EXECUTIVE SUMMARY

The wood furniture sector plays an important role in Indonesia’s economy, which ranks in the top 15 exporting countries in the international market. However, with growing competition in the international wood furniture market worldwide and the global financial crisis that started in September 2008, Indonesian firms which supply the international market have suffered from declining orders, while some have even closed. Compared to several other Asian countries, Indonesian products are less competitive in quality, delivery, pricing, promotion, and design. In Indonesia, Central Java and Yogyakarta are two of the most prominent wood furniture producing provinces, with approximately 90 percent of the industry consisting of small and micro enterprises.

The objectives of this study are to better understand the activities, actors, and interactions among actors in intervention for Small and Medium Enterprises upgrading through the value chain model. Based on a gap analysis, this study a) provides a detailed model of production and export value chains in the furniture sector, b) analyzes the interaction options provided in the market by stakeholders and organizations, c) provides detailed information on the typical business services required by the producers and exporters within the value chain, and d) provides proposals for Point of Interventions (POI) in the pilot project. The key findings of the study are presented according to four categories, and are complemented by detailed budgets and recommendations for SIPPO:
**Marketing:** Constraints in marketing include poor planning; limited market research; abilities; poor skills for international transactions, trade show preparation, marketing communication and logistics. This leads to poor sales and lost opportunities to develop new markets and maintain existing buyers. Interventions should involve BDS that are experienced in developing marketing plans and with hands-on experience in export activities.

**Design:** The inability to develop new designs leads to the weak competitiveness of Indonesian furniture producers in the global market. To overcome this problem, an intervention is needed through BDSs or design communities that are competent to develop good designs, especially in the home accessories and hospitality market segment.

**Production & Technology:** Urgent priorities include improving production technology and techniques used by the industry. To overcome current constraints, the intervention program must be conducted through BDSs that are skilled in developing comprehensive production management systems.

**Constraint and Intervention of Raw Materials:** To improve wood supply management, there is a need for an integrated way to solve the problem, starting from improved forest management systems, empowering communities to handle forest management systems, promoting a variety of soft woods that are locally abundant, and developing resource terminals in order to ensure continuous stocks of supplies and the stability of prices.