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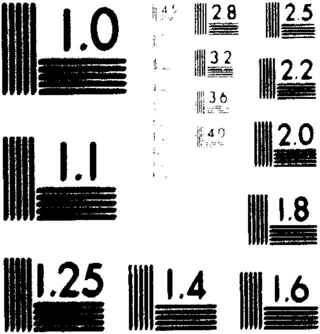

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Indonesia.

ASSISTANCE TO THE DEVELOPMENT OF SMALL INDUSTRY IN INDONESIA

(PROYECT DP/IN3/78/078)

[redacted]

1983

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DEPARTEMEN PERINDUSTRIAN

DIREKTORAT JENDERAL INDUSTRI KECIL

[redacted]

TERMINAL REPORT.

INDUSTRIAL MARKETING EXPERT.

DP/INS/78/078

SUBMITTED TO

DR. RAM K. VEPA, TEAM LEADER

This report has not been cleared with UNIDO nor the UNDP and therefore exclusively represents my personal views and opinions at this stage.

Report No. 26
July/August 83
Len. Aavatsmark
I M E.

FOREWORDS

It is with regret that I have to withdraw from the INS/78/078 - Project at this stage, and have to write this "Terminal Report".
What was "understood and planned as a two-year assignment", due to bad health, has to end, so to say in "mid-term". However, hopefully, my fairly extensive trip-reports, this report and my discussions with and suggestions to Kanwil/ BIPIK - officers in the 8 regions covered by this project have been meaningful and given some input.

Likewise I have found my discussions with the central Team in Jakarta and the Industrial Engineers fruitful to me and I hope this is mutual.
I would like to express my gratitude for towards Directorate General for Small Scale Industry Mr. Gitosewoyo and in the first part of my assignment National Co-ordinator, Dir. S.B. Tampubolon for always nice and helpful attitude.

Since my assignment is so abruptly or terminated, please look upon this report as a preliminary report rather than a full, comprehensive Terminal Report.

Jakarta, July/August
Yours faithfully,

Len. Aavatsmark.

C O N T E N T S

APPENDIXIES

1. SUMMARY

The major objective for the Industrial Marketing Expert (IME) has been to assist the officials of Directorat Jenderal Industri Kecil (DJIK) Bimbingan dan Pengembangan Industri Kecil (BIPIK) centrally and regionally as well as the small scale entrepreneurs to improve their marketing skills or possibilities by pin-pointing bottlenecks and recommending/suggesting new opportunities or improving excisting ones.

In addition, in cooperation with Team Leader and Industrial Engineers to study (already) excisting support programmes like "Foster Father Programme, Sub-contracting system, Purchase Reservation Schemes" and when, and if possible, give advise as to improvements and or new suggestions. Moreover to study general and specific existing marketing channels for select products and give suggestions to possible improvements.

Since the IME for different regrettable reasons has to leave the project in "midterm" almost only surveys and regional discussions have taken place and the following must there fore be looked upon just as preliminary findings with some suggestiones to possible solutions.

A marketing workshop/Seminar in basic marketing was originally planned to be a "road-show" taking place in all the regions primarily for BIPIK-Officials and Extension officers, beginning August 1983, but was after the Government reshuffle (March - April 1983) revised by the National Officials (DJIK-BIPIK) to become a one week workshop in Jakarta aimed at Leaders of Promotion Centres and some DJIK/BIPIK Officials from Head Office.

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A manuscript is enclosed as Appendix I and will be followed up by Team Leader and IME's Counterpart. However two "Mini-Workshops" (two-days each) covering select and problem-products were held for the BIPIK-Staff in Den Pasar and Ujung Pandang.

In the cooperation with the Industrial Engineers on-the-spot advise has been given and several product-ideas and their market opportunities discussed, several of which have later been or are being followed up.
A preliminary study of the Foster Father - Programme has been undertaken in cooperation with Team Leader and several of the Team-members compiled by Team Leader in "Report No. 15" - with a suggestion to a "General - Agreement" - between "Foster Father and Children" (enclosed as Annexure II) which the IME later have had translated and sent the IE's and all the KANWIL/BIPIK Offices as well as some "Foster Fathers" for comments/ reactions.

The study of distribution channels for small scale industry's products naturally have to be difficult-and generalization necessary as manifold as the products are-and as wide-spread and different as the market-places and/or sales-points necessary are in a country with 30.000 islands. Even on Java, were some 75% of the over 150 mill population live, the differences of types of sales-outlets and differences between, not only urban and rural area, but also between each region are huge.

It is beyond doubt though, that the non-pribumi (non-Indonesian) "middlemen" or trader plays and imperative <u>and</u> necessary role in the distribution of small scale industry's products. (see "Distribution").

Suggestions to improvements of the role of the Promotion Centres in included in this report. Product and Purchase Reservation Schemes have briefly been looked into and ad hoc advise given.

The Team Leader is preparing a report on Product Reservation Scheme and this report gives a brief note on the Purchase Reservation Scheme even though it is far yet implemented.

The Export possibilities of Small-Scale Industry products have in the IME's opinion been given a too low priority within the project. However a short note on export is included.

2. OBJECTIVES/WORKPLAN

My original workplan, drawn up on the basis of the Project Document and initial discussions with Team Leader and National Project Director, was the following :

1. Conduct market surveys in general, with specific "search" for products from the small scale industry which have already succeeded in the market and find "success stories" to be used as examples/promotion.
2. Select (other) products which we think will have market potential and try to develop specific marketing strategies for these.
3. Study how "Reservation-Schemes" and "Decrees" to protect and promote small scale industry Actually are implemented and pinpoint loop-holes towards the right authorities (through Project Manager) this should also include import prohibitions.
4. Study purchase-systems at retail level/find products that could easily be replaced by local/small scale production and try to implement examples (Ex : Potatochips/mops/cooking oils/house-hold-utensils/ laundry-soap, etc).
5. Study the role of the "middlemen" or "traders" in the distribution system, but only give advise if we find this would improve matters.
6. Study use of "waste" or lower quality products from big scale industry and possibilities of using it by small scale industry preferably, by giving suggestions, ideas and production advise.
   This in close cooperation with the industrial engineers.

7. Study the Foster-Father Programme implementation and give advise for stronger/better possibilities. Use "Success-stories" for promotion.

8. Organize, in cooperation with Training Expert, Marketing Training-Programmes for extension personnel and entrepreneurs, either in general-or product oriented.

9. In cooperation with Documentation Expert, assemble market intelligence for the small scale sector, for him to distribute promotional material for marketing of specific products.
   Try to assist in improvement of distribution.

10. Consultation and cooperation with other Technical Assistance Projects and Programmes in oder to assist or gain knowledge-whether local-or export-oriented.

11. Keep close contact with the out-posted Engineerial Experts both with regard to input and assistance.

12. Try to keep in (close) contact with all types of <u>cooperative bodies</u>, and study their success, or lack of same-which should give both input and output for our Project.

13. Make Case Studies of specific products such as Leather, Textiles-or Metal Industries and pinpoint weaknesses and strengths of existing programmes, as well as design ideas and improved production methods (through the Industrial Engineers).

14. Keep close contact with the MIE's and try to act as "problemsolvers" or "contact-persons" who can submit their problems to the"right" supervisory persons.

15. Assist and give advise in Export-matters-whenever there seems to be a supply/demand potential.

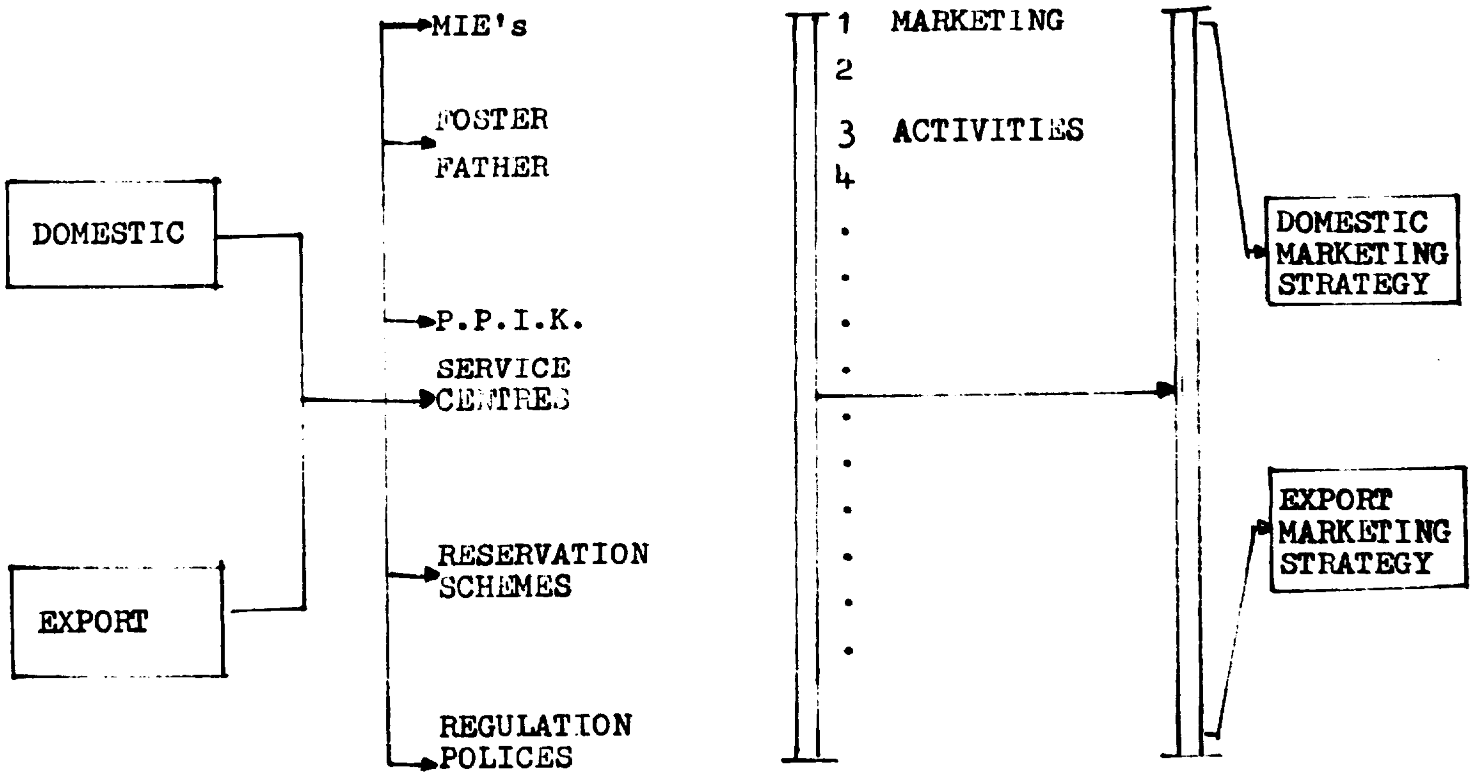
16. The above implies close contact with the Authorities (and the Documentation Expert) in order to obtain the most reliable statistic facts possible.

The order of these points are coincidential and the order of priority must naturally be discussed Team Leader as well as Project Manager.

Jakarta, September 1982

Len. Aavatsmark.

See Chart Overleat.


DOMESTIC
EXPORT
MIE's
FOSTER FATHER
P.P.I.K.
SERVICE CENTRES
RESERVATION SCHEMES
REGULATION POLICES
1 MARKETING
2
3 ACTIVITIES
4
DOMESTIC MARKETING STRATEGY
EXPORT MARKETING STRATEGY

2.1. REVISED WORKPLAN

Even though the above workplan naturally was based on close cooperation with and assistance from the Team Leader, the Central Team in Jakarta and the uotposted Industrial Engineers, it was found to be too comprehensive, especially because the actual close cooperation with the Engineers in practice proved to be difficult either because they were not yet assigned (Bandung, Yogyakarta, Ujung Pandang and initially Jakarta) or because of the IE's or IME's limited travel opportunities and meeting possibilities.

In spite of this the IME has had cooperation with Team Leader and Mr. Marklund, Semarang and later on Mr. Ursberg, Surabaya and hopefully all parts have had benefit of this in the from of respective general and specific information.

The same goes the National Coordinator/Director, Mr. S.B. Tampubolon, and in the last part of the IME's assignment, Mr. Eidsvig, Jakarta.
Based on a Tripartite Review Meeting in January 1983, the Team Leader drew up the following main targets/objectives (workplan) for the IME :

1. Studies on existing marketing channels, problems of marketing, etc.
2. Study of Purchase Reservation Scheme and methods to enchance its utility.
3. Study of Foster-Father Schemes, organise 25 New Programmes.
4. Help to set-up 2 Sub-contract Exchanges.

Same as above.

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5. 5.1. Any other work :
Help to Promote the Marketing of Promotion Centres.

5.2. Consultation when called upon.

It should be added here that the new (after the Government reschuffle) officials in charge, DJIK/BIPIK have asked for comments on and stressed the importance of suggestions to improvements in the 'general operation' of the BIPIK Promotion Centres.

3. GENERAL FINDINGS

As the general situation, definitions, comparisons, categorizations and general economic importance of the small scale industry of Indonesia, as well as the general set up of both Department of Industry and BIPIK both nationally and regionally, have been dealt with in DEPTH, also compared with development in other countries, in : "Interim Report on the Development of Small Scale Industry in Indonesia-Report No. 3 July 1983" by Team Leader Ram K. Vepa, I find it unnecessary to elaborate further on this in this report.
However as a short 'backgrounder' let me give a short summary :

The latest statistical data as processed by The Directorate General of Small Industry, Ministry of Industry of Indonesia, shows that there were 1 554 871 units of small scale industries in Indonesia in 1982, some 78 per cent of them located in Java, while the rest are located in the other islands with some 9 per cent in Sumatra, 5 per cent in Sulawesi, 3 per cent in Kalimantan and 5 per cent in other islands.
Accordingly, the small industry sector absorbed a total employment of approx 4 423 800 people, dispersing 78 per cent in Sumatra, 3.5 per cent in Sulawesi, 2.6 per cent in Kalimantan and 5.6 per cent in other areas, again according to DJIK.

In terms of growth rates, however, the contribution of small industry to the national economy is still very low. The total manufacturing growth attained during the period 1974 - 1978 averaged 12 per cent annually.

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But the growth rate of small industry and handicrafts are only around 5 per cent per annum, while other sectors are exceeding this figure, i.e. light industry grew by 10-14 per cent per annum, textiles by 15 per cent, chemical industries by 26 per cent, metal industry by 17-18 per cent.

The latest data revealed that, during the period 1970 - 1981, the growth rate of the industrial sector was 14.4 per cent, while the growth rate of the whole Indonesian economy in 1981 was 7.6 per cent annually.

In the Second Five Year Development Plan 1974/75-1979/1980, the Government decided to put more emphasis on the promotion of cottage or traditional industries/ artisan activities and modern small-scale industries.

It was recognized that small industries play an important role in the industrialization proc[illegible] A programme aimed at the creation and expa[illegible] [illegible]f cottage industries and small manufacturing u[illegible]ts, both in urban centres and rural areas, was required to direct industrialization to less developed areas based on the utilization of locally available resources. This would also create more employment opportunities (both for male and female workers) at relatively low capital costs. Such a program would benefit the relatively weaker sectors of the community in the less developed areas and thereby generate a more equal distribution of economic benefits among the various population groups and different areas of the country.

