

# Developing Business Strategies for Featured MSMEs in North Sumatera: SWOT Analysis Approach

Prihatin Lumbanraja, Ritha F. Dalimunthe and Elisabet Siahaan  
*Faculty of Economic and Business, Universitas Sumatera Utara, Medan, Indonesia*

**Keywords:** Competitiveness, Internal Capabilities, External Condition, Enterprises, Strategic Planning

**Abstract:** The role of micro, small and medium enterprises is always important to support the country's economic growth. As the market emerge and become larger, the competition within these enterprises has also risen to a new stage. One of the key to formulate strategies to improve the enterprises' competitiveness is through SWOT analysis which employ internal capabilities and external condition assessments. This study aimed to evaluate the current situation of MSMEs in Medan as well as their adaptative strategic planning. A number of 300 MSMEs were participated in this research. This paper conclude that despite the vast opportunities based on external analysis, our MSMEs were forced to maintain stability and take a baby steps to build their own competitiveness as they also vulnerable with many weaknesses. Thus it is important not to tempted with vast opportunities but maintain business stability and continuously improve the weaknesses and translate them to strengths.

## 1 INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) acted as the backbone of the national economy are still categorized as vulnerable to the development of their businesses. Many businesses have to end because of mismanagement and turmoil in market demand. In this case, the achievement of business competitiveness needs to be endeavored so that businesses can last longer and contribute to Indonesia's national development.

Indonesia and other ASEAN countries has agreed to enter the new era of trade, Free Trade Agreement (FTA) between ASEAN countries. It practically has been applied since the beginning of 2016. FTA without a doubt increase the competition between organization which can now freely trade with another organization between countries. World economics forum (2016) conclude that Indonesia's competitiveness index went down from 34th to 37th in 2016. The situation also affecting Micro, Small and Medium Enterprises (MSMEs) which lead to downgrade of their product both for quality and price.

Micro, Small, and Medium Enterprises played the most important role to support economic development in almost all countries as they gave the major contribution for economic development

(Anggadwita and Mustafid, 2014). According to Indonesia Statistics Bureau (2015), MSMEs contributed for around 60% of GDP and absorb more than 97% labour forces. Asian Productivity Organization (2015) stated that the most important role of MSMEs is to act as main core in economic development and productivity. In line with the statistics bureau, MSMEs was believed as the major contributor toward one's GDP. World Bank (2018) stated that one key to sustainable growth of economics was the growth of MSMEs in one's country. The growth will remain stable as long as it supported by healthy MSMEs development. Despite their importance to support economics growth, MSMEs lack of managerial practice to help them to develop their competitiveness.

In their quest to achieve and maintain competitiveness, many of MSMEs learning to be involved in a strategic planning. Strategic planning is a way to help an organization be more productive by helping guide the allocation of resources in order to achieve goals. It is a strategic management tool. In other words it is a part of strategic management. In fact, strategic planning is a key to successful strategic management.

MSMEs in the city of Medan in essence have quite well implemented the analysis of strength in business competition through the five forces method.

However, in the implementation of managing business activities, the analysis carried out does not have an impact on the formulation of strategies or the next steps that will be implemented by business actors in increasing the competitiveness of their businesses. The mapping results indicate that in general MSMEs in the city of Medan pay close attention to strengths and relationships with suppliers, customers, and new entrants to the business. They pay less attention to issues related to business competition and substitute goods. Analysis conducted by business actors is generally natural. The steps taken based on the analysis results are also generally spontaneous, there is no good planning in managing business competition.

Most of strategies were formulated based on internal and external business analysis. One of the most common strategic planning tools that used to evaluate internal and external capabilities was SWOT analysis, the Strength, Weaknesses, Opportunity, and Threat (Osita et al. 2014). The first step in strategic planning to achieve competitiveness was to identify and evaluate the strategic factors, the SWOT, and help organization to realize their full potential (Houben, 1999). The strategic management oftenly used to establish long-term activities of the business (Yuksel and Dagdeviren, 2007). By conducting an external analysis, an organization identifies the critical threats and opportunities in its competitive environment. It also examines how competition in this environment is likely to evolve and what implications that evolution has for the threats and opportunities an organization is facing. While external analysis focuses on the environmental threats and opportunities facing an organization, internal analysis helps an organization identify its organizational strengths and weaknesses. It also helps an organization understand which of its resources and capabilities are likely to be sources of competitive advantage and which are less likely to be sources of such advantages. Based on SWOT Analysis, organizations can choose the appropriate strategy.

