STATUS OF MARKETING ACTIVITIES ON SELECTED SMALL AND MEDIUM FRUIT PROCESSING ENTERPRISES (SMFPEs) PRODUCTS: A CASE STUDY OF EAST JAVA, INDONESIA

I.B. Suryaningrat[1]

Abstract

Indonesia is an agricultural country with significant contribution by agriculture in national GDP. The fruit processing industries have a special role to play in the national economy. Understanding problems of Small and Medium Fruit Processing Enterprises (SMFPEs) would support its development. With this aim in mind, a study was conducted in five districts in East Java province (Banyuwangi, Jember, Lumajang, Probolinggo and Malang) of Indonesia to assess the development of SMFPEs. The objective of this study was to investigate real problems faced by SMFPEs especially in marketing aspect. Through this study it was found that SMFPEs have to deal with problems relating to the quality and price competition, limitation of market, marketing skills, distribution, transportation and damage products. The details of study are explained in this paper.

Keywords*: marketing, fruit processing, small and medium enterprises, Indonesia.*

Introduction

Indonesia is an agricultural resources-based country with a total land area of 59.8 million hectares. About 308,000 ha of total land is used to produce major fruits. East Java is one of the provinces, which supplies a major amount of fruits in the Indonesian market. The largest share of production comes from the cultivation of mango (522 thousand tons), papaya (152 thousand tons) and pineapple (94 thousand tons). The other fruits supplied are oranges (74 thousand tons), banana (636 thousand tons) and rambutan (45.9 thousand tons) (Anon, 2001).

Agroindustrial sector as a sub-system of agribusiness, has unique advantages of utilizing agricultural raw material in processing. Some problems associated with the food industry found in other countries are the shortage of raw material, quality, lack of continuous supply of seasonal raw material, inadequately trained labor force, costly imported packing material, and infrastructure and technological deficiencies (Hicks, 1991).

As agro-processed products are becoming very competitive in the world market, it is important to understand the problems faced by SMFPEs. The perception of problems by SMFPEs' owners or operators could influence their activities. For policy makers,

[1] Faculty of Agricultural Technology, Jember University, Email: suryaningrat2@yahoo.com.

understanding of such problems will aid in formulating policies conducive for the development of these enterprises (Walsh, 1988).

Common criteria for classification of industries is the number of employees, small-scale (1-4 workers), medium scale (5-10 or 11-19 workers), and large-scale (20-99 workers). Small and medium industries are often considered together (Soon, 1984). For the developing countries, SMEs which still are fairly labor intensive, the criterion of employment of less than 50 workers is still applicable (Theng and Boon, 1996).

Mishra (1999) and Tambunan (2000) reported that most SMEs are still using traditional technology for processing. Tambunan and Keddie (1998), from their study on SMEs in Yogyakarta, revealed that with simple technology and low skill, the ability of SMEs to make innovations in their product and production processes will be very limited. Krishnankutty (2000) in his study advocated setting up the society to facilitate SMEs activities and help adoption of technology.

Tambunan (2000) revealed that passive marketing, selling product locally, unstable demand, difficulties in transportation, limited market and dependence on retailer or wholesalers for marketing are common problems in SMEs.

This paper aims to provide an insight in the problems faced by fruit processing SMEs. The data used for analysis was obtained through a survey conducted in the study area (Suryaningrat, 2003).

Methodology

A questionnaire was prepared to obtain required data from the selected agroindustries. The questions were related to procurement of raw material, processing, and marketing activities. Questions were designed to assist in analyzing current status of SMFPEs. A few other factors felt to be relevant to the local context were included too. Some questions required open and closed responses, multiple answer and others for which a Likert scale was used to obtain attitudinal data. Respondents were encouraged to include other useful information based on their individual experiences and knowledge.

Questionnaire was addressed to 63 fruit processing SMEs randomly chosen from five districts in East Java consisting of Banyuwangi, Jember, Lumajang, Probolinggo and Malang. These five districts are the major supplier of fruits in Indonesia and provide significant amount of raw material to fruit processing SMEs. The questionnaire was filled in during visits, meetings and interviews with key person or representative of SMFPEs.

Samples were taken from 15 enterprises producing banana chips, majority in Lumajang districts. Banana fig was produced by 14 enterprises in Banyuwangi. In Jember district samples were taken from 14 enterprises producing coconut sugar and fermented coconut water or nata de coco. Other samples came from 7 enterprises producing jackfruit chips, from Malang, Jember, Lumajang, and Probolinggo districts. Salaca pasta was produced in Malang, while 9 enterprises studied producing juice and dried fruits (from Mangos, Apple, and Durian) were from Malang and Jember districts.

