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INTEGRATED ENTREPRENEURSHIP CUM TECHNOLOGY DEVELOPMENT
SMALL-SCALE RATTAN INDUSTRY

DP/INS/89/002

INDONESIA

Technical report: Rattan marketing*

Prepared for the Government of Indonesia
by the United Nations Industrial Development Organization,
acting as executing agency for the United Nations Development Programme

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* This document has not been edited.

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I. INTRODUCTION

This report is concerned with the expert's observation on marketing for the SSI Rattan furniture producer and the nature of the follow up action which should be carried out in order to further the development of the marketing function. The observations were made during the implementation of the training courses under THE INTEGRATED ENTREPRENEURSHIP CUM TECHNOLOGY DEVELOPMENT OF THE SMALL SCALE RATTAN INDUSTRY IN INDONESIA conducted in the Training Centers of Semarang, Medan and Ujung Pandang from 17 December 1989 to 22 March 1990.

II. FINDINGS

A. COURSE PREPARATION

Lectures were prepared in Bahasa Indonesia based on the training modules for the course by the Chief Technical Adviser, Mr. Desmond Cody and reinforced with inputs from the expert's own experiences in Indonesia on export marketing for rattan furniture.

B. COURSE PROGRAMME CARRIED OUT

Slight alterations were made in the manner the training modules were carried out based mainly on the specific training needs of the various participants in the 3 centers.

The courses were focussed on basic marketing concepts, tasks of marketing management and organizing for marketing activity.

Emphasis was placed on the need to develop a marketing philosophy and a commitment towards marketing as the key to the company's survival and growth.

C. OBSERVATION ON PARTICIPANTS

The participants were selected by EJIK staff members from SSI entrepreneurs and graduates from the training programme for the trainers which had immediately preceded the entrepreneurship course. The participants were selected on the bases of their experience in the crafts industry, their ability to absorb the details of the programme and their ability to communicate effectively.

One of the basic shortcomings of the SSI entrepreneurs was their inability to speak or understand English which is the lingua franca for International Trade.

The SSI's generally had high expectations to go immediately into exports although experience in domestic sales or marketing was lacking.

The SSI's appeared to manifest a strong reliance on Government for assistance in marketing, training and protection against competition.

There was a strong belief that things generally worked out by themselves: i.e. provide inputs and outputs will generally follow; set up a factory and buyers automatically come.

The SSI entrepreneurs appeared to have set up or wanted to set up their businesses for reasons other than business purposes. A business background in terms of experience and/or education was also lacking in most of the participants.

A number of SSI workshops were stuck with products they could not sell, chiefly because they were produced with no buyer in mind. The products also were merely copies of what other factories were producing for exports.

SSI entrepreneurs had several roles to play in their respective enterprises all demanding equal time: as general managers, production managers, accountants, finance managers, cashiers, purchasers and salesmen.

SSI entrepreneurs held the common opinion that prices and designs were readily supplied by buyers and were not oriented for product development. They also had no knowledge about sizes, quality and finishing standards demanded by the export markets. They had no concept whatsoever about pricing strategies, mark ups or for that matter, how to work out costings.

D. DETAILS ON PROGRESS MADE - ESPECIALLY IN RELATION TO COURSE OBJECTIVES

The culmination of the programme in each workshops was the preparation of individual business plans by each participant to determine the extent of their absorption about the details of the course. It was only in Semarang that the participants failed to work out individual business plans mainly because the participants were composed of government monitoring clerks with no business or marketing background.

III. PROBLEM AREAS

1. Small scale entrepreneurs lack the basic facility of speaking or understanding English, which is the universal language for conducting International Commerce. This could mean many lost opportunities for initiating contacts and follow ups with foreign buyers.
2. The SSI entrepreneurs because of the size of their establishments fulfill several functions: Owner, Production Manager, Purchaser, Finance Manager, Bookkeeper, Cashier and Salesman. They cannot devote enough time and attention needed to accomplish market planning and implementation.
3. There is a lack of market information, of marketing tools and aids.

