

## CHAPTER I

### INTRODUCTION

#### 1.1 Background

Micro, Small, and Medium Enterprises have been known to play a crucial role in the society, more importantly in business. The world has witnessed plethora new products to be introduced by small businesses, which with its freedom of innovation nature yields noticeable advances in technologies, marketable goods, and services (Bovee et al, 2007). Even with its small stature, small business has also been known with its supporting role for larger organizations by acting as distributors, suppliers, and servicing agents to larger cooperation. More often than not, small business also tends to take risks that their larger counterpart avoids with its high willingness to try new and unproven ideas (Cronin-Gilmore, 2012)

The existence of small and medium enterprises (MSMEs) in developing countries has been known to be crucial (Tambunan, 2006) towards the social and economic for so many different reasons, namely: wide presence in rural areas which makes it essential for rural economies; labor absorbtion of these enterprises that benefiits local workers; and abillity of becoming learning tools for locals to acquire entrepreneurial and business skills.

The World Bank issued that formal MSMEs alone is responsible for up to 60% of total employment and up to 40% of national income (GDP) in developing countries, taking informal MSMEs in to the account would definitely increase these statistics. Not only that, hundreds millions of workers will enter the global workforce over the next 15 years, mainly in Asia and Sub-Saharan Africa according to The World Bank. With this estimations, four out of five new jobs are expected to be generated by MSMEs. Furthermore, a World Bank Group study suggests that there exist approximately 400 million MMSMEs (microenterprises and MSMEs) in developing countries; the vast majority of which are informal. This study only shows the ultimate importance of MSMEs in shaping the social and economic condition in developing countries.

Indonesia as developing country with its tropical climate, has been established as an agriculture country since the old days, only now with the rapid globalization the focus shifted to the industry sector. With the shift to industrialization, it has become the leading factor in contribution to Indonesia's economics. Still, agriculture is essential in the change towards a more industrial development as it usually acts as major sources of raw materials (Maryono, 2015). Thus require a good cooperation between the two due to the supporting nature of agriculture to industry which ultimately increase the states gross revenue which at the end will also provide plethora of public welfare.

The total of SMEs in Indonesia is 3,505,064 enterprises by 2014. It only increased to 3,668,873 SMEs in 2015, showing that there is a continuous growth—4.67% to be exact—of SMEs number in Indonesia from 2014 to 2015. In 3,505,064 SMEs that existed, 1,567,019 SMEs are food-based SMEs based on the 2015 data accumulated by National Agency of Statistics (2018). It can be concluded that SMEs played a vital role in Indonesia's entrepreneurial presence and the food based SMEs is quite substantial in number as it accounts for 42% of SMEs in Indonesia.

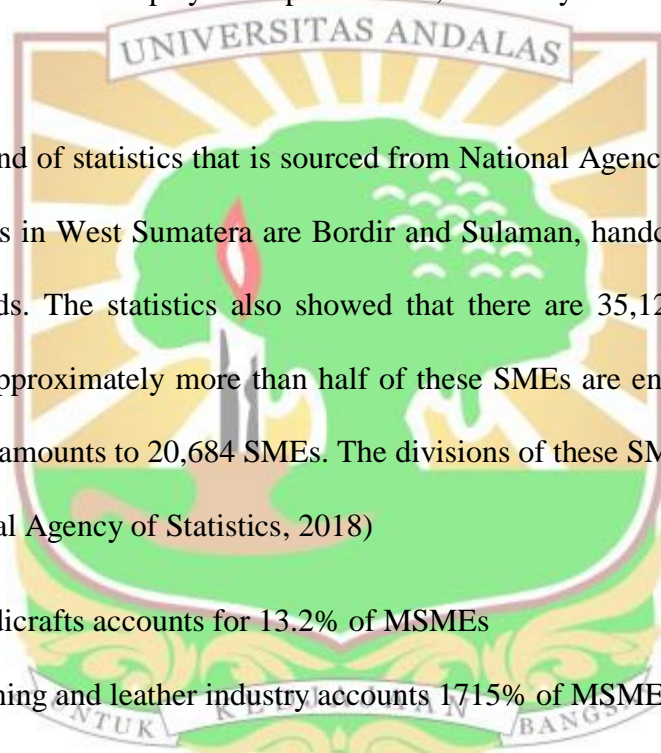
Based on statistics from National Agency of Statistics it can be noted the sheer size of SMEs thus it has become a crucial strategic power to to escalate regional development. Notably, giving significant contribution towards Gross Domestic Income (GDI) and employment absorption. Many of these enterprises are considered a household enterprise in which mostly located in residencies area and require further assistance as most of them are plagued with the same problem which includes lack of capital, business information, technology, and skilled workers; government policies and regulations; and marketing challenges which this study will focus on.