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The project, i.e. Project for Promotion and Development of Small Industry (BIPIK Project) set up four major targets :

1. Education and Training
2. Extension Services (Field Assistance- "TPL's")
3. Technical Assistance in the field of technology, provision of simple machineries and tools, and managerial training.
4. Marketing Promotion and Information.

Types of Assistance supposed to be provided to small scale enterprises.

In its effort to render more efficient assistance to the development of small enterprises, the Government in 1979 set up a special Directorate General under the Ministry of Industry - the Directorate General for Small Industry (DJIK).

The DJIK has the objective to assist in matters concerning the problems of small scale industry. BIPIK has since been one of the projects within DJIK.

Since the establishment of the DJIK, more emphasis have been put on promoting the development of small scale industry. Better Coordination of different agencies providing assistance to small industries was established through DJIK. Regulations to provide special incentives for small industry (such as reservation schemes, financial assistance schemes and procurement schemes) were being stipulated by the government.

In the field of market promotion, DJIK/BIPIK is supposed to give assistance to small scale industry through several activities.

In product development, BIPIK has planned a special section/or Product Development and Design centre to try to provide quidance for small entrepreneurs.
BIPIK has also set up 14 Market Promotion Centres where the small scale industry/entrepreneurs can display their products without rental charges.

The promotion centres are situated in provincial capitals like Denpasar (Bali), Surabaya (East Java), Semarang, (Central Java), the capital city of Jakarta, Padang (West Sumatra), Bandung (West Java), Medan (North Sumatra), Banda Aceh (Aceh), as well as in district capitals such as Surakarta, Magelang, Pekalongan, Pematang Siantar, etc.

A program of exhibitions on the district, provincial and national level, as well as international level in which small entrepreneurs are invited to participate free of charge or at minimum cost has also been launched, through coordinated operations among agencies such as NAFED (National Agency for Export Development), Directorate General of Cooperatives, Directorate General for Domestic Trade, Directorate General for Tourism.

Foster Father Schemes ("Bapak Angkat") and Sub-contracting Schemes have been launched in order try to bridge the gap between the large scale industry and the smaller/weaker groups of enterprises.

Favourable conditions to the small scale entrepreneurs are also attempted obtained through Product Reservation Schemes and Purchase Reservation Schemes. So far the initial objectives/targets for DJIK/BIPIK in the marketing field. In the following paragraphs I would like to give some comments.

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4. FOSTER FATHER PROGRAMMES & SUB-CONTRACTING

An important aspect of marketing for the SSE is the sale of intermediate goods and products to other larger companies making finished products for domestic consumption or export i.e. sub-contracting.
In this respect various types and agreements exist.

In Indonesia a special Programme has been launched - The Foster Father Programme in which larger firms - Governmental or private - are APPOINTED Foster Father to a certain cluster or number of small scale units.
Through visits it has been found that all too often what it boils down to is : "supply of raw materials" on more or less favourable conditions.

Examples :	Semarang Makmur, Semarang	(Metal)
	P.T. HAKA, Surabaya	(Leather)
	Cipta Niaga (GVT Trading House), Medan	(Yarn/ Textiles)

All with little or no (commercial) advantage to neither part "Father or Children".
I am convinced that this is due to lack of incentives since the Foster Father Programme is built on an 'idealistic' basis and should contain such important elements as training and general assistance to the SSE and last but by no means least, assistance in marketing either by buying the semi-finished goods, or, parts, or by actually marketing/selling the finished goods (at least a substantial part of them) for the SSE.

The Programme which is excellent theory relies therefore too much on the good-will on both parts.
Specific contractual obligations must be drawn up in

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each case and written AGREEMENTS countersigned by BIPIK/Kanwil for these to act as Arbitrary officials in case of dispute over late delivery, inadequate quality, delayed payment etc. All this has been dealt with at length in Team Leaders excellent Report No. 15, "where several examples are mentioned after input from Ursberg, Marklund, himself and me.

A model "contract" or "Agreement", which naturally would have to be adapted to each case, has been drawn up (appendix II).

It has been translated and sent out to IE's, Kanwil/ BIPIK offices and some Foster Father companies for a general "Hearing" or comments.

Whithout 'stict rules' a programme such as "Foster Father" by nature will be weak due to its non-commercial-non-or-low profit (idealistic) character.

It might be of interst to look into the possibilities of dividing the programme into different categories like Foster Father Programme A,B,C according to the obligations/ commitments of the "PARENT" company. Incentives would also in my opinion be a necessity for a successful and more rapid implementation of the programme.

Government or Department of Industry should also seriously consider to impose commitments from campanies/ ventures being established when issuing licences whenever applicable.

These could be made to commit themselves to take on a certain number of SSE's as Sub-contractors and/

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or take responsibility for training a certain number of SSE's and supply these with necessary equipment.

Where "the Father" takes on responsibilities at a larger scale some sort of periodical tax - reductions, subsidies or the like should be implemented.
In addition publizised awards should be given for general

In other cases it is essential that BIPIK/Kanwil (M.I.E) steps in with parts of training, some maschinery and last but not least quality control. The latter recently took place when Kerta Niaga (GVT Trading House) through BIPIK/MIE Bandung finished an order for 5000 pairs of shoes for the central procurement office of the ABRI (army/police/navy/airforce) to a cluster of SSE's of shoe manufacturers in the area, with good hope of repeat orders. Examples like this are encouraging, and should be publicized widely especially to GVT - Trading Houses and bulk buyers.

Another interesting example of sub-contracting, which easily could be replicated, was found in Medan (reported to BIPIK/DJIK Jakarta in trip report) where a few women had set up a company (with training), farming out embroidery and crosstitching (table-cloths/bed-covers/sandals/bags/ wall-decorations etc. to some 1.400 wifes of becak-driver's (3 wheel bicycle for passanger) wifes, providing them with cloth and yarn..

It was impressive to see their products as well as their record-keeping of each of the women employed, with pictures and scores for good or bad work on each and one of them.

The company was operated from a bungalow and in addition to sales agents in Jakarta and Bandung, they could also boast exports following participantion in a couple of foreign fairs through NAFED (National Agency for Export Development).

Kubota Motor, Semarang, is another success story where small parts of diesel engines are produced by a number of small scale entrepreneurs.

As a whole the Programme is excellent and more examples of actual implementation to mutual benefit could be mentioned (see Appendix III) but all too often the lack of incentives and a 'contractual' agreements are absent - and the remainder of the Programme becomes : some 'delivery' of raw materials which f.inst. can be scrap. metal which the SSE has to collect himself. Example : PT. MAKMUR, Semarang.

It should be recognized, however, that the Foster Father Programme is still its initial stages and that some "firming Up" and some actual incentives would certainly speed up implementation as well as broaden it.

Further examples of identified products with market/ demand/production potential are enclosed in Appendix III with sub-annexures.

5. COOPERATIVES

The forming of cooperatives amongst SSE's seems logical and has had high priority and been strongly adv advocated in Government policies.

However, outside the rural/agricultural field one rarely finds actually operating cooperatives in our comprehension of an actual Cooperative.
All too often the so-called Cooperatives "in operation" is limited to common raw material buying/facilities and even then with so weak ties that each member very often can buy better/cheaper raw materials on his own.

This I believe derives from the very nature of the Indonesian character, which in this sense is very individualistic and family-oriented as well as a deep-rooted resistance because of previous bad experiences with the cooperative movement attemted established just after the revolution with disasterous results insomuch as they all 'folded' because of inadequate experience, lack of trust, fraud etc.

Therefore it has been experienced that the mere 'word' - 'Cooperative' has a bad image in the thoughts of the indigenous industrial entrepreneur, mainly for fear of being embezzeled in one way or another.

However, 'Joint Bodies' and or 'Assosiations' with minor economical commitments are more readily accepted, and hopefully the establishement of Mini-Industrial Estates with their Common Service Facilities (C.S.F's) like machines training, etc, together with the Market Promotion Centres, will initiate the feeling and understanding for the Unity is Strength", which presently is absent on the grass-root level.

5.1 GENERAL BACKGROUND ON COOPERATIVES AND ASSOCIATION

The form of strengthening by grouping is insufficiently developed in newly industrialized countries, while in the industrialized countries there are a considerable number of examples where the parties involved experience many benefits.

It cannot be denied that small-scale industries have certain disadvantages compared with large-scale industries caused by their smallness. Size in itself is a limiting factor in some aspects of industrial management. The most obvious example in this respect is the meagre bargaining strength of a small-scale enterprise in the money, materials and labour markets. Another well-known example is in the field of competition between a small and a big company in which the latter makes use of extensive advertising which the smaller firm cannot afford.

A logical step in overcoming the disadvantages of smallness is cooperation or association of small-scale firms to build a stronger foundation for achieving success.

- Forms

The forms of inter-firm relations are manifold. They range from loose ties with occasional interchanges of experience via associations and co-operatives to fusions in which the partners merge into a bigger unit.

Except for the latter, all forms are such that the individual partner is still his own master. Most cooperation and association of small-scale industries concern firms in one region, which assures good contacts between the partners. Branch associations may, however, cover firms scattered over a large area. Association of firms of different branches of industry aims at a bigger assortment of products which are offered to customers.

- Sectors

The sectors in which we find cooperation of small industries are, in general, the following : Production means (e.g. expensive machines, subcontracting, to each other); management policies (e.g. penetrating a new market, no 'cut-throat' competition, specialization among partners in the same branch of industry); common department, facilities or service (e.g. display or exhibition, survey or advertising in the marketing function, research and development in the production function, purchasing, engaging outside consultancy).

- Advantages

- O Less cost or higher volume;
- O Bigger batches;
- O More capacity (acceptance of bigger orders);
- O Less waste (less duplication of activities);
- O Better methods as a result of research or specialization;
- O Shorter delivery times if operations can be done in parallel by partners;
- O Better bargaining position in markets, e.g. export, or with governmental agencies;
- O Standardization (e.g. in administration);
- O Pooling of resources as a result of combining (e.g. for investment).

- Disadvantage

In fact, there is only one disadvantage of cooperation or association, and that is, the individual partner is less independent. As most entrepreneurs/managers of small-scale industries are individualists who strive for independence, this constitutes the main obstacle for grouping and pooling. This obstacle is felt in starting the contact as well as in deciding on and carrying out agreements. As long as the individual member looks at his benefits instead or those of the group, the cooperation is doomed. The most important factor for success is the attitude and willingness of entrepreneurs/managers to work towards common goals.

- How

Studies of failure and success of cooperation between small-scale enterprises revealed the following hints :

- Start with informal contacts, organize regular meetings for a considerable period (for instance, a year) and aim only at exchange of ideas and experiences. In this way, trust among the members will grow and the result will be an insight into common problems and possibilities of cooperation;
- Have patience and do not panic if the group becomes smaller;
- Start small,meaning, not too many members as well as a trial cooperation in one field of management only;
- Do not believe that size of firm in itself is an obstacle for cooperation;
- Know that, after a good start, it is relatively easy to develop the cooperation among more members and/or in more fields.

6. DISTRIBUTION CHANNELS

To try to draw up general distribution channel charts for the Small Scale Industry would be futile insomuch as they are for too manifold both with regard to type of products as well as customers - consumers.

The Pribumi Small Scale Entrepreneurs, (SSE), however, are almost always product-oriented, be it capital (durable) goods, industrial parts products or consumer goods and have little or no (possibility of obtaining market info) apprehension of real information on market demands, even in his local market.

He is thus almost entirely dependant on "middle-men", or "agents" who's importance can easily be recognized; their trading capabilities tradionally taking care of what we in modern terms call : Market Research (demand), supply of raw materials, product development, supply of minimum "working capital" as well as physical distribution to customers.

And these "middle-men" or traders do not pass on their market information - it is their main asset, besides capital.

Even though the GVT (DJIK+BIPIK) has set up facilities with advantegous facilities such as loans through: "Soft" Bank loan facilities for SSE.

Small Scale Investment Credit : K.I.K.
Permanent Working Capital : K.M.K.P.

and

Trade Promotion Centres (14)
Foster Father Programmes
Sub-contracting Programmes
Purchase Reservation Schemes
Product Reservation Schemes

(See below)

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these have by far reached effective implementation yet; leaving the "middle-man-type" of distribution the prevailing one.

Recognizing that the "middlemen" are palying an important role within the marketing and distribution systems for the SSE and actually act as a market research-body, it must, by the same token be realized that their trading (economical) margins all too often tend to be of such character that they actually utilize and exploit the SSE to the degree that a large number are "owned" (bought) by non-indigenous traders/ entrepreneurs.

It seems like this type of "order-making-production" -at low-if-any-profit, can only be overcome by the forming of assosiations, cooperatives, sales assosiations or "Joint-bodies" that would strengthen their possibilities of obtaining bank credits, cheaper, better supply of raw-materials as well as enable them to engage themselves in at least some basic marketing activities like market investigations, product development and actual sales efforts towards potential customers.

There are encouraging examples of the above within the Foster Father and Sub-contracting Schemes even if these programmes are still in their initial stages and need further and strickter "rules" of implementation.

However one should be careful to "disturb" deeprooted traditions too much. It is a indisputable fact that the indigenous Indonesians in general and by tradition is "agro-oriented" or, if an industrial entrepreneur, product oriented at the Small Scale Industry level.