Result and Discussion

Assessing Processing Aspects of SMFPEs

In relation to processing activities, this study determined the owners' or operators' views about processing which significantly influence the activities of SMFPEs (Figure 1). Raw material (scale 4.05) was considered to be the most important factor compared to marketing and transportation. Studies by Tambunan (1994) and Krishnankuttty (2000) revealed quantity, price, distribution and continuity (Mishra, 1999) as a major constraints related to raw material activities. This result indicates that owners or operators consider raw material as a key factor that will determine the processing efficiency in SMFPEs.

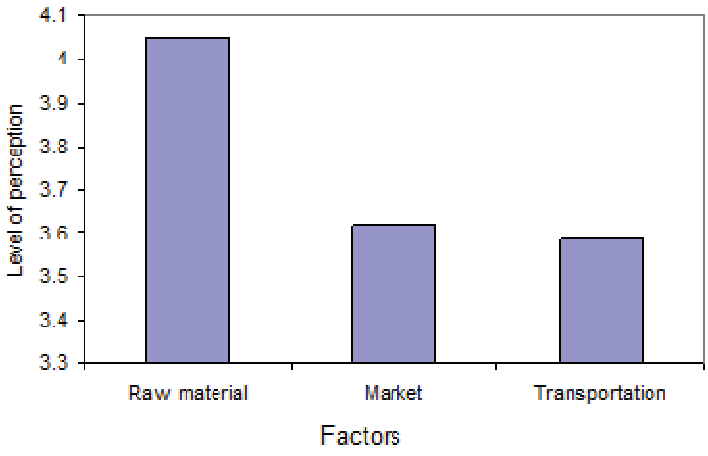

Figure 1: Perception Level of Factors Which Affect Processing Activity Based on The Likert Scale

Marketing (scale 3.62) and transportation (scale 3.59) were also identified as important factors influencing processing activities. These results indicated that owners and operators also consider marketing as another key factor as the production directly depends

on the marketing. Transportation will facilitate and support procurement of raw material and to shift finished product to the market.

General Organization

Study showed that SMFPEs generally do not have a formal organization with a hierarchy. There was no internal division of tasks, functions and responsibilities. There was no internal division of labor. The owners work as operator and manager at the same time, or sometimes do the actual production task.

Commonly, the workers are the family members or relatives who participate in the production activities. However, a difference in task between manager and the workers does matter outside the production activities. Managers or producers would decide about the purchase of raw material, or make a contact with bank for capital, and plan marketing by contacting the distributors or wholesalers. Tambunan (2000) also observed that most of the entrepreneurs have low level education, which would result in lack of the systematic organizational structure. This is due to the reason that they do not know much about the modern business organization.

Marketing Activities

Sales and marketing issues are identified as some of the major problems encountered by SMEs (Huang and Brown, 1999). A study by Mishra (1999) in India revealed that 44% of respondents considered marketing as a major problem with SMFPEs. Figure 2 shows that in this study 57 enterprises or 91% of total respondents sell their products in their own district. Thirty enterprises or 48% of respondents sell their product out side their district. Out of the total 63 enterprises studied, 17 units or 27% sell their products to other provinces. The enterprises who sell their product to another district or location need to consider many factors such as demand, production capacity, transportation facilities, marketing channel, and the quality of product. Most of the entrepreneurs said that they need to compete in quality or price of product with enterprises from other districts or provinces.