In order to evaluate MSMEs competitiveness, it is important to understand their internal capabilities and external disturbance as in SWOT Analysis. Thus, study aimed to evaluate the application of SWOT analysis within MSMEs in Medan. The study focused on mapping the SWOT analysis within industry to identify their strength, weakness, opportunity, and threat in the modern market.

This research was conducted in an effort to improve business competitiveness; not only survive in competition, but also take advantage of opportunities by penetrating international markets, at

least the ASEAN regional market. Strong competitiveness makes the market stronger. Consumers will not easily switch to imported products. Conversely, if MSME competitiveness is weak, their position will soon be replaced by increasingly intense business competition.

## 2 LITERATURE REVIEW

SWOT analysis is a business analysis method that can be used by each business entity in determining the steps to be taken in the future to achieve maximum business growth. Although called by the term analysis, the SWOT analysis is not an analysis, but rather the process of identifying internal and external conditions of the company. Rangkuti (2011) states that the results of the SWOT analysis are lists of the company's strengths, weaknesses, opportunities and threats. This list is then analyzed again to develop an optimal strategy in the future.

Team FME (2013) described the use of a SWOT analysis to identify situations that occur in the company. Analysis of the company's situation is done by looking at the internal conditions and external conditions of the company. Internal conditions are conditions that can be controlled by the company, while internal conditions cannot be controlled by the company. Strengths and weaknesses are part of the company's internal analysis. Opportunities and threats are part of the company's external analysis.

The literature review surrounding the SWOT analysis is based on two main elements, namely internal factors which are then grouped into strengths and weaknesses and external factors which are then grouped into opportunities and threats. Munizu (2010) applied four internal aspects that were used as the basis for operational evaluations of MSMEs, namely aspects of human resources, financial aspects, technical and production aspects and marketing aspects. These four aspects will be the basis for evaluating the internal factors of the business actors in this study.

External factors are various things whose growth and development are beyond the ability of the business to control them. These external factors include political, economic, social and cultural aspects, technological aspects, the role of government, the role of financial institutions. These aspects will be used as a basis in evaluating whether these aspects become opportunities or threats for business actors. The basic strategy of SWOT analysis can be summarized in Figure 1.

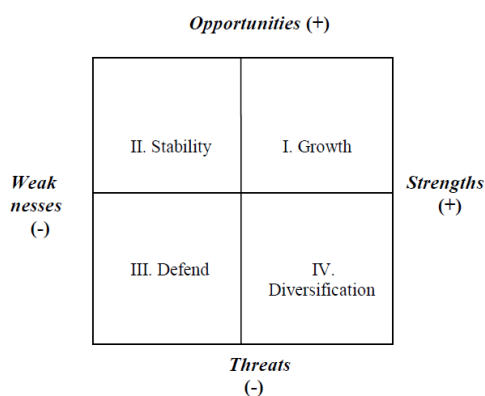


Figure 1. Basic SWOT Analysis Strategy

### 3 RESEARCH METHOD

#### 3.1 Research Time

This study was conducted in Medan, North Sumatera, Indonesia from April through August 2019. There is no specific reason to conduct the research in mean time. However we focused in Medan as the capital of North Sumatera in which has the most developed and maintained MSMEs.

#### 3.2 Participant

There were no adequate data for registered MSMEs in 2019 which force the use of non-random sampling in this study. A non-random sampling technique and the use of stratified-convenience sample were employed in this study. There are six featured MSMEs in Medan, classified as Batik, Leather, Rattan, Food, Embroidery, and Souvenirs. Each MSMEs group were represented by fifty business units to participated in this study. A number of 300 MSMEs in total were participated in this study, which implying the final sample size of 300 MSMEs participated in this study. The subject for this study was the MSMEs' owner.

#### 3.3 Data Collection Method

Self-administered questionnaires were employed during our research. The questionnaires were based on the literature review in which adopted to satisfy our needs and mindset of MSMEs. Furthermore, in order to avoid biases, we conducted interview based on the questionnaires. The questionnaires included items that measured internal and external condition of MSMEs by using five-point Likert scales. Characteristics such as educational attainment, sex,

and opinion toward strategic planning were collected. The distributed questionnaires were identical and were merged into a single dataset for our study purpose.