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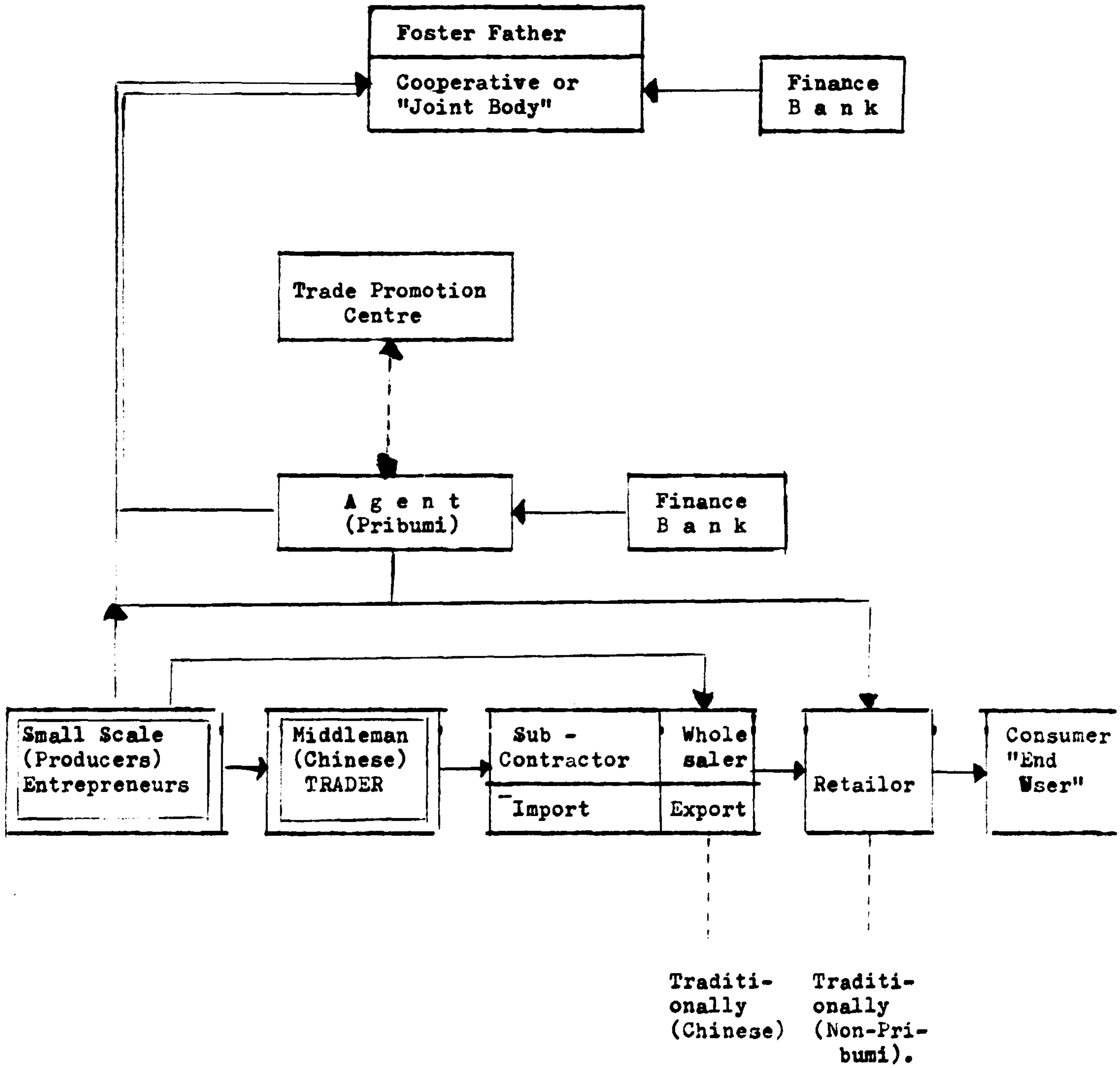
It is just as indisputable that people of Chinese and indian origin (all over the world) are recognized as good businessmen or traders and must be recognized as an asset in the distribution system.

Hampering trade naturally there are substantial examples of excellent indigenous traders and the younger indigenous generation will no doubt develop and be educated towards this goal.

If we were to try to exemplify a general distribution system, bearing in mind that there are no "all-covering" or "recipe-solution" to the "middle-man-problem" nor for distribution, a draft chart could look like this :

DISTRIBUTION



The importance of forming of "Joint-Bodies" (co-operatives or assosiations) or even loose sales/ marketing organisations cannot be stressed strong enough, be it within Foster Father- Sub-contracting- Schemes, an output of MIE's with common service facilities (CSF's) or just emerging from natural cluster of SSE's.

In any of above mentioned "models" of co-operation the necessity of common sales-offensives and market-oriented product development must be recognized as just as important as production itself. Days are over when one could wait for the customer to knock on the door wanting to buy.
The dessemination of apprehension of the importance of production for demand is therefore imperative to the SSE's survival.

In this context I think BIPIK's Promotion Centres (and TPL's-"Extension Officers") will have to play a very important role, not like today when they are merely functioning as (badly visited) exhibitions of samples from SSE's (see below).

Another way of strengthening the Trade Channels of the SSE is by strengthening indigeneous whole-salers, retailors and retail-chain outlets primarily buying/ selling and promoting locally produced merchandize (Sarinah/Sarinah Jaya, Suzana in Pulo Mas, and the newly opened Sari Shopping Plaza which boasts 90% of goods sold to be domestically made). The following chart exemplifies how they could operate through their own "Buying Agents" :

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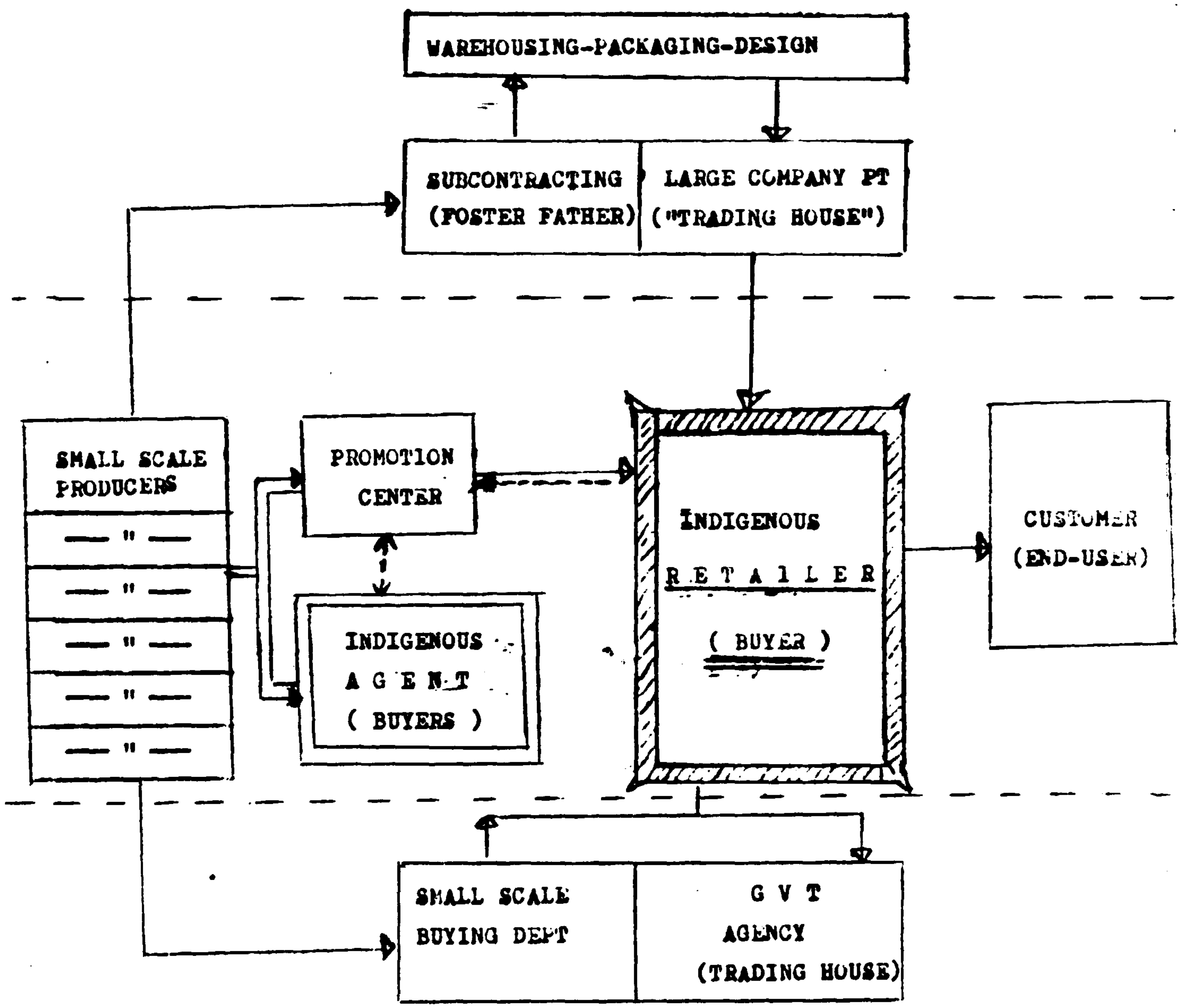
D I S T R I B U T I O N

"Consumer Goods"



Suggested lines of distribution through strengthening local pribumi retailors to become agressive PURCHASERS AND MERCHANDISERS of Indonesian made goods.
Example : SARINAH JAYA.

Indonesia, with its geografically spread out market of more than 150 mill people with an average income of more than $500,- is a huge market. Although some 75% of the population is situated on Java the overall and general consumption tends to be local/regional due to relatively weak infrastructure.
This should prove both an advantage and a disadvantage to the SSE's.

The advantage should be stimulation of local/ regional <u>entrepreneurship</u> to produce goods for the community provided they are being made aware of the local demand.

The disadvantage naturally would be the lack of information on demand from a wider market.
This calls for a progressive policy providing the SSE's with a <u>better market information</u> system (infra-structure) which could be provided through the governmentally assisted development of progressive retailors as well as upgrading and extending the scope of Promotion Centres (display-rooms-and emphorias) to include <u>two-way supply and demand information</u> and act as a <u>Trade Exchange House or mediator</u>, also for Sub-contracting.

7. BIPIK PROMOTION CENTRES

BIPIK Promotion Centres should and could play a much more important role as a distribution channels and marketing tool for the SSE than they do today.

Unfortunately almost all 14 (maybe with the exceptance of Yogya) thay are just static exhibitions of some of the SSE products that are being made in the area.

Moreover the following characteristics usually would be found :

1. They are often "remotely" located to (trade) b business centres. They are badly "signed" and difficult to find.
2. They have little or no contact with businessmen, traders or other potential customers and therefore extremely poorely visited. They are badly promoted/advertized (but mentioned on TVRI when high-ranking officials a seldom time visits).
3. They are not commercially oriented (at all) and non-trained staff can give minimal information.
4. They have little or no contact with the SSE's themselves - the items have just been collected or bought and "put on a shelf ". The items exhibited are often absolete or out of production. Brochure material/leaflets are of bad quality and give little or inadequate information to potential buyers.
5. There are no-up-to-date resource lists.
6. Information on price and resource do not exist or are inadequate.

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7. Some centres badly need painting and even washing.
8. There is little or no contact with large-scale-industry or chain stores. (for bulk-buying, sub-contracting).
9. No or little advertisement or other promotions are taking place (except on special occations) not towards potential customers nor the SSE's.
10. Their commercial value for the SSE's is therefore close to Zero.

What can be done for Promotion Centres ?

Being aware of limited resources it is understandable that the best locations, best and most effective staff etc can be difficult to obtain.
But also being aware of the fact that this should be the Small Scale Industries "Face towards any market" no efforts should be left un-attempted to make them what they are called : Promotion Centres of Small Scale Industry products and Handicrafts.

They should become Promotion, Information and Activity Centres.
Since they are "Non-commercial" in comparison with "Sales Emporeums" why not turn them "commercial" through link-ups as mediators with :

1. Trading Houses (GVT or private)
2. Chain stores/wholesalers
3. Cooperatives or other joint bodies among entrepreneurs like organizations
4. Merchant organizations
5. Making them Exchange "Bourses" between SSI and LSI. (Sub-contracting). Up to date resource lists

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6. <u>Information Centres</u> for SSE's for design & product ideas, scetches, possibilities of cooperative recruiting, market information centres helping entrepreneurs to discover new product possibilities, new markets and distribution channels
7. More effective PR-work towards the SSE's themselves (through TPL's)
8. Supply them with enough funds or credit facilities to buy up some stock-naturally after certain criterias-for further active "<u>offers</u>" to above mentioned "bulk-buyers" (<u>samples</u>)
9. "Forces" distributions of professionally made brochures stressing the above points to business associations (KADIN), wholesalers, big retailors, Hotels, etc.
10. Close co-operation with the LIK's which often have the disadvantage of being even further away from the active market place and have no showroom there
11. Act as <u>mediators</u> or active "sales offices" towards procurement offices for bulk buyers like ABRI, local GVT offices, PLN, local hospitals, schools, etc.
12. Exchange of <u>resource lists by products</u> with names and addresses, cooperatives, joint-operations, etc between the different regional Promotion offices
13. Joint National Exhibitions 2 - 4 times a year
14. Even closer cooperation with NAFED for foreign Exhibitions/exports
15. <u>A permanent National Promotion Centre</u> should be arranged centrally in Jakarta concentrating on Small Scale Industry products.
   This would have to be professionally operated and could very well be coordinated with a Toursm Centre. At least a wing of this National Promotion Centre should be given adequate facilities at the NEW CENGKARENG AIRPORT, due to open in 85/86.

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All this would naturally take over several of the functions of the BIPIK offices (Staff) as such, but it would anyway be an advantage if BIPIK offices and Promotion Centres are located at the same premices. (which they are at several places).

At any rate it is recommended to modernize and activate the Promotion Centres to become "MINI TRADE CENTRES"with at least one progressive, experienced BIPIK official as leader. If located at different places easy communication (telephone) between the Promotion Centre and BIPIK Head Office for speedy references would be imperative.

The Promotion Centres (MINI TRADE CENTRES) should be developed into the natural MEETING PLACE between the Small Scale Industry and the MARKET as such with up-to-date exhibition and information of the regions Small Scale Industry's Products.

The above should be promoted strongly (brochures, leaflets, advertisements, through TPL's etc) both towards the SSE's themselves as well as the "traders" and the market in general. A chart of how the Promotion Centres could be more effective could look as follows :
(In this context I would like to draw attention to a UNIDO description of Industrial Marketing Centres - see appendix V)

7.1 MINI INDUSTRIAL ESTATES (MIE's).

The Mini-Industrial-Estates will not doubt be covered by the reports of each of the Industrial Engineers in each region as well as the Team Leaders. From a marketing point of view though, I would like to make some points :

1. Cost consideration of transport of workers to and from the Estates.
2. Cost consideration of transport of raw-materials as well as finished goods (they are in most cases located far from the market-place and one can hardly expect the customers to go there except in specific cases).
3. Produce for demand - also in the MIE's. It's important that the entrepreneurs already when entering the MIE's, through training - learn to adapt to market demand and prices.
4. Close contact with Promotion Centres, not only exhibition space at the M.I.E.
5. The M.I.E.'s should form excellent Sub-contractors as Contractors (or Parent Company in the Foster Father Programme) would be able to give exact, detailed information on requirements and entrepreneurs with the right machinery and training in the C.F.S. (Common Service Facility) should learn how to meet requirements.
6. BIPIK/should furnish MIE's with new product ideas through general market research and samples.

8. RESERVATION SCHEMES

The Product Reservation Scheme which reserves an extensive list of products (suited for) in all categories for SSI will be dealt with by Team Leader Dr. Vepa in a separate Report. -

The Purchase Reservation Scheme which was launched in 78 initially in order to promote domestically made products vs. imported goods.
(Presidental Degree No. 14, 14A and 18).

The Scheme, aiming at reserving some domestically made products in GVT - agencies procurements etc. was no doubt in the best of Intentions.

However, it must be said that so far it has been a fiasco. The good intentions of promoting domestically made products is naturally in itself a good one, but without a clear-cut concept of which specific articles it is all about, it is more or less use-less.

Thus Indonesian made Coca-cola, Lux soap (Unilever) etc. would benefit from the Scheme and even though these multinational companies generates large job opportunities there should be no doubt where a sustantial part of the profit goes.

The above was pointed out by the leader of the Indonesian Consumer Association in a highly critical article in Kompas (Indonesia's largest daily news-paper) as late as 15th Juni 1983. The article also raised the question of the benefits for the SSI.
To my knowledge the article has yet to be answered (July/August 83).

The main advantages then with this Scheme/Decree is that Governmental purchasing on National, and, especially on local/regional levels should give preference to locally based firms even if there is a general tender. Naturally these (or limited tenders) will benefit local industry but not necessarily (not likely) SSI.