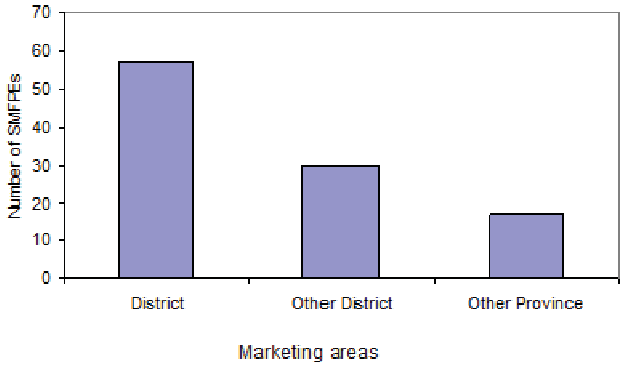

Figure 2: Distribution of marketing areas

The study also revealed that the majority of samples studied (43 units or 68%) sell their product to stores (Figure 3). While 38 units or 60% of respondents sell the product to show rooms, such as cooperatives supported by the Department of Industrial and Trade, the Government of Indonesia, to help enterprises to display their products and receive orders from the consumers. However, not all of the districts have such show rooms to display SMFPEs' products. Mishra (1999) stated that problems of marketing were more acute due to the absence of any governmental agency for marketing agroindustrial product in India. Twenty-five units or 40% and 23 units or 37% of respondents sold their product in supermarkets and public markets, respectively. During the survey, a distinction was found in terms of quality and even in packaging of products sold to supermarkets and in public market. This affects those enterprises which use traditional technology to sell their product in supermarkets. As many as 35% respondents or 22 units sell their product directly to consumers. Normally the enterprises were informed to send their product to agents (18%) or distributors (32%) in other districts. It was interesting to note that 14 units or 22% respondents sold their product to other enterprises without label at low price. However, the buyers stick their own label on the pack and resell it to other districts or provinces as their own product at higher prices.

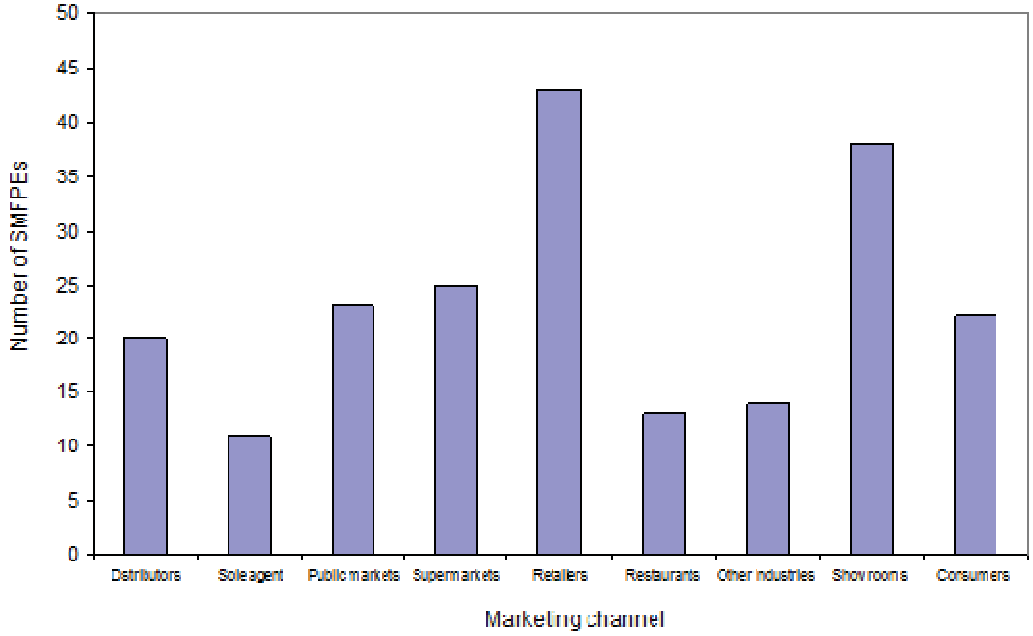

Figure 3: Marketing channel for product distribution

The study also revealed that, for management, some enterprises consider retailers or wholesalers as their business partners. The marketing activity is not only managed by enterprises itself, but is influenced by intermediary like retailers, wholesalers, or by other enterprises who buy their product. Their business policies are determined by the current market.

Figure 4 indicates that about 41 units or 65% industries surveyed experienced a product damage during distribution. This problem was due to poor transportation facilities. Most of the enterprises used trucks to distribute products without any special care to reduce damages. Thirty-six units or 57% of industries faced delays in product delivery due to timely unavailability of proper transportation. Nineteen units or 30% respondents considered the price difference between the similar products in the same district influenced the consumers' choice for buying. The consumers often complain difference in prices as some stores or sellers charge higher price for the same product.

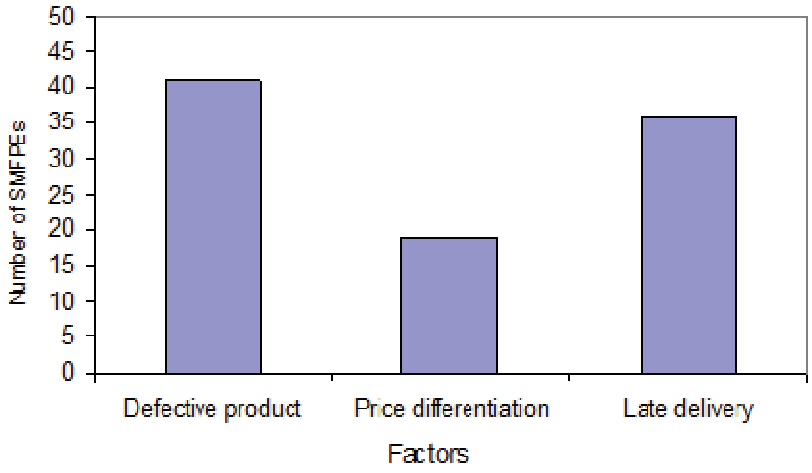

Figure 4: Problems related to distribution encountered by various SMFPEs

The passive behavior of the owners or operators result in low degree of entrepreneurship. It should also be considered as an important factor that contribute to the poor performance of many of SMFPEs. This behavior may be associated with lack of formal education and know-how, particularly "how to do the right business". Because of the passive behavior they have very limited market. Most sell their product locally.

