

Analysis of Opportunities for SME Products in Entering the International Market

Sri Herliana, and Nur Lawiyah

School of Business and Management, Bandung, Indonesia

Abstract. Most of the existing clusters in Indonesia are traditionally or naturally established from local communities whose production has long been in operation. Some SMEs in the cluster can influence the cluster development directly and indirectly, on the other hand SMEs can conduct export activities through intermediaries from within or outside clusters. Exports provide benefits to the national economy as well as individual companies that do exports. In this study, researchers used data collection methods through in-depth interviews to respondents in Cibaduyut cluster. Seen in the income sector in the domestic and export markets that the majority of SMEs in Cibaduyut rely heavily on the domestic market. This paper aims to analyze the products of Cibaduyut clusters that have the potential to enter into international or export markets. In Cibaduyut, not only footwear products are exported, but penetrated into other products. This provides opportunities for other innovative products.

Keywords: Cibaduyut Cluster · Product Opportunities · Export

1 Introduction

Exports provide many benefits in terms of macro and micro economics in a country. That is, exports provide benefits to the national economy as well as individual companies that do exports. From a corporate (micro) perspective, export activities have an impact on the level of corporate competition in different markets from all aspects of the business and also generate funds for the company to reinvest. From a macro perspective, export activities can support the growth of Gross Domestic Product in the country (Alrashidi, 2014). In general, SMEs have the opportunity to conduct export activities that can provide a competitive advantage. Certainly behind that, there are complex challenges that can prevent SMEs from entering international markets (Sen & Haq, 2010). In Indonesia, the governments also pay attention and support the export activities by SMEs, one of them through export activities by SMEs in clusters. Most of the existing clusters in Indonesia are traditionally or naturally established from local communities whose production has long been in operation. Has a comparative advantage of products, availability of abundant local raw materials, and workers who have particular expertise in producing products made in the cluster. Many of the clusters in Indonesia have the opportunity to grow even to enter the international market (Tambunan, 2009). Cibaduyut is one of a cluster of well-known leather shoe products in Indonesia. Cibaduyut is a cluster that specially produces footwear even now penetrated into other fashion products. Business activity in this

cluster is a special attraction for researchers, caused by products from the Cibaduyut cluster has a great opportunity to export. Based on information from BPS, footwear exports enter the top 10 export revenues from the industrial sector, precisely in 2015 ranks 7th with a total export value of US \$ 4,507,024,300 (BPS, 2017) and increased in 2016 with an export value of about US \$ 4,639,000,000 (Kementrian Perdagangan Indonesia). Three major countries that became the export destination of footwear include the United States, Belgium, and Germany. This indicates that the export activities of the footwear industry sector are influential on Gross Domestic Product in Indonesia. Of course, it is one of the opportunities that the footwear market is increasing every year in the international market. This paper aims to analyze the products of Cibaduyut clusters that have the potential to enter into international or export markets

2 Literature Review

2.1 SMEs in Export

The internationalization process undertaken by the company is a process of developing international opportunities in the business network. Where this important event depends on the company's business network and the company's experimental knowledge (Hilmersson & Papaioannou, 2015). SMEs are involved or engaged in export activities is a form of cognitive abilities that determine the orientation and decisions in capturing business opportunities in the international market (Miocevic & Crnjak-Karanovic, 2012). One of the main strengths that SMEs have in entering the export market is their light business structure. This allows SMEs to adapt their business quickly in their export strategy in overseas markets. Many researchers assume big companies are better international players, as measured by sales volume and export volume. But, it turns out the size of the company does not have an impact on export performance measures undertaken. This means, SMEs also have the opportunity and ability to conduct export activities as well as large companies in the international market (Sohail & Alashban, 2009). Factors affecting export activities include, product requirements, country of origin of products, cultural similarities, and familiarity in the brand. The lack of similarity in these factors may inhibit the export process (Tsfom & Lutz, 2006).