The only reservations stipulated are that the firm/company selling, should have more than 50% of the stock on indigenous hands/or that more than 50% of the employees are Indonesians.

If the Decree/Scheme is supposed to benefit SSI a review is certainly called for.
It would be an advantage if the GVT-procurement offices at different levels established a minor "SSI-procurement-department" with one or two persons supervising and attending the interests of the Small Scale Industry.

In this connection it would be desirable for the provincial GVT procurement offices (together with the special department for SSI) to critically review which type of articles/product and requirements that can be met by local SSE's. Chairs and desks for schools, school uniforms, towels of all types, Ashtrys, waste-paper-baskets, paper pads,brooms, washing-cloths, etc. could easily be reserved for small scale industry-vide Product Reservation Scheme which in this connection should be scrutinized - both providing marketing channels for locally made goods as well as ideas for entrepreneurs for diversification and/or opportunities for establishing new SS companies.

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In fact, the Product Reservation Scheme with its listed items easily should and could be the 'bible' for the procurement offices and the PPIK's (Regional Small Scale Development Centres) BIPIK's and their TPL's (Extension officers) in their contact with local entrepreneurs. This could also form an "order-basis" for a local Mini-Industrial-Estate. Specifications and even working manuals could be worked out or samples given to the entrepreneurs generating pride in using locally made products. This is naturally also the case for decorative items by artisans, like wood-carving, painting etc.

Whether all the items in the Product-Reservations list automatically should be included in the Purchase Reservation list is a practical question, but it should certainly be a quide and/or considered more closely.

The above, - the forming of a "Special Department" for the benefit of, and concentration on Small Scale Industry - should also be formed within each of the major state owned Trading Houses (Cipta Niaga, Kerta Niaga, Panca Niaga) thus opening up for new and bigger (National) markets of specific articles, but this relates more to the Product Reservation Scheme, which, as mentioned, is decided to be handled in a special Report by Team Leader. However - I would like to stress that these two Schemes should work hand-in-hand.

9. MARKETING WORKSHOPS

As mentioned in the 'Summary' a 'Marketing Workshop' with general & specific training in basic marketing orginally was planned as a 'road-show' to take place in each of the 8 regions covered by the project.

The target group was to be Kanwil/BIPIK Staff including some of their TPL's (Extension Officers); and problem areas and products specific for each region was to be discussed.

After the reschuffle of the GVT following new national co-ordinators (project-co-ordinator and chief of BIPIK) the above plan for economic and other reasons was reduced to a 1 week 'Basic Marketing Workshop' aimed at 2-3 of chiefs of BIPIK Market Promotion Centres from each of the regions and some of the main BIPIK/DJIK Staff in Jakarta (totalling 25-30).

This was to take place in Jakarta following the fasting month i.e. August 83. Unfortunately, I am leaving the project before this and will therefore not be able to perform the workshop myself, which was the initial intention.

The basic concept/manual for the above workshop is left Team Leader and my Counterpart, Mr. Usman for their perusal.
Initial time-schedules etc, have already been discussed with BIPIK - officers and a draft manual handed over.

However, due to the fact that my Counterpart lately has "been ordered" to work with other projects,

it has not yet been translated nor has transparencies been made.
The manuscript is enclosed as Appendix I.

Two Mini-workshops in marketing have taken place,
1 in Ujung Pandang (17 BI.IK Staff)
1 in [illegible]ear ([illegible] BI.IK Staff)
At this discussion 'problem-products' in the region were discussed at length and possible reasons for problems and ways of solving them suggested.

10. E X P O R T

In my opinion the priority of the export aspects of CSI products project has been underrated especially that of the handicraft sector, but also garments, plain textiles, (grey & plain woven fabrics) rattan + basketry, all of which are subtantial sectors within the cottage and small scale industry.

Subsequent to the oil glut the Indonesian GVT has taken various measures to boost non-oil, non-gas exports. A "Permanent Working Commitee" in Jakarta and the provinces has been set up. The Central board is headed by the Trade Minister. Low-interest-export credits and various other steps have been taken in an attempt to remove "obstructive factors" in Exports. This of course primarily benefit the main non-oil products like : tin, coffee, palm oil, rubber, coal, plywood, timber, etc, but should in practice also penetrate to the small scale industry, especially that of handicrafts, garments & textiles (batik) and rattan (see next para on Handicrafts).

The devaluation of the Rupiah with approx 27% v.s US$ in April this year should indeed make Indonesian products more competitive the foreign markets, but through direct contact with CSI's and exporters it has been learned that a great number of 'invisible taxes' (corruption) still exist and has even increased following the devaluation of the rupiah.

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So even if the GVT have removed <u>some</u> "obstructive factors" as they call it, further strong efforts should be made and all links in the "F.O.B export distribution channel" made aware of the importance of "red carpet treatment" of export commodities. Continued "invisible taxes" and paper bureaucracy will only worsen the foreign exchange situation. The [illegible], being one of the weakest links should be given all possible assistance in this connection.

Like in all developing countries to fully remove corruption in the distribution process would be more or less impossible but through positive and aggresive propaganda and through excessive removal of 'obtacles' the present situation could be improved considerably.

<u>Statistics/promotion/production</u>

Through among others NAFED (National Agency for Export Development) SSE's have the possibility to participate at several foreign Trade Fairs. It is important, however, to have a fair idea of production capacity before a product is exhibited. It has lately been experienced that when, and if, an order from abroad is obtained for a small scale industry product it cannot be met due to lack of capacity. Exporters, trade organistations or assosiations must be made aware of this (see appendix VI).

In the export markets the exporter very seldom get a 'second chance' - if the order is not met both quantitatively, qualitively as well as on schedule - that's the end of that relationship.

Intergrated Export Development Project (IEDP)

The above project, working in cooperation with Department of Trade & Cooperatives in Indonesia is doing serious efforts (also in cooperation with NAFED) in creating factual export opportunities for a number of Indonesian products after having data-processed selected product opportunities in foreign markets through I.T.C. (International Trade Centre) Geneva.

The project will finally assist a group of potential exporters based on their qualitative/quantitative abilities as well as their capability and willingness to make efforts in cooperation and exports in general. This would and could include [illegible] products such as certain handicrafts.

Initial contact/discussions have taken place (with team leaders Lars Olsson/[illegible] and [illegible] Benjamin) and further discussions between [illegible] and [illegible]/78/078 should be made regarding products like grey cotton [illegible], [illegible], pastry (buiscuits) wooden household utensils and other handicrafts.

A manual on Export Training from ITC has been borrowed and submitted to DJ[illegible] for copying and translation into Bahasa Indonesia for their perusal. The same goes for micro fisches which this project bought directly from ITC Geneva for further export training and information.

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Export Certificate (EC) and General System of Preferencies (G.S.P)/Quotas.

The Export Certificate is one of the measures GVT has taken in order to boost non-oil exports - giving export incentives through a certain percentage (premium) Governmental 'payback' based on fixed 'check prices' for a number of products to the exporter. Shirts and blouses f. inst. earn the exporter between 10-20% return of export value pending certain criteria.

However, and even though this system has been in operation sice 78/79 and covers a great number of articles it has been found that the SSE's are totally ignorant to this advantage and that even DIP's and BIPIK officials have only faint ideas of the excistance of the benefits that can be obtained through the "EC"-system. Efforts should be made to spread information on this matter.

Q u o t a s/G S P

Most importing countries have as a measure of protection of their own industry set up quantitative quotas (esp. garments & textiles) from developing countries.

Even though Indonesia, according to textile spokesmen, does not yet fill their present quotas, larger quotas (in competition with Taiwan, Singapore, South Korea and China) no doubt will be fought for since future garment & textile exports should prove to be a major foreign exchange source and a very substantial creator of new job opportunities (labour intensive) also in the SS sector (sub-contracting).

The General System of Preferences (GSP) within the GATT - System is another advantage for the SSI which in my opinion is insufficiently known. Through the International GSP - System handicrafts are supposed to enter importing countries free of duties, quotas and other trade barriers.

This is especially interesting to the SSI since so many of their products are hand-made (batik, rattan, wooden handicrafts, ceramics, etc). Governmental offices should be made more aware of this and in my mind a special "Handicraft Export Verifying Body" (within [illegible] ?) should be set up scrutinizing handicraft export articles/products and garantee their actual hand-made-origin. This would further boost of handicraft exports potential.

11. H A N D I C R A F T S

As handicrafts and artisan works/products traditionally are deeprooted in Indonesia and represent a substantial labour intensive sector within the cottage/small scale industry it is a question whether a 'special branch' of the BIPIK should be devoted to handicrafts alone. In studies of Indonesian handicrafts (wood carvings (from Bali) - genuine hand 'painted' batiks, paintings, etc) the difficulties in marketing their products has been a growing problem.

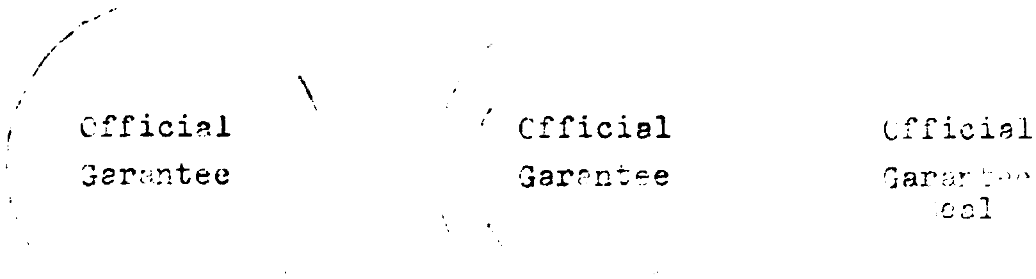
In a preliminary study of Bali handicrafts carried out by IE, Ursberg, Surabaya he points out some of the problems which have lead to a decrease of job-opportunities there. Noticing the abundance of artisan (shops) products throughout Indonesia, but especially in Bali, further efforts should be made in the marketing field. This was covered in trip-reports both by Mr. Ursberg and myself, as well as through our "Mini-work-shop" there. Part of the decrease of sales of this type of artisan products naturally is due to the general world recession, decreasing export and number of tourists. But there are other important factors pointed out to BIPIK - officials as well as several visited artisans. They too, have to learn to produce to demand. There are limits to what a market can absorb of the artistically wood-carved, 'Garuda-eagle' and other common traditional sculptures.

The suggested 'Special Handicraft Branch' of the BIPIK should through [illegible]'s make the [illegible] aware of the market potential for more practical/functional items/products - like salad bowls, oranental tiles for decorative purposes, napkin rings, wooden kitchen utensils etc, in other words - in addition to the [illegible] monocultural products efforts should be made among young and future-minded entrepreneurs to diversify and produce more <u>functional products</u>.

Edùcative "wooden puzzels" of f. inst a map of Indonesia; targetted at schools should/could be an enourmous market for the woodcraft entrepreneur. This as a short note on woodcrafts.

<u>B r a n d i n g</u>

It has been found that handicrafts are almost never 'marked' or 'branded' and it is suggested that BIPIK institutes a special "trade-mark" (or 'seal' for textiles & basketry) like f. inst. :



which should be burned into, painted on to or engraved into handicraft articles. In the case of Batik it could be 'painted' into the edge of the fabric.

At present even ceramics have <u>no "identity" - mark</u> and could therefore have been made anywhere. The same goes for batiks, silverware, wooden and bone sculptures, etc. This would certainly be an advantage both in tourist - sales as well as in export.

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Further suggestions to assist in marketing of handicrafts have been made and includes :

a) Joint Bodies/sales ventures like specific or joint national sales/exhibitions in Jakarta. (have proved successful so far).

b) Better (almost non-existant except for the famous artisans) more professionally made brochures and leaflets could be made on a joint basis with BIPIK's Assistance.
NB. Ample distribution must be secured.

c) Embassies (through NAFED) abroad could/should promote Indonesian Handicrafts in a more aggresive manner. Several collections of artisan products could be staged and sent to Embassies abroad (with sufficient back-ground information) and these could invite art-dealers and potential buyers to a 'reception' exhibiting, batiks, ikats, wooden sculptures, other woodcrafts (Toraja) bamboo works, basketry, rattan, etc. On a rotating basis. Important in this context is to have a subtantial and extensive Resouce - list and at least giving approx. F.O.B. prices from entrepreneurs with quantitative and qualitative abilities. (see appendix VI).

As an example of some of the above I would like to mention a company in Surabaya (Mrs. Prihadie) that had developed into a thriving handicraft export business through at 2 - 3 Foreign Trade Fairs (with the assistance of NAFED/BIPIK). The lady running the company had initially exhibited, traditional ornamental wood-crafts collected from her own workshop. (5-6 woodcraftsmen).

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Upon request from potential customers for more 'practical' items like ornamental doors, door-decorations, window-frame decorations, wooden napkin (klenex) box-holders, wooden clock-boxes (knock-down), bed- "ends"/posts, paper pad & pencil holders etc, all with ornamental hand-carvings, more or less custom-made, after drawings and suggestions from her main customers whom she now visited regularly.

The company now has 4 sub-contractors (wood-handicraft entrepreneurs) who, after training at the company, have become her main suppliers. Close contact with the customers and mutual trust has brough about substantial business in additional products like basketry, textiles and garments also farmed out to sub-contractors after initial training. Sales from her own show-room in Surabaya was also good, especially to the international community.
A lists of Import Promotion Offices in various countries is enclosed as appendic IV.

12. RECOMMENDATIONS

1. Streamlining and improvement of BIPIK Promotion Centres to become "MINI-TRADE-CENTRES" in close cooperation with Mini-Industrial-Estates M.I.E. (See section on Promotional Centres this report) Improve staffing and increase activities.

2. A fixed permanent exhibition of Small Scale - Industry products with export potential centrally in Jakarta. Continued up-dating and substantial Resource Lists with approx prices would be essential. Products from all over Indonesia, adeqatelly 'labelled'.

3. Adequate permanent exhibition/Promotion Centre with sales opportunities at Cengkareng Airport to be run as a sales Emporeum under the supervision of BIPIK/DJIK/NAFED/Department for Tourism.

4. Firming-up of launched Foster Father Programme (and Sub-contractual agreements) by introducing more 'contractual' obligations on both sides. Draft contract agreement as appendix II this report. In this context introduce some economical incentives according to the degree of commitment, which again should be defined more clearly maybe by introducing Foster Father Programme type A.B.C. (See para on Foster Father included in this report).

5. BIPIK design-centre has been planned, but not implemented. Such a design and idea-centre would be very important in the 'creation' of new projects, new products suitable for small-scale industry.

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It should also act as a 'bourse' for replicating success projects from one part of the country to other parts. Samples and idea/work-manuals would be imperative, and dispersement of this information to the different Promotion Centres and MIE's is very important. The above should also include a 'packaging' section giving general and specific advise on packaging.

6. The establishment of a particular department, - 2 - 4 persons, within governmental procurement and bulk buying offices (hospitals, ABRI, PLN, Railroad and all other GVT - financed 'institutions') to supervise, the implementation of Purchase and Product Reservation Schemes, GVT or bulk buying tenders - scutinizing these for optional (regional) production by SSE's and/or cooperations within these.