### 3.4 Data Analysis Method

The SWOT analysis approach in this study uses a combination of concurrent embedded model methods, which are research methods that combine the use of qualitative and quantitative research methods together, where qualitative research methods are the primary methods and quantitative research methods as secondary methods. Quantitative approaches are used to evaluate whether internal factors of business actors include strengths or weaknesses; This approach is also used to evaluate external factors whether included in opportunities or threats.

## 4 RESULT AND DISCUSSION

### 4.1 Demographic

The demographics of the study participants were presented with the aim of seeing a general picture of the research sample. The characteristics of the participants in this study were grouped based on the characteristics of the respondents in this study based on the business group, the sex of the business actor, the level of the last education, and the approach to strategy development. A summary of the respondents' characteristics is presented in Table 1.

Table 1. Demographic Participants

	N	PERCENTAGE
<b>SMES CLASSIFICATION</b>	<b>300</b>	
252	84,00%	80,67%
45	15,00%	15,67%
3	1,00%	3,67%
<b>SEX</b>	<b>300</b>	
189	63,00%	73,00%
111	37,00%	30,33%
<b>EDUCATIONAL ATTAINMENT</b>	<b>300</b>	
15	5,00%	7,00%
47	15,67%	11,67%
190	63,33%	66,00%
30	10,00%	10,67%
12	4,00%	3,33%
6	2,00%	1,33%

	N	PERCENTAGE
STRATEGIC PLANNING ADAPTATION	300	
226	75,33%	85,33%
74	24,67%	14,67%

Table 1 provides a general description of MSMEs in Medan that were sampled in this study. In general, it can be stated that the majority of respondents are microenterprises. The manager or owner of the business unit is generally male. The most recent level of education of the sampled business actors is generally high school graduates, and most of the study participants did not have a plan for their business strategy..

## 4.2 Matrix Internal Factory Analysis Summary (IFAS)

This study uses an equal weighting from each aspect of the review on internal factors. Because all the weights used are the same, the final score of each internal factor comes from the evaluation used. Classification based on strengths and weaknesses is done by the middle value method, where the value <3.0 will be grouped as weaknesses and above those values are grouped as strengths. An evaluation of internal business factors in Medan is summarized in Table 2.

Table 2. Internal Factor Analysis

Internal Capabilities	Indicator	Score	Classification
Human Capital	Entrepreneurial	4,21	Strength
	Motivation	3,98	Strength
	Skills	2,21	Weakness
	Visionary	2,33	Weakness
Financial	Intern Budgeting	2,01	Weakness
	Financial Literacy	2,91	Weakness
	Financial Recording	2,80	Weakness
	Financial Management	2,84	Weakness
	Technical / Operational	Materials	3,75
Operational Capacity	Production	2,99	Weakness
	Tools and Machinery	2,15	Weakness
	Quality Control	2,90	Weakness
Market	Product Development	4,11	Strength

Internal Capabilities	Indicator	Score	Classification
Internal Capabilities	Distribution / Chaneling	3,05	Strength
	Pricing	2,95	Weakness
	Promotion	2,80	Weakness

### 4.2.1 Strengths

The results of the evaluation of internal factors from businesses in Medan generally indicate that there are five things that are the strengths of businesses in Medan. Entrepreneurial spirit, the evaluation carried out indicates that there are a lot of creative ideas that are owned by entrepreneurs in the city of Medan. These ideas are also supported by the willingness to take business risks. In terms of business motivation, business actors have an unyielding attitude in running a business and are supported with targets to be achieved when carrying out business operations. In terms of raw materials, businesses in the city of Medan already have a stable supply of raw materials related to good quality. This can encourage the achievement of good product quality (Tobing, Fathorazz, & Wulandari, 2018). From the marketing aspect, businesses have strengths in terms of product development as a realization of their creative ideas and have a relatively good distribution channel.

### 4.2.2 Weaknesses

Behind the various strengths that have been described previously, this business in Medan has various weaknesses that make it vulnerable to external exploitation and competition. In terms of business resources, many of the businesses experience constraints from the technical abilities of their employees in running the business as optimal as possible. In other words, the company's human resources are generally uneducated and untrained. The ability to see business opportunities (feasibility study) owned is relatively low. Interesting ideas that are not supported by good analysis in encouraging and optimizing existing opportunities. All financial aspects of a business in Medan City, on average, are classified as weaknesses for the business. Many businesses are difficult to develop with 'capital' constraints that businesses do not want to try from internal loans or retained earnings. Recording and financial separation generally does not occur, resulting in poor financial performance. Unclear financial management also drives problems in the financial aspect. In terms of the technical aspects of production, equipment owned by business operators

is generally simple and leaves plenty of room for performance improvement. Unclear production capacity makes the production system not run efficiently. In addition, quality control is relatively low among micro and small businesses. From the marketing aspect, the weakness of the business in the city of Medan lies in determining the price which generally refers to the prevailing general price regardless of the feasibility of the price with the quality of the product. Besides promotion is often considered as a cost-oriented activity rather than investment to attract customers (Kartawinata & Wardhana, 2013).