2.2 Export Product Opportunities for Cluster

Clusters can serve as a forum for skills enhancement, upgrading in the technology sector, and successful domestic and export market penetration. Some SMEs in the cluster can influence the cluster development directly and indirectly, on the other hand SMEs can conduct export activities through intermediaries from within or outside clusters (Tambunan, 2009). Clusters are closely related to the location, where in the same location there are the same business activities undertaken by many SMEs. The location has the advantage, that impact directly and indirectly on existing business activities, including creating conditions of supply-side benefits, access to

government, related services exports, flow and accumulation of knowledge, information and support systems, special infrastructure, labor market characteristics, and the characteristics of the market in the form of a network in cooperation with the business sector to create profits earned by SMEs in it, including in improving export performance (Freeman & Styles, 2014). Business activities in the cluster one of them is producing the same or similar products due to the availability of raw materials, expertise owned, and markets that have been created. Products in exports are representative of the characteristics of companies that have the effect of competitive advantage. It also influences export strategies that are tailored to the product. Product barriers that occur during exports are grouped in technical adaptability and quality (Tefom & Lutz, 2006). The source of such competitive advantage comes from innovation that is a significant determinant of export success. Innovation can apply to products, corporate structures, and processes. The characteristics of a product or service should provide a long-term competitive advantage (unique) rather than low-priced offerings. With increasing competition and innovation cycles realized by commercializing new products, can take advantage of higher global demand (D'Angelo, Majocchi, Zucchella, & Buck, 2013).

3 Methodology

In this study, researchers used data collection methods through in-depth interviews to respondents in Cibaduyut cluster. The respondents are business owners, craftsmen, and employees in the marketing department. Thus, the primary data collected in the form of qualitative data results then analysis in accordance with the purpose of this study. This study aims to analyze the opportunities Cibaduyut products for export and how conditions of export activities in Cibaduyut cluster based on the perspective of SMEs. In support of this research, researchers are supported by secondary data consisting of literature studies related to research such as from journal articles, statistical data, and other data supporting this research.

4 Analysis and Discussion

4.1 Export Condition in Cluster Cibaduyut in Terms of Revenue

The analysis and discussion in this research concerns export conditions from the perspective of SMEs in Cibaduyut. Business activity on a cluster one of the measurements can be seen from how big the sales volume and income generated by these SMEs. This is to illustrate the success of SMEs in a cluster. From the results of qualitative data on 10 business respondents in this study, seen in the income sector in the domestic and export markets that the majority of SMEs in Cibaduyut rely heavily on the domestic market. The income difference between domestic and export markets were quite far away. This can be seen in more detail in the graph below;

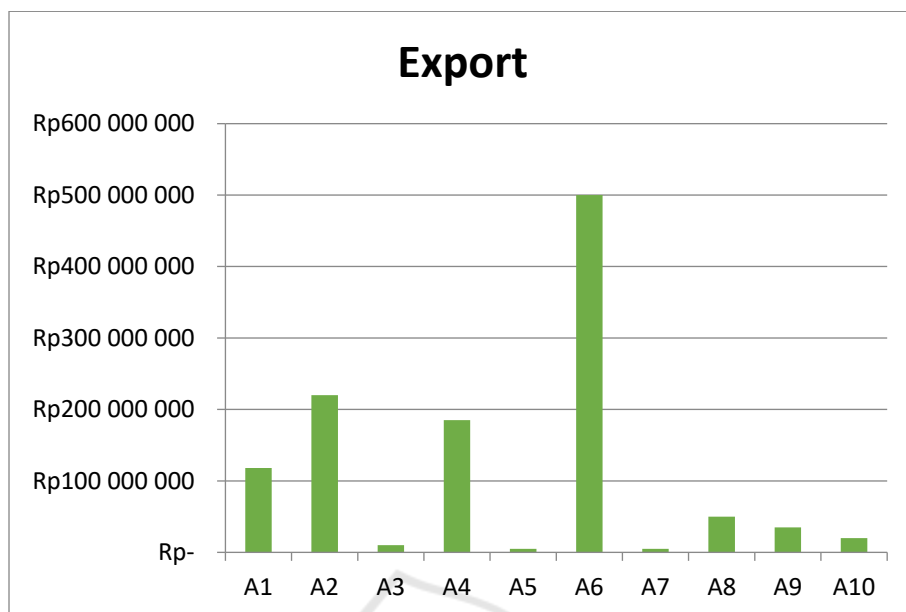


Fig. 1. Export revenue by SMEs in Cibaduyut cluster.

The graph above shows the total gross export earnings in one export sale or within one year. SME A6 is SME with income (export value) for one time export with biggest value among others that is equal to Rp500.000.000, in the second position followed by SME A2 with total revenue reach Rp220.000.000, the third position followed by SME A4 with total revenue reached Rp185,000,000, the fourth position followed by SME A1 with total revenue reached Rp118.000.000, and the fifth position followed by SME A8 with total revenue reach Rp50.000.000. Five other SMEs obtain income below 50.000.000, including SME A9 with gross revenues reached Rp35.000.000, SME A2 with gross revenues reached Rp20.000.000, and the latter SME A5 and A7 each earn gross revenue for export reached Rp5.000.000.