As noted earlier, Indonesia is a country with a large natural resources including its soil which is rich with vitamins and minerals making its soils suitable to grow various crops. This makes Indonesia became an agricultural country in which agriculture played a huge role in the social and economic aspects of the country (Maryono, 2015). And that includes West Sumatera province which is rich with arable land and therefore becoming one of the province with a strong agriculture output. Natural resources in

West Sumatera are resourced from various sources such as plantation, mining, fisheries, small medium enterprises, services, and trades are dominated by agriculture which become a majority of source of living by the people of West Sumatera (Stanford et al, 2013). With the various crops that can be grown in West Sumatera such as cassava, sweet potato, maize, and nuts, many of these crops then processed to become local delicacies which then play an important role, culturally and economically in the area.

Another round of statistics that is sourced from National Agency of Statistics, the prominent SMEs in West Sumatera are Bordir and Sulaman, handcrafted ornaments, and typical foods. The statistics also showed that there are 35,123 SMEs in West Sumatera and approximately more than half of these SMEs are engaged in the food industry, which amounts to 20,684 SMEs. The divisions of these SMEs can be seen as follows (National Agency of Statistics, 2018)

1. Handicrafts accounts for 13.2% of MSMEs
2. Clothing and leather industry accounts 17.15% of MSMEs.
3. Building and chemical industry accounts for 21.40% of MSMEs
4. Metal machinery and electronics accounts for 7% of MSMEs
5. Food Industry which accounts for 58.89% of the MSMEs which includes Rendang, Keripik Balado, Kipang, and etc.



The rapid growth of SMEs in West Sumatera is substantial to strengthen the economic condition of the region by providing a source of income the society, absorbing employment, decreasing inequalities and overall poverty. Many of the SMEs that focused on food and handicrafts in West Sumatera managed to penetrate international market even with limited production volume. It showed that many of these SMEs have potential to become a bigger industry which then at the end can be more beneficial to the society.

As a region that is known for its famous delicacies, West Sumatera has a robust variety of typical foods, even each region in West Sumatera has its own specialized typical foods that have its own characteristics to differentiate it from one another. The regional typical food can be seen by the most popular typical foods in each area such as Keripik Balado from Bukittinggi, Ikan Bilih from Solok, Gelamai Barih Rendang from Lima Puluh Kota, and many other delicacies. Each of these typical foods have its peculiarities which correspondent to each region's natural resources. Keripik Balado is arguably the more famous typical food that is made from cassava and can be found across West Sumatera, especially Bukittinggi.

Bukittinggi, a city which has been known to be the ultimate tourist destination in West Sumatera. Typical food, which is commonly associated with the identity of the region also played a major role in the raise of the tourism industry. Many of this typical foods become souvenirs for visitors whenever they visit West Sumatera. This signified the importance of typical foods in West Sumatera as food heaven for tourist.

While it is great to witness the prominence of SMEs in Bukittinggi, many of these businesses are plagued with plethora of issues ranging from lack of capital, insufficient business information, technology, and skilled workers; government policies and regulations; and marketing challenges. Due to this difficulties, research has shown that many of these SMEs close within 5 years of their operation (Cronin-Gilmore, 2012). It shows that these issues really hampered the development of SMEs, especially in developing country such as Indonesia, as access to information to help the growth of business is still insufficient due to the sheer size of Indonesia as an archipelago nation.

These MSMEs do engage in marketing activities, with or without acknowledging it or even more, without knowing any marketing tactics. Unfortunately, many of these MSMEs are plagued by marketing issues, namely; poor cash flow, lack of marketing expertise, business size, tactical customer-related issue, and strategic customer-related issues (Dwyer, Gilmore, & Carson, 2001).

In Bukittinggi, a city in Indonesia which the presence of MSMEs are increasingly important society. As a region that is known for its delicacies accross Indonesia, the industry of food that specialized in the food that is unique in West Sumatera is growing. However, the has been significant emergence of competitors in the area food souvenir with the arrival of modern food branded as local delicacies such as Minang Mande Cake and Lapis Nan Tigo. It is never been more crucial for these traditional typical food to survive these newfound competitors. For this study, the focus will be on

Keripik Balado, a fried cassava chips coated with spicy red sauce. Based on the observation above, the author is intrigued to analyze and dissect if further in the form of research entitled “Marketing Practice in MSMEs: Owners’ Perspective of Bukittinggi Snack Food of Keripik Balado”.