### 4.3 Matrix External Factory Analysis Summary (EFAS)

This study uses an equal weighting from each aspect of the review on internal factors. Because all the weights used are the same, the final score of each external factor comes from the evaluation used. Classification based on opportunities and threats is done by the middle value method, where the value <3.0 will be classified as a threat and above that value is classified as an opportunity. Evaluation of external business factors is summarized in Table 3.

Table 3. External Factor Analysis

External Aspect	Indicator	Score	Classification
Politic, Economy, and Social Aspect	Politic condition	3,06	Opportunity
	Economic condition	3,84	Opportunity
	Social factor	3,33	Opportunity
	Consumer behaviour	4,67	Opportunity
Governmental Aspect	Public services	4,11	Opportunity
	Enterprise incubator	3,12	Opportunity
	Enterprise empowerment	3,54	Opportunity
	Regulation	3,12	Opportunity
Financial Institution Aspect	Financial Assistance	3,75	Opportunity
	Monitoring and Evaluation	2,12	Threat
	Development	3,11	Opportunity
	Partnership	2,90	Threat
Competition	Local competition	2,11	Threat
	Internationalization	2,05	Threat
	Free Trade	2,54	Threat

#### 4.3.1 Opportunities

The political, economic and social conditions of the business environment in Medan are relatively conducive to business and business development. Although this year's political turmoil is felt to be quite strong, the conditions evaluated indicate that it is in a category that is conducive to the leading cluster

business in Medan. The biggest opportunity is obtained from the consumptive behavior of the community which really makes the market in Medan City very potential for various businesses. The role of the government also provides promising opportunities for business actors. Many business development service units are provided by the government for business conduciveness. The FTA Center was opened in 2018 to help export communities, especially micro, small and medium-sized businesses by utilizing existing trade agreements between countries. Regulations established by the government tend to be pro-business, such as tax relief to support the business spirit of the community. In terms of financial institutions, financial institutions provide benefits to access to capital and also help the development of human resources of business people through money seminars.

#### 4.3.2 Threats

The threat from the business environment in Medan originates from business competition. Access to the free market is essentially a double-edged sword which will be an opportunity as well as a threat to business people. Studies conducted indicate that the current sharpness of the policy is more directed at threats to the local market where businesses do not want and are able to optimize the use of these markets.

### 4.4 The Strategic Formulation

#### 4.4.1 Strength-Opportunity Strategy

This strategy emerged as a product of a particular company or business unit's perspective by optimizing its strengths by exploiting the opportunities that exist. The right strategy for the S-O quadrant is to focus on exploiting opportunities by optimizing the strength of the business (Inayati & Prasetya, 2017).

The main strengths of businesses in Medan are the entrepreneurial spirit and good raw materials and product development. The combination of these strengths can form a variety of variations that build market trends or improve the quality of market tastes through product development and quality product variants. As a control in this plan, an increase in quality control efforts is needed. In addition, the weaknesses that exist in the feasibility study need to be improved so that they do not give morning losses.

#### 4.4.2 Strength-Threat Strategy

The perspective on this S-T strategy is to focus on strength while avoiding threats that might occur in the business environment. In other words, businesses must be able to master the slogan of keeping up the good work without being affected by threats that can reduce the strength of the business (Anggraeni, Mawardi, & Sunarti, 2018).

One strategy that can be developed from the conditions of MSMEs in Medan is by continuing to strive for the best quality products from the best raw materials while still competing at the level of the global market and the free competition market. Businesses should not be shaken because competition is getting tougher with new players. It should not cross the minds of business actors that local products will always be inferior to foreign products. Good work that has been owned by the business must be continuously improved. In addition, innovation can be applied in optimizing strength while transforming existing threats into business opportunities.

