveness of SWOT Matrix in assisting the development of Sentra Wisata Kuliner Dukuh Menanggal
5. To examine the effectiveness of Blue Ocean Strategy in assisting the development of Sentra Wisata Kuliner Dukuh Menanggal
6. To find out the most effective strategic method in assisting the development of Sentra Wisata Kuliner Dukuh Menanggal

1.4 Research Contributions

This research is expected to contribute to the several parties as follow:

1. The researcher
This research enhance the researcher's knowledge about strategic management method by applying what the researcher has learned in class, to a real-world environment, specifically into the local small medium enterprises. In addition, this research also becomes the researcher's opportunity to engage with the bottom of pyramid in Surabaya.
2. Other researchers
This research contributes as the basis reference to the other research of small medium enterprises development and the strategic management method which is applicable for other type of businesses as well.
3. Micro-Small-Medium Enterprises
This research helps the small medium enterprises to have better comprehension about their current condition. Furthermore, better

comprehension will provide broader insight about how to develop them using some of strategic method.

4. Government

This research provides insight for the government to assist and sustain the development of small medium enterprises in the country, since they play major role in the country's economic condition.

1.5 Research Limitations

This research is focusing on one small medium enterprise center only, which operates on food and beverage business. There is a chance that it may not be applicable for other small medium enterprises that operates on other business lines. In addition, there are several strategic methods, such as Competitive Profile Matrix (CPM), Strategic Position and Action Evaluation (SPACE) Matrix, Boston Consulting Group (BCG) Matrix, and Internal-External (IE) Matrix, which are not used in this research, because those methods are inapplicable for the development of MSMEs, for they require more data which MSMEs do not have.

1.6 Research Outline

The outline of this research paper is divided into 5 chapters, which are:

CHAPTER 1: INTRODUCTION

This chapter sets up the research problem for the reader. It also provides the background information defining the issue and important terms. It specifies the research objectives explored in greater detail to contribute to understanding the research problem.

CHAPTER 2: LITERATURE REVIEW

This chapter summarizes the major studies and findings that have been published on the research topic and this study contributes or adds to what has been already studied. This chapter also states a clear description of theories that apply to the research problem, such as the Total Quality Management, Marketing Mix, Diffusion of Innovation, Porter's 5 Forces Model, and SWOT Matrix.

CHAPTER 3: RESEARCH METHODS

This chapter explains the detailed technical and scientific activities, which include the research design, sampling plan, instrumentation, statistical tools, and treatment of data.

CHAPTER 4: DATA AND ANALYSIS

This chapter starts with explaining the object of the study, organizing the findings that address the research questions, and explain more on how these data collected are related to the theory and prior researchers presented at the beginning of the study.

CHAPTER 5: CONCLUSION

This chapter consists of the summary of the research, conclusions and recommendation that can be used to advance the study of the research topic by its theoretical, methodological, substantive contributions that may be necessary to overcome the limitations of existing empirical facts in the future.