This particular 'buying office' should be staffed by f. inst. PPL's or personnel qualified to judge what the potentials of the SSE in the area are and able to, as well as have the power to, implement orders or share/orders. A "Small Scale Industry Department" within a procurement office should/would in fact be able to finance itself providing the right attitude and naturally incentives to become "Small Scale Industry's Procurement Officer" are there.

This is important also in relation to MIE's and Promotion Centres, not to speak of Panca Niaga, Kerta Niaga, Cipta Niaga and (former) P.T. Leppin.

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7. <u>S a m p l e s</u>.

GVT/BIPIK/DJIK should allocate adequate funds for samples of Small Scale Industry's products (incl. handicrafts) for export and domestic use. (Without sample one cannot 'sell' - and that goes both ways - if a commodity is to be produced by SSE's he has to see how - and if he is selling something that is already produced or in production the potential customers want to see the product before buying). The point of having <u>actual samples</u> when selling/buying something is highly underrated in Indonesia and mere oral or written discriptions of a product are far from enough.

8. <u>"Labelling"</u>

Small Scale Industry is by the very nature of its character worked out by individualism - whether in cooperatives or joint 'operations' or not. This does not mean, however, that they <u>should not</u> 'label' or 'mark' their products in one way or another. Especially when it comes to handicrafts there is a strong demand for some kind of "recognition" - or 'mark' that makes it 'stand out', and referrable. This is desireable from all points of view. If collective "trade - marks" within assosiations and/or cooperatives can be made, fine, but BIPIK official stamps, seals, prints for burning in and other kinds of "trade marks" should be considered seriously, especially in tourist/export trade (see section on in this re ort).

9. Disperse information on export potentials (Export Certificate - "E[illegible]" - "SE") to the level of [illegible]'s - otherwise it will never reach the [illegible].
   The different BIPIK's should here work in closer cooperation with [illegible].

10. The use of Indonesian Embassies abroad has not been utilized fully; there are options for more active sales promotion work, especially in the handicraft sector.

11. Continued attempts to remove "invisible taxes" "excessive handeling costs, "bribing".

12. The establishment of Small Scale Industry's Departments within the GVT Trading Houses and larger GVT, procurement offices.

13. A National Association of Small Industries ([illegible]) cooperating with KADIN (HIPMI - may be set up to act as a spokesman for this part of the industry and even as a mediator/arbitrary party in disputes.

14. Counterparts to Experts should be selected within the Kanwil/BIPIK organisations thus enabelling 'framework of development' to continue after Expert has repatriated. As it has been in this project Counterpart will (he has several 'business operations' going during his assignment, and will definitely not return to the GVT/policy making ranks after assignment - due to lower pay.

BACKGROUND NOTES

F O R

BASIC MARKETING WORKSHOP

Report No. 20

Len. Asvatanark
Marketing Expert

Appendix I

SESSION I

MARKETING WORKSHOP

Introduction

"Overhead" projections of main topics. –

GENERAL ABOUT MARKETING AND INFORMATION/ COMMUNICATION

1. Generally (all over the world) the word "Marketing" is misinterpreted to mean "Distribution" or "Sales". Although "Distribution" and Sales are very important parts of "Marketing" as such - it is by no means the total MARKETING CONCEPT.

2. MARKETING CONCEPT

   Let us try to define it :
   - "Marketing" is that part of business activity that deals with the facilities, people and functions which are concerned with the movement of goods from source of creation Product Idea + Identified Demand to "end use" (point of ultimate consumption).

In other words - all the different steps taken from Product Idea, buying of the right raw material (at the right time) through the actual production (and the right technology to get a optimum product) - pricing-packaging-storing-selling- (wholesale or retail) until its ultimate "end use" = Industry or Consumer.

The Marketing Concept as such includes several managerial and technical elements in as much as it deals with the total buying - and selling - policy of a given factory/ firm as well as the quality and aesthetics of a given product.

It is given that if the Concept of Marketing has such a large scope - information and communication are absolute necessities.

How else could we aquire the necessary data to know what to do ?
THE CONCEPT is :

1. The right product (quality/style/ design
2. At the right time/price
3. To meet the market demand (time/ fashion/quality/price)
4. "Find wants or demands and fill them - rather than produce products and try to sell them".

So lets "demystify Marketing"
There is no "SUPERFORMULA"
The question is to produce a product there is a demand for and get it there = the market.

Now this surely calls for information and communication. Especially when we are talking about the small and medium scale industry.

These parts of industry are usually "one-man-operations" - seen from the managerial point of view - and it would be quite impossible for this "one man" to fulfill all these obligations in the modern sense of management and marketing.
On top of that, he has so - called "marketing problems".

He is used to sell either to a "middle-man" or direct to a whole-saler, or a Pasar. When sales are low he should ask himself :
Why is there no demand ?
Can I sell other places ?
What other products are marketable ?
Who is selling ?
What are they selling ?
At what price ?
An so on.

As you will clearly see - all this calls for information.
And here is where I think the Kanwil/ BIPIK offices together with the T.P.L's come into the picture.

If we take one look upon the Small & Medium Scale Industry of Indonesia the number of different production units are so manifold (quantity and quality) that it is impossible for one central office (DJIK) to keep track of "what is happening".

That is why we have regional offices - and even then - for the regional offices - it is difficult to get and give the right information to the different production units.
For a country like Indonesia it is crusial, however, that these regional offices operate as "liasons" or "communication centers" between the production units and the markets, seen both from the total industrial set - up - as well as from the Small Scale Industry itself.

The central Governmental Policies (general policies, banks/loans) are based on the information given by DJIK Kanwil, BIPIK and regional offices. And if we go one step further - the regional offices - being the link between the "cottage industry" - and the central authorities - active work of BIPIK and Promotion Centres is not only necessary, but imperative for the survival of Small Scale Industry.

Without a "dialog"-that is communication - between the central authorities and the regional offices - and through these as many as possible of the Small Scale Units - business will in the near future actually be impossible - which again means that great parts of this "industry" will die.

This again makes the training of Extention officers so important. To make <u>them able to select viable units</u> and pass on this information so that assistance can be given.

We all know that parts of this industry is in trouble and shouting for help because of lack of "working capital", "managerial skill" and the last cry - "Marketing", meaning :
Sales of their goods.

But it <u>is</u> difficult to sell today - there are <u>so</u> many competitors and <u>so</u> many products. We cannot any longer take a passive attitude towards marketing : "<u>produce a product and wait for the customer</u>/buyer to knock on the door".
We have to know <u>what</u> we can sell <u>when</u> and <u>where</u> <u>before</u> producing.
This is an essential part of the Marketing Concept.

Where can the Small Scale Units get this information ? There is only one solution - through dispersed <u>Information/Promotion Centers</u> - i.e. like the Kanwil and BIPIK Offices who hopefully again will give and receive information through and from the Small Scale Units as well as DJIK centrally.

<u>TRAINING</u>

The training of extention officers is very important in this context and the viable Small Scale Units must be made aware of their opportunities of training at the MIE'S common service facilities and general BIPIK assistance, financial assistance possibilities etc.

This calls for everybody's utmost attention. We have to be an the allert - "both ways" - to be able to give information service to the DJIK as well as to the Small Production Units.

"Overhead" projections of main topics.

SESSION II

A BASIC APPROACH TO MARKETING

BASIC CONCEPTS

1. THE MARKET :

The market must be seen as the total group of consumers who demand or are likely to demand the product being marketed.

2. TYPES OF MARKETS :

There are 4 basic types of markets :

a) Consumer (non-durables) market :

- for articles which are bought frequently by a large number of people e.g. matches, soap, foodstuffs.

b) Consumer durables market :

- for articles which are bought by consumers but not frequently e.g. radios, stoves, furniture.

c) Industrial products market :

- for products bought to manufacture other articles like industrial chemicals, machinery, oils parts i.e. : Sub - contracting.

d) Service market :

- for services for which people are ready to pay e.g. travel agency transport service, post control.

3. THE MARKETING FUNCTION :

The business function of satisfying identified consumer demand at a profit to the unit marketing the product or the service.

SESSION III

ELEMENTS OF THE MARKETING MIX :

"The Marketing Mix" consists of 5 basic elements, all starting with the letter "P" :

1. PRODUCT :

   What you want to market (idea/ demand)

2. PACKAGING :

   The act of providing protective and presentable packaging

3. PLACEMENT :

   The act of distributing or placing the product in a place where the consumer will buy

4. PROMOTION :

   The series of efforts at communicating the availability of your product and inducing the consumer to buy

5. P R I C E :

   The amount of money you except the consumer to pay for the product.

It shoul be noted that the first 4 "P" s - Product, Packaging, Placement and Promotion all constitute COSTS. The fifth "P" namely price constitutes the INCOME.

Hence we arrive at the most crucial, the sixth "P" in the Marketing Mix, namely PROFIT which is nothing but the PRICE :

(Cost of PRODUCT-+-PACKAGING-+-PLACEMENT-+-PROMOTION).

BASIC RESPONSIBILITY OF MARKETING :

Successful marketing is basically to find the right combination or mix of the first 5 "P"s namely the product, the packaging, the placement, the promotion and the price which optimises the Sixth "P"/namely profit.

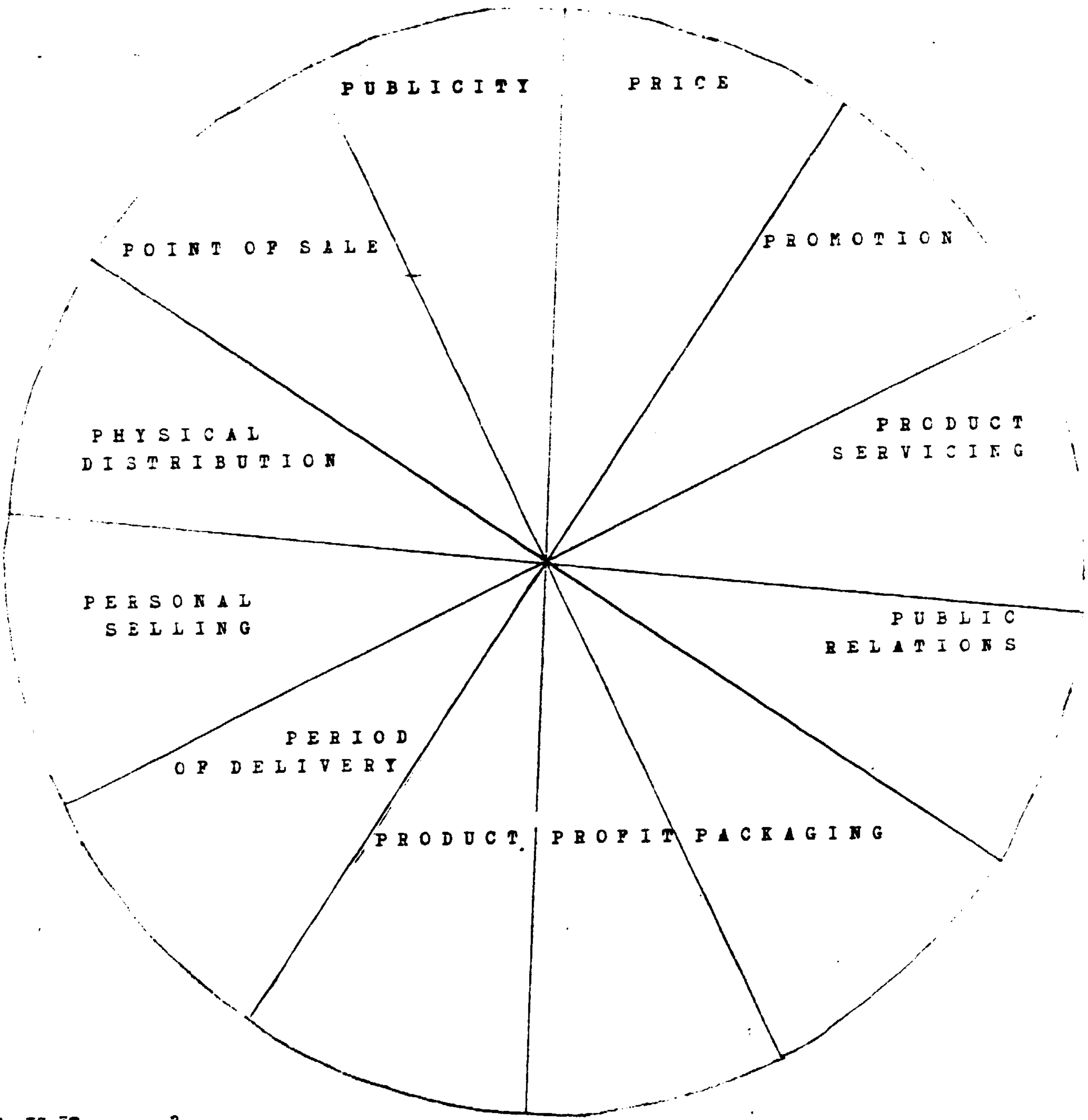
They are both dependant on us and our information - as we are on their information and cooperation.
And this is why I dare to say :
MARKETING is information and communication.

When we are talking about information and communication in this context we are considering everything within the MARKETING CONCEPT - from the buying of raw materials to the actual "end use".

D E M A N D ——— S U P P L Y.

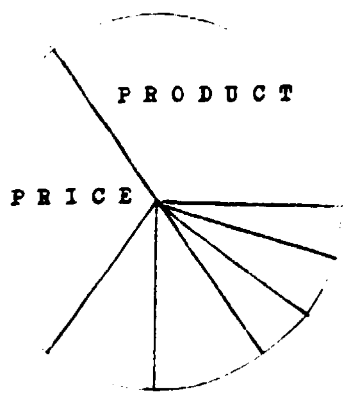
SESSION IV

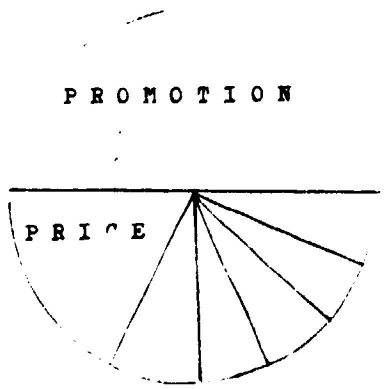
WHAT MAKES SALES?



BUT, IS IT ?
LIKE THIS .... ?

