

APPENDIX 2

3.2 Interaction in Value Chain of Wood Furniture

3.2.1 Specific Marketing Strategy

Among 40 respondents, one producer-exporter has a specific marketing strategy. He positioned his company as “customized to buyer needs”, using certified recycled wood to produce clean products (sustainable products). Based on his awareness and sensitivity to competitor movements/actions, he set a market objective to offer exclusive products for certain segments such as hotels, restaurants, offices, etc. The key success factor is design. His PR strategy is to recruit professional staff, use information technology, attend design competitions and attend exhibitions. Large company has opportunity to have a specific marketing strategy because of supported by capability of human resource and capital.

The rest of the sample did not have any specific marketing strategies and relied on foreign buyers, because of poor managerial skills (see Table 3.1.6 – Appendix 1). The bargaining position is weak and who lack commitment (see Table 3.1.7). Most companies in the sample are run by owner managers. The owner managers have a weak bargaining position. 88% of buyers determine the price, 94% of the buyers determine production volume, 88% of the buyers determine quality, and 74% of the buyers determine designs. However, it is difficult to create a collective bargaining among SMEs, because they tend to avoid cooperation (97%) and sharing with

competitors (97%). Most SMEs don't pay attention to product and design development (91%) and issue of property rights (81%). Moreover, the SME's orientation is geared toward short term benefit (76%), so they feel that a sound marketing plan is not needed.

3.2.2 The Difficulties to Replicate the Successful Sub-Sectors Products or Services

In the industrial clusters, firm behavior in determining products, designs, prices, and distribution is relatively open and easy to know and copy. Catalogs, leaflets and product samples are transparent. That's why a lot of traditional clusters in Indonesia are growing vastly. Copying designs is a common occurrence in a furniture cluster. Designs are perceived as folklore, so there is no effort to enforce rules of patents and copy rights of furniture designs. SMEs willingness to copy designs is relatively high (72% of respondents) and 67% of respondents are willing to obey the patent and copyright regulation, and also less aware to give honor to the designer's work (88%). Nevertheless, succeeding to replicate product is not only problem of design or imitating business behavior, but also production and marketing strategies. SMEs have to upgrade human resource capabilities (managerial skills of owner managers and technical skills of operators) to enhance their replicating ability.

Currently, large companies relocate or covering the fabric to internalize the production process in order to protect the designs, management systems, and market information.

That's why we found the VC model of integrated producers-exporters in Figure 3.2.

In the future, to be able to be sustainable, SMEs have to change their paradigms about the product – market and competition. To replicate successful sub-sectors products, many constraint have to be solved, such as low capability of human resources (in design, managerial skill, operational skill, entrepreneurship, etc), lack of capital, low quality of social capital (avoid to cooperation), short term oriented benefit, etc.

3.2.3 The Sector Access to a Diverse Set of Markets or Market Segment

One of the main stakeholders in furniture sector is consumers. Basically, the furniture sector in Central Java produces indoor and outdoor furniture for a different segment: the high end market, high-low end market, and low end market. There are more than 1,000 different product items in each product-market segment. The trend to develop (design) products in the future is growing, so there will be more choices in the market.

3.2.4 The Significant Way of Sector Contribution to Customers' Perceived Value of the Product or Service Offered

After the monetary crisis, 2003 to 2005, Indonesian furniture exports are declining because of a bad image of illegal logging. In the meantime, market selection is happening. Companies, especially SMEs, which are using illegal wood, are declining. Several large and medium companies are applying

wood certification (FSC and VLO and create a strategic alliance under ECOEXOTIC group, supported by SENADA. They are promoting their clean and sustainable products in every exhibition they participate. Finally, since 2006 – 2007 the volume of Central Java furniture exports of is increasing (Figure 3.6). It indicates that customers’ perceived value of Indonesian wood furniture products is changing.

Figure 3.6 Export volume of furniture product in Central Java