Most enterprises do not attempt to cooperate with large companies. The only form of cooperation is sub-contracting. The enterprises sell their products to large companies without labels in large packs and at lower prices. For example, banana chips in Lumajang district are sent to a large company which labels and resell in the market at a higher price. Similarly, one of the nata de coco producers in Jember district, sends its product to a large company in a peak season. They sell their product at a lower price, because they find an opportunity to sell their product in a bulk quantity.

Integration with Other Institutions

There are several universities involved in providing guidance to enterprises, such as training, research and development, and machinery or equipment assistance. Some enterprises in Lumajang district that produce banana chips, received an oven from the university as an aid package. They were advised to send their product to other districts in other provinces as a form of "re-payment" for the oven.

Some universities provide other assistance and information services, promotion and marketing support to SMFPEs. But not all enterprises have the opportunity to get assistance

or information from universities. Some enterprises get advice from the government institutions such as the Department of Industry and Trade, the Department of Agriculture, and the Department of Health. The role of these institutions in SMFPEs development is not strong as expected . It is evident from the survey that most of these institutions in each district do not have detailed data about SMFPEs, such as location and number of enterprises, kinds of products they produce, production capacity, etc.

Conclusions

This study revealed that most of the enterprises sell their product in the same district. Damaged product and delayed delivery are the major problems during distribution associated with transportation. Low education and limitations of marketing skills cause passive behavior of entrepreneurs in marketing which directly affect the performance of SMFPEs. In terms of integrated network systems, universities and other government institutions should have a strong role in developing SMFPEs. Some activities that were urgently needed by SMFPEs include training programs in raw material handling, quality control, information about new technology, soft credit, and transportation facilities.

References

[1] Anon, Fruit production in Indonesia, Statistical Bureau, Indonesia, (http://www.bps.go.id), 2001.

[2] Blackwood, T. and Mowl, G, Expatriate-Owned Small Businesses: Measuring and Accounting for Success, International Small Business Journal, 2000, 18 (3), 60-72.

[3] Hicks P. A, Food processing in Asia and the Pacific: An overview of principles, policies and status, Asian Productivity Organization, Tokyo, Japan, 1991.

[4] Huang, X. and Brown, A, An Analysis and Classification of Problems in Small Business, International Small Business Journal, 1999, 18 (1), 73-85.

[5] Krishnankutty, C. N, Bamboo Weaving Sector in Kerala: Current Status and Future Possibilities for Rural Development, Journal of Rural Development, 2000, 19 (3), 399-410.

[6] Mishra, S.N, Can Agroindustries be an Effective Tool for Promoting Rural Development in Orissa, Journal of Rural Development, 1999, 18 (2): 161-184.

[7] Soon T. T, Management Guidance System for Small and Medium Enterprise, Asian Productivity Organization, Tokyo, Japan, 1984.

[8] Suryaningrat, I. B, Analyses of Selected Agroindustries in East Java, Indonesia, Asian Institute of Technology. D. Eng. Dissertation. no. AE-03-1 (unpublished), 2003.

[9] Tambunan, T, Local Orientation of Rural Small Scale Industries: An Empirical Study from Ciomas Sub District West-Java Indonesia, Asia-Pacific Journal of Rural Development, 1994, 4(1-2), 85-117.

[10] Tambunan, T, Development Strategy of Rural Small-Scale Industries with A Cluster Approach: A case of Indonesia, Asia-Pacific Journal of Rural Development, 2000, 10 (1), 66-98.

[10] Tambunan, T. and Keddie, J, Yogyakarta Area Leather Goods Cluster', UNIDO, Jakarta, Indonesia, 1998.

[11] Theng, L. G. and Boon, J. L, An Explanatory Study of Factors Affecting the Failure of Local Small and Medium Enterprises, Asia-Pacific Journal of Management, 1996, 13 (2), 47-61.

[12] Walsh J. P, Selectivity and Selective Perception: An Investigation of Managers, Belief Structure and Information Processing, Academy of Management Journal, 1988, 31 (4), 873-896.