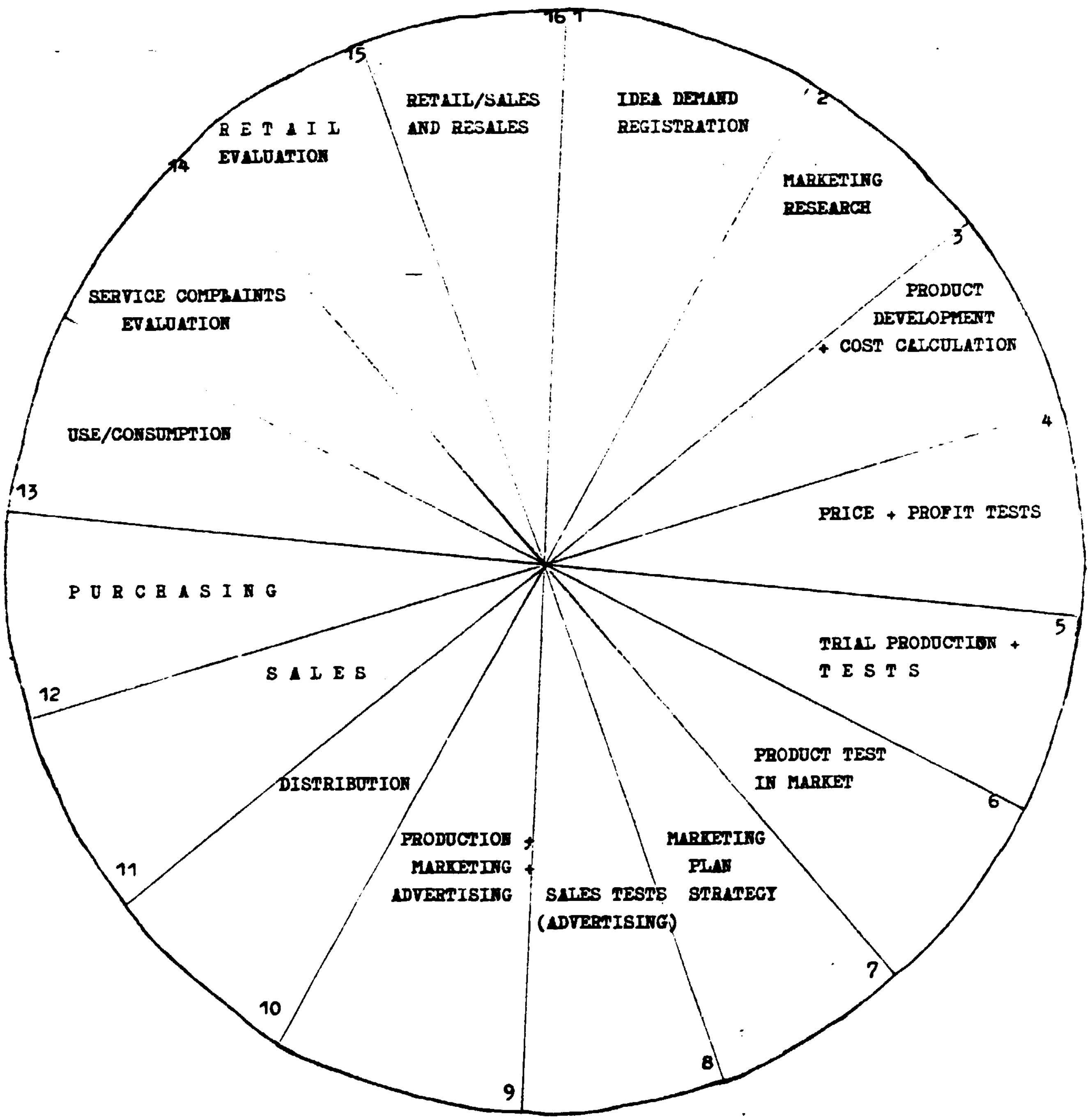
OR LIKE THIS ..... ?





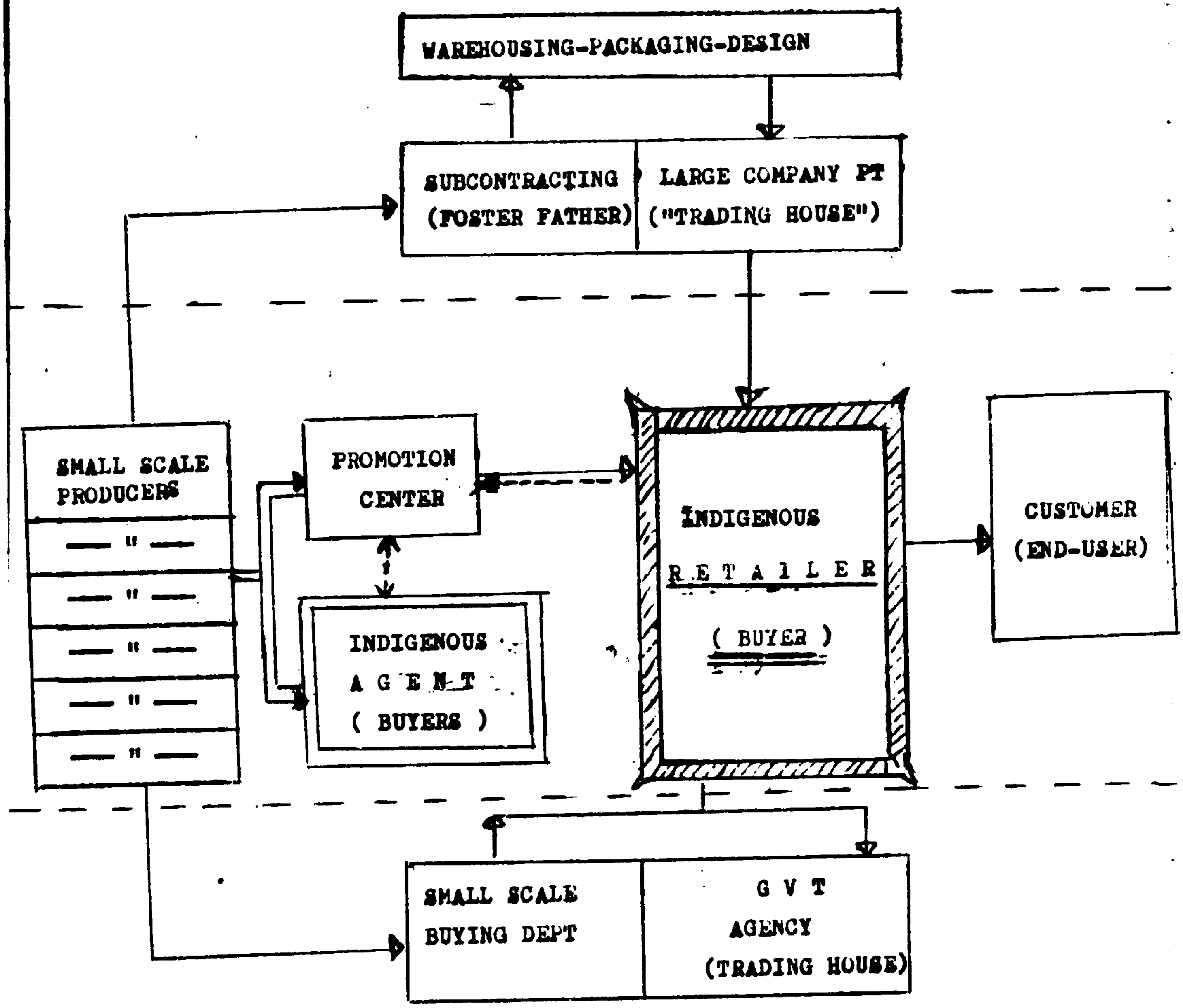
THE MARKETING WHEEL

THE IMPORTANCE OF PLANNING



D I S T R I B U T I O N

"Consumer Goods"



Suggested lines of distribution through strengthening local pribumi retailors to become agressive PURCHASERS AND MERCHANDISERS of Indonesian made goods.
Example : SARINAH JAYA.

MARKET VISIT

Objectives :

1. To familiarise participants with the role that market intermediaries play in distribution and promotion of various types of goods.
2. To observe different methods of point of purchase promotion, merchandising, etc.
3. To get some idea of trade margins (%) for different sectors.
4. To gauge possibilities of S.S. goods being sold through these trade channels.

Methodology :

1. Participants will be divided into small groups and allocated a particular type of distribution channel which could have relevance to S.S. sector/products.
2. Each group will seek information on specific aspects outlined below and prepare a report based on their observations.
3. The market visit will be for 3 hours.

   Each group will make a brief presentation for joint discussion on the same afternoon.

Specific aspects to be observed

1. Range of products sold

2. What is the distribution pattern for these products and at which level does the shop visited fit in.
3. What are the trade margins (%) at each step of the distribution channel and what is the likely total trade margin ?
4. Observe actual process of selling. What are the various methods of point of purchase promotion, merchandising etc ?
   How does the trader display the products ?
5. Are prices fixed or is there bargaining ?
   If there is any bargaining, how does the level of price reduction compare with the trader's margin ?
6. How competitive is the business ?
   Does the level of competitiveness have any impact on selling mathods ?
7. Is there any seasonality in demand for some products ?
   If so, what impact does this have on selling methods ?
8. Does the trader give credit/get credit ?
   If so, for what period ?
9. Does he deal in any small-scale sector products ?
   If he does, examine them from point of view of price, quality, packaging, appearence etc.

Get trader's views about small scale products.

If he does not sell S.S. sector products, ask him why.

10. Check for any other small scale sector product which could be sold through his out-let.

Types of outlets to be visited :

1. Consumer non-durables-wholesaler
2. Consumer non-durables-retailer
3. Electritial goods dealer
4. Industrial goods dealer-hardware/ paints
5. Textiles dealer
6. Consumer cooperative
7. Cottage Emporium.

VISIT TO SMALL SCALE UNITS

Objective :

The objective of the participants' visit to Small Scale Units is 3-fold :

i) To familiarize themselves with the overall structure/working of such units;

ii) To direct their attention to key problems being faced, specially in the area of the units' marketing operations;

iii) To give participants an opportunity to identify alternative solutions to problem areas.

Methodology :

1) Participants will be divided into small groups, each of which will be assigned one small scale unit.
2) The units should have been fully briefed and will keep certain basic, general data ready as per a format provided to them.
3) Each group will spend 3-4 hours with the unit.
   A brief checklist has been given below which would of help in discussions at the unit.
4) Sufficient time is provided after the visit for each group to prepare a (30 minutes) presentation of their report which should be structured as follows :

a) the unit's background/ structure/working
b) a detailed account of all aspects of the marketing activity of the unit.
c) the group's analysis of the unit's problem and suggested solutions
d) any other relevant observation made by the group.

Checklist :

Please note that this is not an exhaustive check list - it is merely aimed at providing some starting points which will help initiate further, more detailed discussions with the unit.

A 1 What is the structure of the unit-one-man/family/partners
2 When did the unit start
3 How did they select the product/ product group
4 What was the initial investment
5 What were the sources of finance- own money/bank/Govt
6 What Govt assistance did they use.

B 1 What is the current investment
2 How many men employed
3 Turnover in last few years- relate turnover to investment
4 Has there been a change in products/diversification in last few years-if so why

5 What are their main raw materials
- any problems ?
6 Working capital-any problems ?

C 1 Get details of product/products produced
2 What is the owner's view as to the quality of his product vis-a-vis competitors
3 Their Pricing Policy - is it adhoc or based on some concrete costs
4 What is their approximate margin-how does it compare with rest of industry-why is it higher/lower

D 1 How do they distribute/promote/advertise/canvas their product
2 Selling terms - units vis-a-vis industry's
3 Who are their main customers - located where
4 Who are their main competitors - located where
5 What is the level of finished goods investories/pending orders - relate to average turnover - is it high ? Why ?
6 Is there over-reliance on one/two customers.

E 1 Ask owner to explain his two biggest problems-probe and get more details -what does <u>he</u> think he can do to solve them - has he made some efforts to solve them (The instinctive thing will be to say "Government should do something"- do not accept this automatically)

2 After his past years' experience does he feel that his choice of product/location/process etc were right

3 Discuss any suggestions your group may have related to his problem.

Marketing Workshop

Background Note on Promotion Centres

for discussion of possible improvements

BIPIK Promotion Centres

BIPIK Promotion Centres should and could play a much more important role as a distribution channel and marketing tool for the SSE than they do today.

Unfortunately almost all 14 (maybe with the exceptance of Yogya) they are just static exhibitions of some of the SSE products that are being made in the area.

Moreover the following characteristics usually would be found :

1. They are often "remotely" located to (trade) business centres. They are badly "signed" and difficult to find.
2. They have little or no contact with businessmen, traders or other potential customers and therefore extremely poorely visited.
   They are badly promoted/advertized (but mentioned on TVRI when high-ranking officials a seldom time visits).
3. They are not commercially oriented (at all) and non-trained staff can give minimal information
4. They have little or no contact with the SSE's themselves-the items have just been collected or bought and "put on a shelf". The items exhibited are often absolete or out of production. Brochure material/leaflets are of bad quality and give little or inadequate information to potential buyers

5. There are no up-to date resource lists
6. Information on price and resource does not exist or are inadequate
7. Some centres badly need painting and even washing.
8. There is little or no contact with large-scale-industry or chain stores (for bulk-buying, sub-contracting)
9. No or little advertisement or other promotions are taking place (except on special occations) not towards potential customers nor the SSE's
10. Their commercial value for the SSE's is therefore close to Zero.

What can be done for Promotion Centres ?

Being aware of limited resources it is understandable that the best locations, best and most effective staff etc can be difficult to obtain.
But also being aware of the fact that this should be the Small Scale Industries "Face towards any market" no efforts should be left un-attempted to make them what they are called : Promotion Centers of Small Scale Industry products and Handicrafts.

They should become Promotion, Information and Activity Centres.
Since they are "Non-commercial" in comparison with "Sales Emporeums" why not turn them "commercial" through link-ups with :

1. Trading Houses (GVT or private)
2. Chain stores/wholesalers

3. Cooperatives or other joint bodies
4. Merchant organizations (KADIN)
5. Making them Exchange "Bourses" between SSI and LSI (Sub-contracting). Up to date resource lists
6. Information Centres for SSE's for design & products ideas, scetches, possibilities of cooperative recruiting, market information centres etc
7. More effective PR-work towards the SSE's themselves (through TPL's)
8. Supply them with enough funds or credit facilities to buy up some stock-naturally after certain criterias-for further active offers to above mentioned "bulk-buyers".
9. "Forced" distribution of professionally made brochures stressing the above points to business assositions (KADIN), Hotels, wholesalers, big retailors etc.
10. Close co-operation with the LIK's which often have the disadvantage of being even further away from the active market place and have no showroom there.
11. Act as mediators or active "sales offices" towards procurement offices for bulk buyers like ABRI, local GVT offices, PLN, local hospitals, schools etc.
12. Exchange of resource lists by products with names and adresses, cooperatives, joint-operations etc.
13. Joint Exhibitions 2 - 4 times a year.
14. Even closer cooperation with NAFED for foreign Exhibitions/exports.

All this would naturally take over several of the functions of the BIPIK Offices (Staff) as such, but it would anyway be an advantage if BIPIK Offices and Promotion Centres are located at the same premices (which they are at several places) and at any rate it is recommended to modernize and activate the Promotion Centres to become "MINI TRADE CENTRES" with at least one progressive, experienced BIPIK official as leader. If located at different places, easy communication (telephone) between the Promotion Centre and BIPIK head office for speedy references would be imperative.

The Promotion Centres (MINI TRADE CENTRES) should be developed into the natural MEETING PLACE between the Small Scale Industry and the MARKET as such, with up-to-date exhibition and information of the regions Small Scale Industry's products, and the above should be promoted strongly (brochures, leaflets, advertisements, through TPL's etc.)-both towards the SSE's themselves as well as the "traders" and "the market" in general.

ANNEXURE IV

MODEL DRAFT AGREEMENT UNDER FOSTER-FATHER SCHEME

P.T. ____________________

and

P.T. ____________________

This Agreement is entered into between P.T. . . . .
P.T. . . . . in the presence of Project Manager
the BIPIK . . . .