4. Marketing is totally unplanned and happens only by chance. The SSI entrepreneurs merely wait for buyers to come and do not go out prospecting for buyers. Workshops and even small showrooms are found in clusters around someone who has a regular business with either domestic or foreign buyers, hoping to get a share from either the pacesetting workshop or from the buyers themselves.
5. Linkages between producers and buyers are lacking. Poor market response discourages the SSI to upgrade capacity and product quality which in turn keep export buyers away.
6. The SSI shops are at the mercy of a few buyers and export traders/contractors who dictate the prices and their particular product designs on them. Thus the SSI shops merely supply labor or labor and materials and are not encouraged to develop new designs for value added benefits.
7. The SSI shops have limited access to financing.
8. The Bapak Angkat Programme has very serious deficiencies in its implementation due to the absence of realistic and specific guidelines. Marketing was altogether missed out in the programme.
9. The local market can be developed further into a sizeable and profitable market. Selling of rattan furniture in the local market appears to be limited to ambulant peddlers and sidewalk hawkers catering to the lower end of the market with poor quality and obsolete designed furniture.
10. An industry which seems to have escaped the attention of Government is the basket and weaving accessories industry. The technology for basket weaving is a lot simpler, does not require too much skills, nor need such a strict selection of raw materials as in rattan furniture. Baskets and accessories are used as filler items in rattan furniture shipments. In the Philippines, the exports of baskets and woven accessories are even much larger than the exports of rattan furniture in terms of dollar value.
11. Serious marketing programmes and established linkages of SSI's with large export oriented factories need to be developed. Most large factories hesitate to subcontract jobs with SSI's because of either bad experiences with SSI's or dread of the SSI's reputation of being unreliable.
12. The lack of containers and container facilities and the high costs of transporting containers in Ujung Pandang and Semarang have discouraged the establishment of more export oriented factories in the area to serve as markets for SSI subcontractors, despite its closeness to sources of raw materials. Consequently the growth and development of SSI's in those areas have been slow.

13. Contributing to the slow development of rattan furniture export industries in Semarang, Medan (despite its good harbor shipping and container facilities) and Ujung Pandang are the lack of export buyers. Most buyers prefer to visit Jakarta and Surabaya and skip the other areas altogether.

Only small export buyers shopping for better prices and bargains ever get to Semarang, Medan and Ujung Pandang. A cooperative effort at marketing the rattan industries in these areas is needed to interest important buyers to come.

IV. FUTURE OR FOLLOW UP ACTIONS

The training centers should hire a qualified and experienced Marketing Consultant well versed in all aspects of international marketing who is familiar with the Indonesian language and the habits and customs of its people to guide the activities of the SSI's. The development of marketing plans, activities and programmes must coincide with the skills training and development programmes of the centres. In the meantime that market and product development is going on the capabilities and capacities of the SSI's must be upgraded accordingly. There is no point in prototyping if the products being sampled cannot be mass produced.

Communication facilities like faxes and telexes including translation services to provide assistance to SSI's must be set up in the training centres. Product and market development depends a great deal on constant two way communication between producers and buyers.

Library facilities providing up to date information on markets, product styles, designs, competition, government regulations, export and import procedures and practices in foreign countries must also be set up in each of the centres.

For the SSI's to survive and grow in highly competitive domestic and export markets, they must coordinate and integrate their decisions and operations according to market requirements. There must be regular seminars on marketing to constantly remind and expose them to the basic principles of marketing management, the marketing opportunities, the latest trends in product design, pricing and developments in the marketplace. These seminars should be run in 2 phases: The basic and the follow up.

- a. The basic programme should be a 5 day course to orient new entrepreneurs on basic business and marketing principles and management using the training modules developed by Mr. Desmond Cody. The highlight of the course is the individual preparation of the business plan and marketing programs by each of the participants.
- b. The follow up courses should be composed of separate workshops on topics which are extremely relevant to marketing rattan furniture.

- i. Marketing opportunities in foreign markets with resource persons invited from the commercial sections of the embassies of rattan importing countries. This workshop is attended to link up producers with foreign buyers and familiarize the participants with the needs and preferences of specific export markets for rattan furniture as well as the import regulations and practices in foreign countries.
- ii. Design workshops by international designers to keep the SSI's abreast with the latest international designs, styles and forecasts on trends.
- iii. Marketing management seminars to show how to integrate the SSI's organization, production, communications, finance, selling and other activities of the enterprise and will include the exercise on the preparation of plans, marketing strategies and export programmes.
- iv. Special courses on salesmanship, the effective use of distribution channels in both domestic and foreign markets.

A programme for the development of the domestic market for rattan furniture, baskets and accessories by SSI's must be undertaken preparatory to the jump into export marketing. Not only are domestic prices better and more profitable but there is also less risk involved. With a total population of 160 million people, local sales of rattan furniture can be a substantial business with availability of better quality furniture, improved and up to date designs and styles, good merchandising, enough efforts at selling and distribution, advertising and promotions, active participation in local fairs, reasonable pricing and consumer financing. Marketing plans and programmes addressed to the contract including export oriented trading and manufacturing companies, and the end user markets must be worked out, its implementation constantly monitored and evaluated and adjustments or revisions on the plans made when necessary.