#### 4.4.3 Weakness-Opportunity Strategy

The perspective of the W-O strategy is basically determining the priority scale of what is to be done in optimizing market opportunities that exist in the external environment (Prastika & Sadjarto, 2018). The strategy that appears dominant in this region is the use of access to capital from the government and financial institutions in an effort to develop the business. Opportunities that exist also cover weaknesses and transform them into a potential step in developing business. In addition, the government's concern in developing and fostering business can be access in developing business skills while building better relations between the trainees.

#### 4.4.4 Weakness-Threat Strategy

The strategic perspective on a combination product between W-T is a defensive strategy or a defense against the vulnerability of the business owned and various threats that can exploit the existing weaknesses. Business competition as the main threat from businesses in the city of Medan must be maintained and taken into account by continuing to maintain the quality of production, building on existing skills, and preparing price and promotion strategies in order to survive the increasingly fierce competition with the free market.

## 5 CONCLUSION AND RECOMMENDATION

Based on our focus group discussion, there were The current paper set out to analyze the internal and external factor of MSMEs in Medan as the basic approach for a strategic planning to improve their competitiveness. It should be pointed out that the current study suggested that our MSMEs take a sustainability approach as they must not exploit the current opportunities with many weaknesses. They should take a baby steps to grow, transforming weaknesses to strengths while slowly take the opportunities. This paper also showed that many of our MSMEs were vulnerable as their internal capabilities has a lot of room for improvements. We should take note that these condition were not compared with other MSMEs so we could not stated that it will be a problem yet. However this result suggested that MSMEs should take it into their consideration to build up their internal capabilities to maximize the opportunities in near future.

## ACKNOWLEDGMENTS

The authors gratefully acknowledge that the present research is supported by Ministry of Research and Higher Education. The support is under the research grant PDUPT for year 2019

## REFERENCES

- Anggraeni, P., Mawardi, M. K., & Sunarti. (2018). Analisis swot pada umkm keripik tempe amel malang dalam rangka meningkatkan daya saing perusahaan. *Jurnal Administrasi Bisnis*, 43(1), 104–113.
- Badan Pusat Statistik. (2015). Industri Mikro dan Kecil, accessed from bps.go.id
- Houben, G., Lenie, K., Vanhoof, K., A. 1999. Knowledge-based SWOT-analysis system as an instrument for strategic planning in small and medium sized enterprises, *Decision Support Systems*, 26, 125–135
- Inayati, T., & Prasetya, H. (2017). Perumusan strategi dengan analisis swot pada usaha mikro kecil menengah (. *Seminar Nasional Manajemen Dan Bisnis*, 3, 217–231.
- Kartawinata, B. R., & Wardhana, A. (2013). Marketing Strategies and Their Impact on Marketing Performance of Indonesian Ship Classification Society. *International Journal of Science and Research*, 4(2), 2319–7064. Retrieved from www.ijsr.net
- Munizu, M. (2010). Pengaruh Faktor-Faktor Eksternal dan Internal Terhadap Kinerja Usaha Mikro dan Kecil (

- UMK ) di Sulawesi Selatan. *Jurnal Manajemen Dan Kewirausahaan*, 12(1), 33–41.
- Osita, I.C., Onyebuchi, I., Justina, N. 2014. Organization's stability and productivity: the role of SWOT analysis an acronym for strength, weakness, opportunities and threat. *International Journal of Innovative and Applied Research*, 2(9), 23-32
- Prastika, M., & Sadjiarto, A. (2018). Analisis SWOT Usaha Mikro Kecil Menengah (UMKM) Di Industri Kreatif Sarang Lebah Salatiga. *Ecodunamica*, 1(3).
- Rangkuti, F. (2011). *SWOT and Balanced Scorecard*. Jakarta: PT Gramedia Pustaka Utama.
- Team FME. (2013). *SWOT Analysis: Strategy Skills*. ebook: Free Management Ebook.
- Tobing, D. S. K., Fathorazz, M., & Wulandari, G. A. (2018). Mapping the Competitive Advantage of MSMEs in East Java, Indonesia. *Jurnal Dinamika Manajemen*, 9(1), 23–32. <https://doi.org/10.15294/jdm.v9i1.14649>
- World Bank. (2018). Global Economic Prospects 2018: Trade, Regionalism, and Development
- World Economic Forum. (2016). Global Competitiveness Report 2013-2015. [Online] <http://reports.weforum.org/>
- Yuksel, I., Dagdeviren, M. (2007). Using the analytic network process (ANP) in a SWOT analysis—A case study for a textile firm, *Information Sciences*, 177, 3364–3382