This Agreement lays down the relationship between the parent and the Sub-contracting unit.

It is agreed that such a relationship should be mutually beneficial, based on goodwill, justice and fairplay.

ARTICLE I

OBLIGATIONS OF THE PARENT UNIT

For this purpose, the parent unit agrees to :

Purchase the goods specified in the Annexure to this Agreement where the specifications and prices have been indicated.

In the event of an escalation of prices of raw materials, the Sub-contracting unit will have the right to re-negotiate a mutually acceptable price.

All supplies made by the Sub-contracting unit shall be paid for as soon as possible and, in any case, not later than 30 days from the date of supply.

(iv) Goods supplied by the Sub-contracting unit should not be rejected on flimsy grounds; where such rejection is based on poor quality, it shall be supported by tests made by an independent third party.

(v) Failure to lift the stocks as per the Agreement will make the parent unit liable to action by the Government Agency.

ARTICLE II

OBLIGATIONS OF SUB-CONTRACTING UNITS

The Sub-contracting units agree to :

(i) Deliver the goods as per the price and schedule agreed upon in the Annexure to this Agreement.

(ii) If a unit finds itself unable to effect delivery due to circumstances beyond its control, it shall seek an extension of time from the parent unit. It may use the good office of the BIPIK for this purpose.

(iii) Wilful failure to abide by the conditions of the Agreement will make the Sub-contracting unit liable to action by BIPIK who will determine what action is appropriate.

ARTICLE III

SUPPLY OF RAW-MATERIAL

(i) The parent unit may (at the request of the Sub-contracting unit) supply all or some of the raw material needed for the production of the goods. The value of the raw material shall be determined through mutual discussion and should in no case exceed the fair market price of the material.

(ii) If such supply of raw material has been agreed upon but the parent unit fails to deliver the same, in the quantity, at the time and at the price agreed, the Sub-contracting unit shall have the right to cancel the Agreement after giving due notice or re-negotiate a new Agreement.

ARTICLE IV

TECHNICAL DESIGN AND DRAWINGS

The parent unit may supply full drawings and design of the product to be made by the Sub-contracting unit; in such a case, the Sub-contracting unit shall keep the information confidential and the designs will remain the property of the parent unit. In the event of the expiry or cancellation of the contract, the Sub-contracting unit shall return them to the parent unit.

ARTICLE V

CREDIT

The parent unit may make adequate credit available to the Sub-contracting unit for the execution of the order; or it may arrange credit through normal banking channels, acting merely as a guarantor of the loan.

ARTICLE VI

M A R K E T I N G

(i) The parent unit guarantees the off take of a significant share of the production of the Sub-contracting unit varying between $33^{1}/3$ % and 50%.

(ii) The exact nature and quantity of goods that are so guaranteed shall be set forth in an annexure to this Agreement. The price at which the products will be purchased shall also be set forth in the annexure.

(iii) In the event of the failure of the parent unit to lift the stock as agreed, the Sub-contracting unit shall have the right to ask for the amount to be paid by the parent unit as set forth in the Agreement, unless both parties agree to a revised schedule of deliveries.

ARTICLE VII

INSPECTION

(i) Goods supplied by the Sub-contracting units shall be inspected immediately by the parent unit. Any deviation from the specifications agreed upon should be brought to the notice of the Sub-contracting unit.

(ii) In the event of goods not inspected for a long time, the Sub-contracting unit will not held responsible for the loss in the quality of the product; and a rejection on that ground will be deemed as unwarranted.

(iii) Where some of the goods supplied are defective, the Sub-contracting unit will have the right to supply them a fresh quantity within a stipulated time or repair the defective goods.

ARTICLE VIII

SUB-CONTRACTING COOPERATIVES

Sub-contracting units may form themselves into a cooperative recognised for the purpose by the parent unit. In such case, the Cooperative will have the right to negotiate on behalf of the member units.

ARTICLE IX

FORCE-MAJEURE

Both parties shall have the right to re-negotiate the Agreement if they are prevented to fulfil their obligations due to circumstances beyond their control such as natural disasters, civil commotion, riots, strikes, etc.

ARTICLE X

ARBITRATION BY BIPIK

While all differences between the parent unit and the Sub-contracting units will be resolved amicably, the BIPIK will have the power to arbitrate. Its decision, after hearing both sides of the dispute, will be final and binding on all parties.

ARTICLE XI

PERIOD OF VALIDITY

Agreement will be normally valid for three years after which it may be renewed by mutual consent and negotiation. During this period, however, the terms and conditions may be altered only if both the parties agree to it.

Affixed on this day . . . . our signatures as taken of our acceptance of the above Agreement.

For Sub-Contracting Units　　　　　　　　　　For Parent Units

For BIPIK Office

Appendix III

with Sub - Annexures

T O : Dr. Ram K. Vepa

FROM : Len. Aavatsmark

SUBJECT : Subcontract assignments for further study "outside" Project Team, re Team Leaders letter of Nov. 9

With reference to the above the following topics may be suggested :

(1) Gauze for medical purposes (primarily).

Please see annexure I for background information. A further report from IE Marklund who has visited the Batang area and obtained samples would form a substantial input from INS/78/078.

A) The study should therefore primarily be concentrated on the feasibility of establishing bleaching, sterelization and packing facilities - a Foster-Father or Sub-contracting set-up.

B) Quality demand/requests from substantial customers.

C) Price demand from substantial customers.

D) General and in-depth study of (all) large end-users (hospitals-whether private, ABRI) or industrial end-users.

(2) Metal and cheramic small parts for P.L.N.

(Perusahaan Listrik Negara)

A) A study into which type of parts-used by P.L.N. spesifically and generally-could possibly be made by small scale industry and what are requirements and purchase proceedures.

a) nationally

b) locally

B) Could local and national PLN "Purchase offices for Small Scale Entrepreneurs" be established ?

C) Or should this be handled through Co-operatives, or already established State Enterprises like Panca Niaga, Cipta Niaga, PT Leppin or "divisions of these" specifically established to deal with small scale entrepreneurs.

The above would also be valid for other institutional buyers like ABRI (Police Army, Navy Airforce) GVT - offices, P.J.K.A. (Railroad) Hospitals etc.

(3) Improvement and further development of an already excisting "Cooperative" of Shoe - makers in Medan.

In a production center (area) visited in Medan a shoe-manufacture-cooperative has been formed. The cooperative consisted of more than 150 small shops producing sandals, shoes, bags etc. Proyek BIPIK provided 2 TPL's and some machinery in attempt to improve quality.

A marketing cooperative hads also been established attempting joint marketing at a present average turnover of 3 mill Rp/month. The potential of this production center is clearly bigger and profitability could be substantially improved if "some sort of" Foster Father (management) could be established-either in marketing, sup ly of raw materials, sup ly of machines or common production facilities.

An in-depth study of the different varieties of feasable improvements for this shoe-manufacturing area should prove worth-while.

(4) "Kenanga oil" for Export.

Because of the character of this Foster Father Programme with Texpcoco PT as "father" a loosely organised cooperative of 9 small scale entrepreneurs in Boyolali involving a substantial number of farmers actually picking/collecting the flowers. A further study into prices in all aspects (salary to farmers from entrepreneurs, their calculations, price to P.T. Prodexco, their calculations and their ex. factory, F.O.B., or C.I.F.-prices.

International requests would supply general world market prices as well as demand.
Since this "Kenanga-oil-business" seems to be going on in several places on Jawa (central & Easten parts at least) the demand might be found substantial enough for more and larger set-ups. (See Annexure II).

(5) Cotton Facial Pads.

With reference to former suggestions the IME still think it would be worth-while to have an-in-depth study of this "mass-market" article.
Whether imported or not - sales - purchase proceedures, packing, possible false labelling etc.

This would also had to more info on different trade/ distribution channels of several other consumer high-turnover merchandize.
But to have the possibility to even come on talking-terms with big buyers and wholesalers we have to have further background material.
Replica-projects should then be feasable several parts of Indonesia. (See Annexure III).

(6) Potato - chips.

Potato-chips seems to be very scarcely produced in Indonesia, but as for the other products mentioned above it is sold both on super-market-chains and pasars. Almost always obviously imported and bought for "Snob-value". Since the Indonesians themselves have a lot of local "SNACKS" -emping, Keripik kacang, lemper - it should be a viable/popular product.
Production should be relatively easy and packing is just a question of design and "know-how".
What are import regulations ?
What flavour could be added to make it even more attractive/ desireable. Packing with snob-value and preservative properties (centrally made ?) could be distributed to small scale entrepreneurs. Advertising to obtain said snob value- and import regulations would have to be studied in depth.

(7) Packing for display and preservative purposes of a lot of mass-market products (not only plastic bag with clips) needs study by designers/engineers.

These are some preliminary ideas for further study. Each of the above suggestions (and more) can naturally be elaborated upon and worked out by the project personell itself, but they are time consuming and has to be seen in relation to other priorities of the project.

Jakarta, December 17th, 1982

Len. Aavatsmark
Marketing Expert

A N N E X U R E I

BUSINESS OPPORTUNITY/SMALL SCALE

GAUZE FOR MEDICAL USE

In the Batang district under the "Kepala Dinas Perindustrian Kabupaten Batang", contact Mr. Achmad Soetardi (Jl. Jend. Sudirman No. 704 A privat : Jl. A.Yani Gg 5 No. 179. Telp. 79) then are at present some 200 ATBM (hand-loomes) producing approx 12000 m (110 cm width) of grey gauze packed in Sales or rolls of 40 m. All according to Mr. Soetardi. The district has a potential of 1700 ATBM's or approx (1)/mill m per day.

When and at what price they are selling their present grey production of 12.000 m/day is not yet known, but would naturally be of interest. The grey is only "raw-material" for gauze for medical use and further development of the product i.e. bleaching, sterelization and packing would be interesting to look into.

The hospitals and apotiks are potential customers as are artificial leather (plastic) industry producers with prodpcts like home furniture upholstery and motorbike-seats-using the gauze as base/binding material.

If you have a chance to go to Batang please try to obtain the following :

a) Indicative prices

b) Present customers

c) Real potential

d) Samples

e) Supplier (s) of yarn with "count" and price.

We could then contact big institutional end-users and Evaluate possibilities of developing bleaching, sterelisation and packing facilities and/or a possible sub-contracting (foster father)-system with someone who has these facilities.

If price and quality is right we might even look into export possibilities.

They must have done some investigations in these directions in the past and all such background material would be of grate interest.
We could, then have some of above requested data, investigate further marketing possibilities with large buyers/end-users and supply contrasamples as well as quality demands, specifications etc.

- // -

ANNEXURE II

The Prodexco "set-up" however, with buying of "half-raw-material" from entrepreneurs from the Boyolali district and finally exporting the refined, lab-controlled base material to/for (among others) the french pharmaceutical industry we found more interesting-at least as a "Model Foster Father Programme" (or subcontracting) where the "middlemen" could be avoided. This because the "Set-up" includes the following ingrediences :

1. P.T. Prodexco operates a professional laboratorium and trades and exports professionaly in essential oils.
2. Being "appointed" "Foster Father" to the 9 small entrepreneurs in Boyolali, who again are dependant on several small scale farmers in the area, really brings the "Desa to town" and even to export.
3. The 9 (headed by Sisno Bugiyanto "Kenanga oil group") have drafted a letter together with Kabupaten Boyolali office (copy with Mr. Chumaedi/Semarang) which indicates their opinion of the Foster Father set up.
4. A visit to Boyolali would for you no doubt give you chances to improve the somewhat primitive "boiling out" of the oil from the flower.
   At least they asked for technical/engeneerial assistance as to how to get maximum effectiveness out of their rather simple burning/boiling operation.
5. A further discussion with both "Father" & "Son" would possibly bring out more info on, among other things, competition. (Surabaya area).

ANNEXURE III

As it is one of this project's major objectives to identify products with market potential - suitable for production by small scale industry, the Industrial Marketing Expert (IME) would like to draw your attention to "Facial Cotton Pads" or "balls" or "tissues" sold in millions of "packets" by Toko-Toko's supermarkets, chain-store supermarkets like Hero, Gelael, Sarinah, drugstores in hotels and others.

The "packets" or "plastic bags" are different in shape and design, contains 50 - 60 grammes of cotoon and very in retail price from Rp. 225,- to approx Rp. 1000,-
The cotton contents is very often made from "waste cotton" from cotton yarn spinners ?

From different sources I have learned that a community at Kecamatan Paseh Majalaya with certain - at least initial assistance-from Institut of Textile Technology (ITT) in Bandung - have more or less specialized in the manufacturing of such "pads/balls/tissues".
As you will see from a few samples I have bought at a supermarket there are several trademarks, qualities - and on "face-value" - imports of this particular product.

To finally be able to issue a complete "Product Profile" and/or "Feasability Study" - whether this product is suitable for production by the small scale industry and for my further studies of trade/marketing channels the Team Leader is of the opinion that further in depth studies in accordance with his note on "METHODOLOGY FOR THE IDENTIFICATION OF NEW INDUSTRIAL POSSIBILITIES" from September' 82 requires Industrial Engineers to provide the necessary background information as to wether this product is "acceptable to the ENTREPRENEURS, THE BANK AND THE Government"

Before I further get in touch with Professional buyers/purchasers/middlemen/ traders I would certainly need more information on the product enabeling me not to appear as a "complete stranger" to the product and thus obtain false informati information as to marketing channels, packing, brand - image - policy, import market size etc.