Based on the results of research and data obtained from randomly selected samples by researchers; indicating that export activities in Cibaduyut not yet optimally developed as a whole. However, in view of the current market developments, as well as an increase in the value of Indonesian footwear exports in general as described in the introduction, it shows the opportunity to be optimized as one of the export-oriented clusters to meet international market demand. The graph above shows that export sales cannot be done continuously. One that influenced it, is the SMEs are more concerned about fulfilling the domestic market first, although the opportunity to enter the international market is always there. That is why there is a considerable gap between SMEs as well as between domestic and export markets. Another thing that affects not significantly the gross revenues from exports lies in production capacity, intermediate networks to international markets, and strong business capital owned by SMEs.

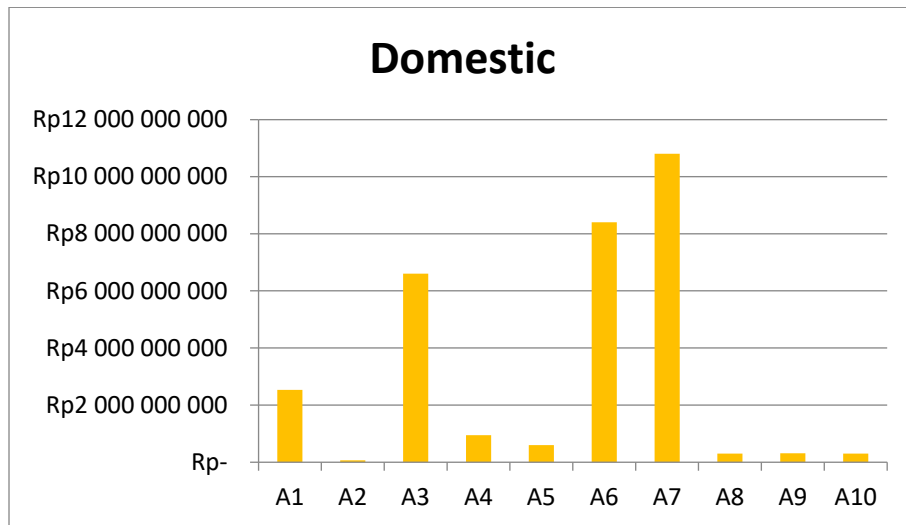


Fig. 2. Domestic revenue by SMEs in Cibaduyut cluster.

The graph above shows the SME's gross revenues from product sales in the domestic market within one year. The largest gross revenues from sales of products in the domestic market can reach Rp10.8 billion per year or even more by A7 SMEs, followed by SME A6 with gross sales of Rp8,400,000,000, in the third position followed by A3 SME with total sales reached Rp6, 605.000.000, in the fourth position followed by A1 SME with total sales reached Rp2.532.500.000, and in fifth position followed by A4 SME with total sales reached Rp946.250.000. The other five companies obtained gross revenues of Rp600,000,000 for A5 SMEs, Rp 312,000,000 for A9 SMEs, Rp300,000,000 for each of A8 and A9 SMEs, and Rp62,500,000 for SME A2. Although SMEs A2 earn gross revenues, at least among the other SMEs, SME pulled A2 ever get the highest revenue in export sales, as shown in the graph of export in the previous graph. This is also true for A7 which earns the highest in the domestic market compared to other SMEs, but earns the lowest export earnings compared to the others. This is influenced by the target market focused by each company. When viewed in the case of A2 SMEs, exports were able to increase the sales of their products by creating higher value than the products made for the domestic market, thus creating a higher selling price that certainly benefits the company.

4.2 Cibaduyut Product Opportunity for Export

From the data collected, the researcher analyzes and discusses the opportunities of Cibaduyut products that can enter the international market based on the results of product sales from respondents in this study, which is currently in demand by the international market. Not only footwear products are exported, but penetrated into other products. This provides opportunities for other innovative products and creates competitive advantage. Researchers summarize the data into matrix data as below, to be analyzed and deepened further.

Table 1. Cibaduyut product opportunity for export matrix.