## 1.2 Problem Statement

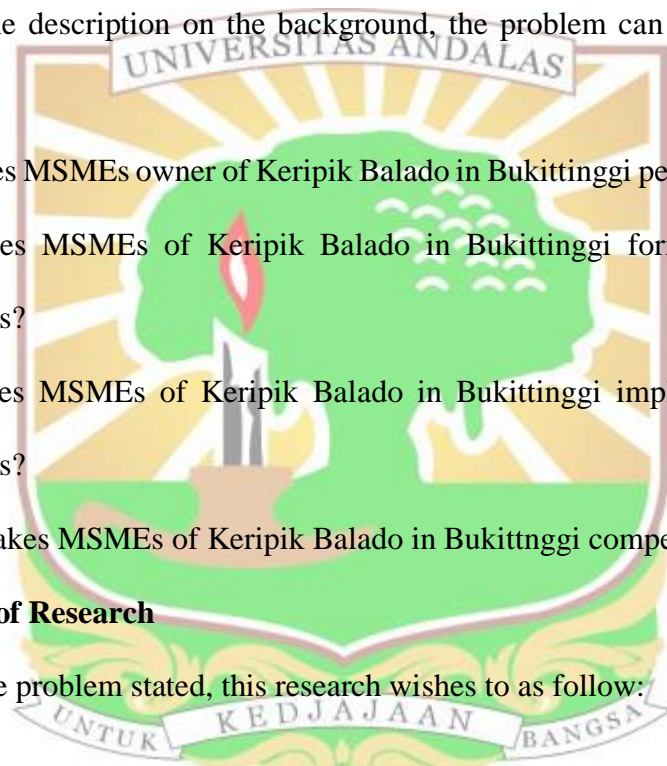
Based on the description on the background, the problem can be formulated as follow:

1. How does MSMEs owner of Keripik Balado in Bukittinggi perceive marketing?
2. How does MSMEs of Keripik Balado in Bukittinggi formulate marketing strategies?
3. How does MSMEs of Keripik Balado in Bukittinggi implement marketing strategies?
4. What makes MSMEs of Keripik Balado in Bukittinggi competitive?

## 1.3 Objectives of Research

Based on the problem stated, this research wishes to as follow:

1. To discover and analyze how MSMEs’ owner of Keripik Balado in Bukittinggi perceive marketing.
2. To discover and analyze how MSMEs of Keripik Balado in Bukittinggi formulate marketing strategies.
3. To discover and analyze how MSMEs of Keripik Balado in Bukittinggi implement marketing strategies.



4. To discover and analyze what makes MSMEs of Keripik Balado in Bukittinggi competitive.

#### **1.4 Significance of Research**

This research hopefully can give significant contribution towards:

1. Thereotical Advantage

This research is aiming to provide Small Medium Enterprises with the information of importance of marketing to their business performance. This could also help government institution and other private institutions in providing information that is relevant to the current condition that are happening in the MSMEs. This study could also be undertaken for future research.

2. Practical Advantage

The result of this study could give an impact while also providing knowledge concerning the marketing practices in order to increase their marketing and business performance. This study can also be used by MSMEs to improve their marketing practices.

#### **1.5 Scope of Research**

This research will discuss the marketing practice of MSMEs owner by using the perspective of Bukittinggi snack food of keripik balado.



## 1.6 Outline of Research

In order to create an easy-to-read and forwarding content, this research is divided in to six chapters, which are:

### CHAPTER I: Introduction

Elaborating the background of the problem, the formulation of the problem, problem limitations, research objectives, benefits of research, and systematic thesis.

### CHAPTER II: Review of the Literature

This chapter contains the description of theoretical variables which includes the theories that support and underline the variables used in research and framework.

### CHAPTER III: Research Methods

This chapter will explore the object of the study, population data, and data sources, technique in data collection, operational definitions of variables, data presentation techniques, and data analysis techniques.

### CHAPTER IV: Results and Analysis

This chapter contains the characteristics of the respondent, descriptive analysis, data collection, and result of the discussion.

### CHAPTER V: Conclusion

This chapter contains the conclusion of the result obtained by the research, research implementation, limitedness of the research, and recommendations.