In this context I would especially and initially like to know :

a) Supply of raw-material-from where ?

b) At what price ?

c) Production cost, of different products under the same scope ?

d) %-tage import ? %-tage local made ?

e) To whom do they sell ?

f) With/without packing ?

g) At what price ?

h) Which companies are involved in present production/part production?

i) Transport from spinners/raw material supplier ?

j) Warehousing ?

k) Are Banks/DJIK/Kanwil/BIPIK support in the picture ?

l) Quantities

For your information I have been told that the Kecamatan Paseh in Majalaya alone has a demand for 50 tonnes per month.
This should indicate an approx output/production of :

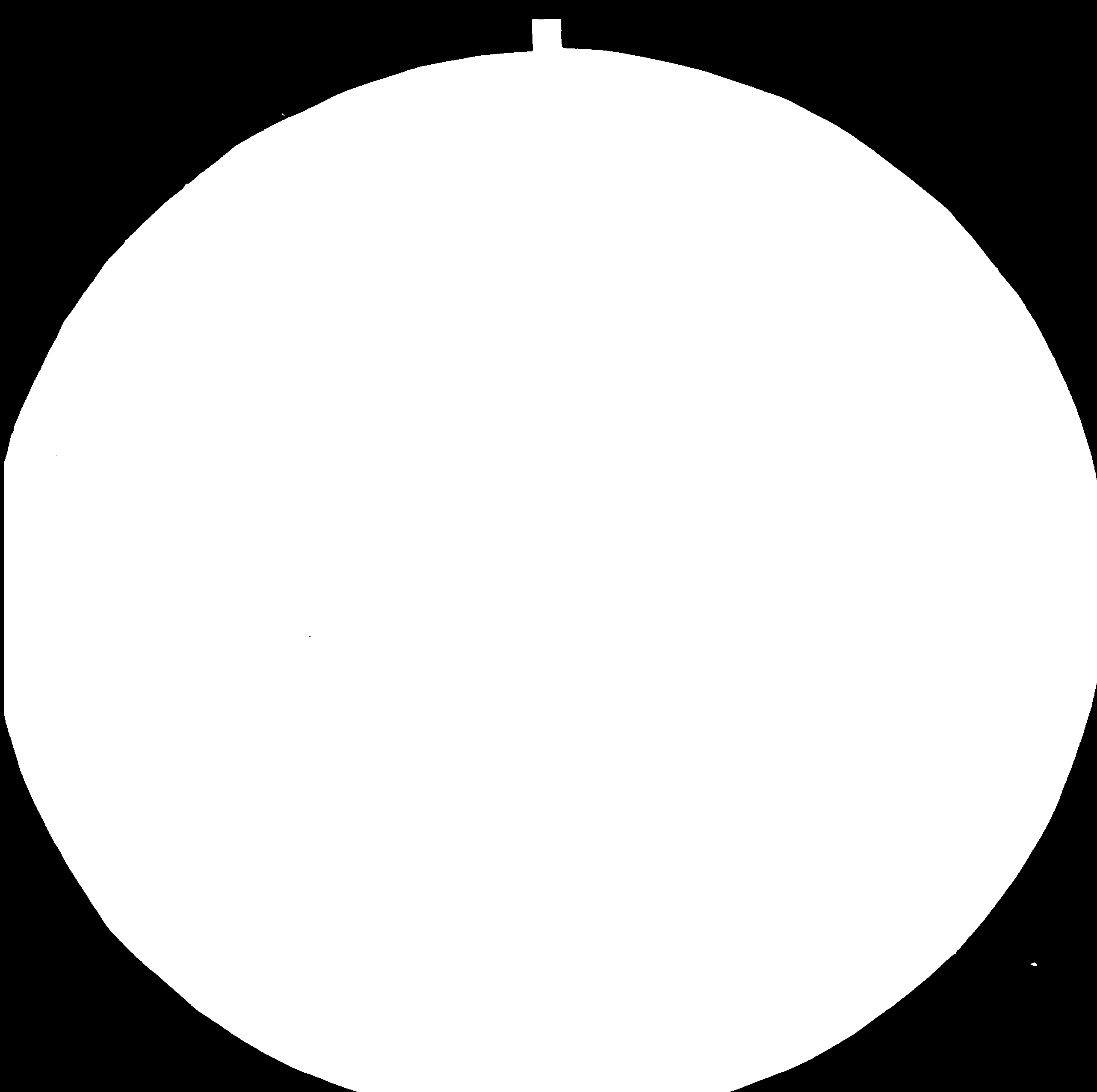
$$\frac{(50{,}000 \text{ kg} \times 1000 \text{ (gr)})}{50 \text{ per unit}} = \text{per 1 million units per month}$$

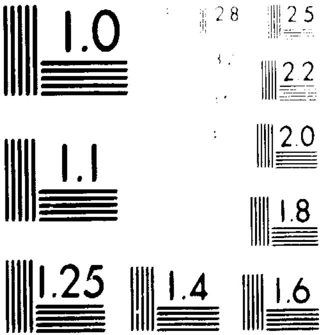
from this Kecamatan only. And this product could in my opinion certainly be made litterary anywhere since it implies no sophisticated production technology nor large invesments or "working capital"

I would also like to draw your attention to the possible use of Rayon - (waste ?) as a possibly even cheaper (and non-import) substitue to cotton.

Please feel free to contract me or any of the Industrial Engineer field team for assistance and please keep me informed of your progress in setting up the initials of a "Product Profile/Feasability Study", which, - in due time, - will enable me to further investigate the marketing aspects.

84.01.04
AD.85.0





MICROCOPY RESOLUTION TEST CHART

IMPORT PROMOTION OFFICES

This is a list of import promotion offices in 18 European countries plus Japan, New Zealand and Australia compiled by the International Trade Centre/UNCTAD/GATT Geneva.

These offices will upon request free of charge for developing countries - supply such marketing information as : -

- Statistical information in the country.
- Information on sales opportunities.
- Information on import requirements & procedures.
- List of importers, wholesalers, agents and distributors.
- Arrangements for contacts for visitors - sales missions etc.
- Trade fair and exhibition assistance
- Training programmes.

Australia : Market Assistance Section
Trade Promotion Branch
Department of Trade and Resources
Canberra A.C.T. 2600
AUSTRALIA

Austria : Austrian Federal Economic Chamber
Stubenring 10
A-1010 Vienna
AUSTRIA.

Belgium : Office Belge du Commerce Exterieur
162 Blvd Emile Jacqmain
1000 Brussels
BELGIUM

Czechoslovakia : Czechoslovak Chamber of Commerce and Industry

ul. Argentinska 38
170 05 Prague 7
CZECHOSLOVAKIA

Denmark : Office for Import Promotion of Products from Developing Countries.

Grosserer - Societetet
Boersen
1217 Copenhagen
DENMARK

Finland : The Finnish Foreign Trade Association

Arkadiankatu 4 - 6 P.O. BOX 908
00101 Helsinki 10
FINLAND

France : Promotion des Exportations Etrangeres

C.F.C.E.
10 Avenue d'Iena
75783 Paris CEDEX 16
FRANCE

German Democtratic Republic : Chamber of Foreign Trade of the German Democratic Republic

Schadowstrasse 1
108 Berlin
GERMAN DEMOCRATIC REPUBLIC.

Germany, Federal Republic of	:	German Foreign Trade Information Office (BFA) Blaubach 13 P.O. BOX 108007 D-5 Cologne FEDERAL REPUBLIC OF GERMANY.
Hungary	:	Hungarian Chamber of Commerce Kossuth ter 6-8 P.O. BOX 106 H-1055 Budapest HUNGARY.
Japan	:	Japan External Trade Organization (JETRO) 5 Toranomon 2-2 Minatoku, Tokyo JAPAN. Through JETRO's overseas facilities.
Netherland	:	Centre for the Promotion of Imports from Developing Countries (CBI). Coolsingel 58 P.O. BOX 30009 5th floor Rotterdam NETHERLAND.
New Zealand	:	Developing Countries Liaison Unit (DCLU) Department of Trade and Industry Private Bag Wellington NEW ZEALAND

Norway	:	Norwegian Import Promotion Office for Products from Developing Countries (NORIMPOD) Karl Johans Gate 5 Oslo NORWAY.
Poland	:	Polish Chamber of Foreign Trade *) ul. Trebacka 4 - P.O. BOX 361 00-950 Warsaw POLAND. *) The chamber is a trade promotion body, rather than an import promotion office.
Romania	:	Office for the Promotion of the Foreign Trade Relations with the Developing Countries Romanian Chamber of Commerce 22 Blvd N. Balcescu Bucharest ROMANIA.
Sweden	:	Import Promotion Office for Products from Developing Countries (IMPOD) Normalstorg 1 P.O. BOX 7138 S-10383 Stockholm SWEDEN
Switzerland	:	Office Suisse d'Expansion Commerciale Avenue de l'Avant-Poste 4 1001 Lausanne - SWITZERLAND, & Stampfenbachstrasse 85 8035 Zurich SWITZERLAND.

Appendix V

QUOTATION FROM, "MARKETING MANAGEMENT AND STRATEGY FOR DEVELOPING WORLD" UNIDO VIENNA 1974.

II. INDUSTRIAL MARKETING STRATEGY

An Industrial Marketing Strategy will almost certainly fail unless it furnishes the preconditions for improving marketing policies, structures and methods. More subtle, but more far-reaching and fundamental, is the improvement of marketing attitudes and the availability of expertise at all decision-making levels. These are fundamental preconditions that would facilitate all other measures.

One of the key institutional elements in implementing Industrial Marketing Strategy is the creation of specialized institutional facilities having high professional marketing competence. In some developing countries such institutions already exist; in others, their functions are present but are being exercised by a variety of sectoral promotion offices scattered throughout the governmental structure. Successful marketing development requires that these functions be centralized, placed in competent hands, backed by effective policies and supported both by the Government and Industry.

INDUSTRIAL MARKETING CENTRES

The establishment of such marketing institutions, sometimes called Industrial Marketing Centres, normally has a positive impact both inside and outside the country. An Industrial Marketing Centre demonstrates that the country is seriously concerned with marketing - oriented industrial development and also indicates that the expansion of both the producer and consumer sectors is only expected to take place with a major, co-ordinated effort at national, regional and sectoral levels in accordance with the objectives of the national development plan.

The role of a marketing centre is primarily to provide stimulus and leadership in mobilizing resources for economic and industrial expansion. It is closely connected with the Government and the industry sector as adviser on a wide variety of policy and operational questions, including credit, tariffs, standardization, quality control, research, management education, distribution, promotion and development of logistics and transportation facilities. The marketing centre normally operates as a monitor, from the point of view of industrial development, by identifying barriers to expansion of both the demand and offer at domestic and external levels.

Such a central marketing institution normally is located midway between the Government and the industry sector, its governing body is composed of both Government and industry representatives.

The marketing centre may develop a range of specialized offices providing direct technical assistance and marketing consulting services at the regional level. In its effectiveness has been limited for various reasons, early attention to establishing an institution or strengthening an existing institution is vital to industrial development strategy.

The marketing centre, as a specialized institution for the improvement of communications between the sectors of the offer (producer) and of the demand (consumer), ideally provides the following services at a high level of skill and a low level of cost relative to value : advice on marketing policies, development of product quality and image, collection and dissemination of consumption and market data, improvement of distribution logistics, marketing consulting and development. Although initially a marketing centre may be subsidized by the Government, it can be organized to achieve substantial financial independence at the earliest practicable date.

Past experience suggests the following basic procedures for successful results :

(a) Early formulation and use of quantitative objectives;
(b) Adherence to a system of national, regional or sectoral priorities for development;
(c) Reliance on sound market information to assist policy decisions;
(d) Energetic promotion and co-ordination of marketing and distribution activities at national and regional levels;
(e) Creation or development of adequate marketing and distribution facilities and structures;
(f) Improvement of marketing management expertise and skills.

Scepticism grows among exporters

JAKARTA (JP). The government could hardly be expected to [illegible] a target for non-oil and non-gas exports under the depressed world economy at present, economic observers here say.

"It actually is not just a matter of courage. The government simply could not back up a reasonable target at present," one economist argued, commenting on a statement given to Kompas daily by Abdul Latief, a leading businessmen and economist who called for a bold move by fixing a target for non-oil and non-gas exports.

"To get to a target we have to be sure of what steps we are going to take. The target should be clear for every commodity," an official of the Trade Ministry said. The same method should go with the campaign to promote the use of domestic products, he added.

"The spring board for a big jump in non-oil and non-gas exports has been laid with the government policy, known as the January's expot package of 1982. Facilities have been offered for exporters such as low interest-export credits," the official pointed out.

In addition the government has taken various other measures to remove obstructive factors in exports. A special team, called "Permanent Working Committee" for export promotion in Jakarta and the provinces, has been set up. The central board is headed by the Trade Minister.

He said in fact the government has made clear its non-oil and non gas export target at US$4 2 billion for 1983/1984.

A coffee exporter said, "What has frequently happened at the meetings of the committee reflected the absence of good coordination among government agencies. Although the Trade Minister is no doubt serious about promoting exports but others could not follow him correctly. Many a time member agencies send less important officials to the committee meetings where their superiors opinions are needed."

General Chairman of the coffee exporters' association Dharyono Kertosastro said the coffee team would not guarantee an increase in the exports of that product.

Scepticism has also been voiced by rubber exporters although Harry Tanugraha chairman of the rubber exporters' association (Gapkindo) sounded more optimistic. He said rubber could still earn the state some US$773.5 million in foreign exchange provided "there is good handling in this sector."

Counter purchase worth US$ 576 m

25/7-83

JAKARTA (JP): Counter trade contracts signed until last month amounted to US$ 576 million, a spokesman of the Trade Ministry has said.

According to the spokesman, so far 14 countries have agreed to deal with Indonesia under the counter purchase system. They include West Germany, East Germany, Canada, the United States, Rumania, South Korea, Sweden, Italy, Singapore, and Japan.

West Germany tops the list in term of the value of contract signed, the spokesman was quoted by Antara news agency as saying.

Under the system Indonesia will buy fertilizers, railway cars, pharmaceutical raw materials, equipment for pharmaceutical plant, the Ombilin coal mine project, the Cengkareng international airport and power generating plants.

The spokesman said that some US$ 158 million worth of contracts has been realized out of the US$ 576 million.

Indonesia adopts the system in a bid to raise its non oil and non gas exports, which declined from US$ [illegible] billion in 1980 to US$ 4.5 billion in 1981 and to US$ 3.8 billion in 1982.

The sharp decline was attributed to the global economic recession and the clamp down on long exports in favour of processed timber.

The Jakarta Post

SATURDAY, JULY 16, 1983

Our Industrial Jokes

Indonesian participation in international trade exhibitions has often been reduced to costly jokes. Orders for particular items displayed at Indonesian pavilions often can't be met because those goods turn out not to be locally produced. Or perhaps their production, if any, is barely sufficient to fulfill just small orders from domestic consumers. Trade Minister Rachmat Saleh, himself, has complained of such a slovenly-planned export promotion program.

The fact is the trade ministry and various other government agencies still haven't got accurate and comprehensive data on the country's manufacturing industry.

It is thus encouraging to learn that the industry ministry is now gathering data on the installed capacity of manufacturing companies throughout the country, which will be compiled soon into a form of an industry profile book.

The industrial data not only will help the industry and trade ministry, but also will facilitate a well-planned inter-sectoral development program. To mention just a few of its benefits: the data will assist the trade ministry informulating export and import policies, as well as distribution programs; the communications ministry in devising transportation programs to facilitate smoother flows of goods throughout this vast archipelagic country; and the Investment Coordinating Board (BKPM) in formulating its annual investment-priority lists.

The data collection obviousl[y is] a challenging task, given the v[ast] geographical spread of manuf[ac]turing operations, not to menti[on] the numerous plants which do n[ot] bother to register themselves w[ith] local industry offices. The m[ore] challenging, though, is the task [of] keeping the data up to date and supplementing them with curre[nt] figures on actual production [of] each industrial line. The latte[r is] an uphill job indeed.

It is not uncommon that ma[ny] companies in Indonesia delib[e]rately manipulate their reports [so] as to avoid paying taxes. Sin[ce] only publicly-traded compani[es] are obliged to open their books [to] certified public accountants, it [is] thus extremely difficult to [get] accurate figures on industr[ial] companies' operations. The go[v]ernment's offer of tax incentiv[es] to companies, which have the[ir] annual reports audited by publ[ic] accountants, has received sc[ant] response. The then finance mini[s]ter, Ali Wardhana, disclosed la[st] year that even reports audited b[y] public accountants were st[ill] being disputed, as some audito[rs] turned out to be controlled b[y] their company clients.

The industry ministry, there[]fore, should design an adequa[te] cross-check to ensure the accu[ra]cy of its data, and should enco[ur]age cooperation of other gover[n]ment agencies. Reports fro[m] companies, or from provinc[ial] industry offices, should be cro[ss-]checked, for example, by compa[r]ing the volume of their inpu[t] with their actual output.