Footwears	Leather carving	High	Expertise
Bags	Accessories from leather	Low	
High	Low		Market

1. Footwear (High-High)

Footwear products offered in Cibaduyut is a mainstay product in this cluster. Types of shoes and sandals footwear with varying prices, raw materials, and designs offered are characteristic of this cluster. The most famous footwear product is made of genuine leather. The majority of SMEs in Cibaduyut produce various types of footwear to meet the demands of the domestic market and international markets. The demand of footwear both in the domestic market and international market is equally high. That is, the demand for footwear will always be there, so no wonder if in this cluster will be easily found handmade footwear products from Cibaduyut. Expertise required by the craftsmen is very high, this is because the manufacture of footwear requires special expertise with a variety of raw materials to make products that can satisfy the market. Plus footwear made must adjust the targeted international markets. In meeting international market, SMEs in Cibaduyut can make production with wholesales in accordance with the capacity and number of products ordered. The expertise of making products and market demand in footwear products shows equally high results. Because Cibaduyut has become a large cluster, the spread of science in the manufacture of products and markets can spread easily. So the continuity of making the product will always be in line with the positive market demand.

2. Bags (High-Low)

Besides famous for its footwear product, Cibaduyut also famous for its leather bag product. Just like the footwear product, the raw materials used are almost similar to the footwear product, which is genuine leather or synthetic leather. Viewed from the above matrix table, bag products show high market demand with product manufacturing expertise that is not as complicated as making footwear products (low). Various types of bags can be made by craftsmen or SMEs in this cluster, although the number of handicraftsmen is not as much as the number of footwear craftsmen, but it is not a constraint. Some craftsmen have double expertise, meaning they can make any product because it uses almost the same raw materials. The distinction lies in the expertise it has. Handmade Cibaduyut handbag products are not inferior to bag products from other countries or competitors in Indonesia. Characteristics of making the product with handmade give its own value for the product, so it can create high selling value.

3. Leather carving (Low-High)

Cibaduyut craftsman expertise in cluster evolved from the manufacture of footwear, handbags, and other products from the simple to the carving. Carving on genuine leather fashion products now being developed by one of the SMEs in Cibaduyut, which turned out to get a place in the international market. Carvings are made using simple tools and requires a high level of expertise to produce a carving that has a high sales value. Therefore, the international market receiving such products is limited, due to exclusively manufactured products targeting niche markets. Leather carving from Cibaduyut proves that the products made have high artistic value and selling value in the international market. Leather carving products can be applied to all types of fashion products made from genuine leather. The carvings of Cibaduyut have created their own market. Deeper development of genuine leather-made fashion products can be one of the leading export commodities from Cibaduyut.

4. Accessories from Leather (Low-Low)

SMEs in Cibaduyut also produce fashion accessories made from genuine leather, such as watch straps, belts, small purses, and other accessories that are in demand by the international market. The required skills are not as high and complex as other products. In the matrix above shows that the product of genuine leather accessories are in the market (low) and expertise (low). This is because the leather accessories product has a target market niche as leather carving. Nevertheless fashion accessories products made from genuine leather is very potential to continue to be developed into the international market. Maximizing the use of raw materials with high profit margins is an opportunity that is owned by this product.

5 Conclusion

As one of the largest clothing industry clusters in Indonesia, SMEs in Cibaduyut are able to innovate on processes and other products using the same raw materials used for footwear production, namely genuine leather and synthetic leather. Although the Cibaduyut cluster consists of large to small companies, but they have the same opportunities to enter the international market. The majority of SMEs in Cibaduyut focus more on the domestic market sector than the international market. This is because demand for products in the domestic market is much higher than the international market. Cibaduyut as a cluster has a very strategic location for export market development, where all business activities from upstream to downstream is available here. Based on the results of analysis, in the development of products from SMEs in Cibaduyut make a good innovation in finding a market gap and meet market expectations, as well as for overseas markets. Researchers summarizes the types of products into four parts, based on a matrix of the market and expertise possessed by craftsmen or SMEs, namely footwears (High-High), bags (High-Low), leather carving (Low-High), and the accessories of leather (Low-Low). Four types of products successfully enter the international market by meeting the intended market criteria. This is a good start, where these products can begin to be developed, thus providing a high selling value that directly impacts the profit margin gained. As has been discussed in the literature review that creates innovative products with demonstrated

competitive advantage is more important than offering a low price, because it is a long-term impact. Export activities in the cluster certainly helped Gross Domestic Product in Indonesia.

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