With limited resources, the individual SSI workshop cannot be a serious player in the world market. Even the large Indonesian furniture makers with its substantial capital and sophisticated machinery can only manage to compete in the less profitable low end of the export market. The reason is the large factories failed to give importance to marketing and were preoccupied only with producing mass merchandise items at big volumes and have so designed their plants accordingly. The SSI's can be a serious factor in exports if they can achieve benefits of scale through cooperative marketing. A new facility will have to be created to give each individual SSI access to new skills and functions. Participating manufacturers would coordinate their market research, product design and development, selling and exporting abroad without putting a serious strain on their finances through a pay as you earn basis.

The following are new facilities where the participating manufacturer can benefit from:

ADAPTATION

Production Rationalisation
Product Design and Development
Prototyping and Technology

FACTORY MANAGEMENT

Production Planning and Budgetting

MARKETING AND SALES

Market Policy Formulation

Controlled Sales Costs

Coordinated Selling, promotion and image development

PROGRAMME OF ACTION

The new facility would

1. Examine the sales patterns and product mix of each manufacturer.
2. Determine the production potential of the factory for various processes with the guidance of furniture technologists.
3. Plan with the factory and in consultation with furniture technologists a production rationalisation programme from which design and new market development programmes will be developed.
4. Assemble a catalogue of all products with international standards.
5. Commission designers to develop new products.
6. Visit selected markets and establish contract showrooms with suitable agents or importers.
7. Participate in trade fairs, shows and exhibitions.
8. Plan and start to implement programmes of selective distribution both domestically and abroad.

The government's role would be to encourage and assist the SSI's in setting up the cooperative organization. The actual running of the cooperative's activities must be left in the hands of the SSI's entrepreneurs guided by the marketing consultant to be more responsive to marketing conditions and act decisively and quickly to problems. Government assistance may be required in sourcing financing for the start up of the cooperative facility.

V. CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

The development of the rattan industry is still in its infancy and will need a great deal of marketing, export manufacturing experience and time before it can obtain the same level as the Philippines, China and Taiwan in the world market. And the Indonesian small scale industry, except for Cirebon has still yet to successfully penetrate the export market for rattan furniture.

In general the basic entrepreneurship programme served as an eye opener for most of the participants into giving **MARKETING** its due importance in their businesses. But for them to inculcate the marketing philosophy and orientation into every decision they make on the running of their business operations will not be easy. Some facts of modern marketing management run counter to their traditional and cultural values, making their understanding and application quite difficult. Such as their attitudes on keeping time, belief in destiny, harmonizing forces in nature, dependence on authority for guidance and protection, sharing work and employment in "Golong Royong", decisions through consultations and mutual consent, the extended family concept (families include all members of the village) and the social responsibilities of the haves towards the have notes in the village, etc.

Marketing skills are lacking. Professional courses in business and marketing need upgrading. The limited market and business opportunities in Indonesia have inhibited the development of business and marketing leaders oriented towards modern business management, and techniques needed for export marketing.

Priority areas in marketing for SSI's that need attending to are:

1. Marketing information systems for both the domestic and the export marketing of rattanware so decisions can be founded on solid facts.
2. Product development and design according to International standards to hasten acceptance for Indonesian made rattan products abroad.
3. Pricing strategies developed according to the requirements of the various stages in market development. The ultimate aim is to provide the value added benefits of marketing new designs and styles.
4. Selected suitable channels of distribution to market products according to target markets. The buyers should also cooperate in the product development efforts of the SSI's.
5. Organizing for marketing.
6. Upgrading of selling skills.
7. Promotional efforts and publicity to eradicate the poor image of rattanware products made in Indonesia.
8. Control and evaluation standards to ensure success of marketing plans and its implementation.

B. RECOMMENDATIONS

To summarize, the government must establish facilities for a library for marketing information systems, communication systems and translation services to assist the SSI's in the various centers.

Development of the basketware industry needs government attention and support. The weaving of baskets and accessories requires less skills and provides more efficient use of raw materials. Unlike furniture, baskets and accessories are more of the convenience goods type and are therefore easier to market. The size of the basketware and accessories market is much larger than rattan furniture in the export market.

Development of the domestic market through improved product quality, designs and marketing strategies as a take off for export marketing by SSI's. Continuous training programmes and seminars to improve marketing skills and update marketing know-how on the latest trends and developments in the marketplace must be carried out. This will augment the lack of appropriate business and marketing courses in the universities and train practitioner on modern marketing and business methods with specific application to the rattan industry.

Organization of cooperative facilities to get the cost saving benefits of shared technologies in product development, product rationalisation, adaptation of new management skills, selling distribution channels, advertising and promotions, etc. consistent with Golong Royong or the Indonesian tradition of cooperation and sharing.

Hiring of an international marketing expert familiar with Indonesian customs, traditions and nuances to guide the SSI's in market planning and development.