

## Chapter III. Findings

The findings are presented in the table below:

**Table 2: List of findings**

No	Questions	Answers
<b>FINDINGS</b>		
1	<b>To provide a detailed model of production &amp; export value chains in the Furniture sector (see appendix 1 for detail)</b>	<p>(1) The micro level of chain contains:</p> <ol style="list-style-type: none"> <li>a. customers/buyers: foreign buyers (importers and representatives of importers) and domestic buyers</li> <li>b. main actors (operators) that contribute directly to the production and distribution process:               <ul style="list-style-type: none"> <li>• raw material (wood) providers: state owned forests (Perhutani for Java Island and Inhutani for outside of Java Island), community forest</li> <li>• wood traders</li> <li>• unfinished product producers</li> <li>• finished product producers</li> <li>• Producer-exporters.</li> </ul> </li> </ol> <p>(2) The meso level of a chain contains related industry/service providers that indirectly contribute to the furniture business activities: sawmill service providers, transportation service providers (trucking, shipping), and forwarders.</p> <p>(3) The macro level of a chain, that includes all the levels of the chain and stakeholders that influence the climate of the furniture business.</p> <ol style="list-style-type: none"> <li>a. Government (Ministry of Industry, Ministry of Trade, Ministry of Cooperation, Forestry)</li> <li>b. Educational Bodies (CEMSED, PIKA, etc)</li> <li>c. BDS (Riwani Globe, SENADA, QTI, PENSA,</li> </ol>
	Who are the relevant actors in the value chain? (Forestry, sawmill, suppliers, producers, traders, transporters, wholesalers & retailers, exporters etc.)	

No	Questions	Answers
	What are the characteristics of these actors (number, practices, skills)	<ul style="list-style-type: none"> <li>• The furniture sub sector in Central Java 2007 consists of a number of 89,723 established units, an 998,756 labor, a production value of Rp.294,224,730,000,- and export value of US\$424,161,733 (Dept. Of Industry and Trade Central Java, 2008). The development of Central Java Export, number of firms and workers is presented in the Table 3.1.3 in Appendix 1.</li> <li>• In Yogyakarta for 2007, there are 3,771 units and 23,765 labor, and export 138,47 Dept. Of Industry and Trade Yogyakarta, 2006).</li> <li>• In the input market, producers and also producers- exporters are facing a monopoly market of wood (Perhutani and Inhutani).</li> <li>• SMEs are facing difficulties to gain access to high quality products that are produced by Perhutani and Inhutani.</li> <li>• SMEs mostly use community forest wood with a low quality.</li> <li>• Many small firms buy the wood from local traders.</li> <li>• In production, they use mixed technology: manual dan machine.</li> <li>• Around 82% small companies produce unfinished products and around 8% is medium company that produce unfinished product</li> <li>• Contract workers produce unfinished product in their premises by using material given by the company that hired them</li> <li>• Timber saw mill is a company applying specific machine to cut and slice logs.</li> <li>• There are other related services such as forwarding and Shipping companies</li> </ul>
	Who are the key regulatory and coordinatng agencies in the sector?	There are some government offices involved as the decision makers for the industry such as: Ministry of Forestry, Ministry of Trade, Ministry of Indusrty, Perhutani in Java, Inhutani outside of Java and Furniture and Handicraft Association -ASMINDO.

No	Questions	Answers
	Where is value added along the chain?	<p>Figure 3.2 (Appendix 1) shows that exporters, especially those who produce high end furniture products from logs up to the finished product (integrated processing) and/or produce their products with own design, are creating highest value added (79%) and also profit (35%). The lowest value added (6%) is created by unfinished product producers (Figure 3.3 – Appendix 1).</p> <p>High end and/or own design product for export market create 80% value added, while low end furniture product is only create 50%. It means that high end product creates value added almost one and half higher than low end market.</p> <p>Most of medium and large direct exporters are producing high end product (78% of total export value), while small direct exporters and indirect exporters are produce low end product (22% of total export value). Indirect exporters are SMEs with lower levels of technology and managerial skill, but by producing finished products they create value added up to 31% (Figure 3.4 – Appendix 1).</p>
	What are the main factors / players driving the sector	<p>There are 4 important factors drive the sector:</p> <ol style="list-style-type: none"> <li>(1) market</li> <li>(2) the function of the product</li> <li>(3) technology</li> <li>(4) design</li> </ol>
	What are the most critical constraints SME must overcome to take advantage of export opportunities?	<p>The performance of the operation / production processes (six problems)</p> <ul style="list-style-type: none"> <li>• Wood (raw materials) and suppliers</li> <li>• Production management: human error in the operation/production process are the problems with the highest intensity, almost three times a week</li> <li>• Design problems are related to the ability to design engineering and to translate figure/photos into technical drawings</li> <li>• Late delivery problems</li> <li>• There is not comprehensive marketing export plan</li> </ul>

No	Questions	Answers
2	<b>To analyze the interaction options provided on the market by different stakeholders and organizations (see appendix 2 for detail)</b>	<p>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 eco friendly 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, participate at design competitions and participate at international trade show. Large company has opportunity to have a specific marketing strategy because of supported by capability of human resource and capital.</p> <p>The rest of the sample did not have any specific marketing strategies and relied on foreign buyers, because of poor managerial skills (see Table 3.1.5 – Appendix 1). The bargaining position is weak and who lack commitment (see Table 3.1.6 – Appendix 1). Most companies in the sample are run by the owner. The owners have a weak bargaining power. 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.</p> <p>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.</p>

<p>Do competitors find it difficult to replicate the successful sub-sectors products or services?</p>	<p>Small and micro furniture producers face difficulties to replicate marketing strategy developed by medium and large furniture producer due to the following reason: low capability of human resources (in design, managerial skill, operational skill, entrepreneurship, business view, etc), lack of capital, and short term oriented business approach.</p>
<p>Does the sector have access to a diverse set of markets or market segments?</p>	<p>The main market segment of wood furniture sector comprise of consumers. Basically, the furniture sector in Central Java produces indoor and outdoor furniture for a different segment: the high end market, medium 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.</p>
<p>Does the sector contribute in a significant way to customers' perceived value of the product or service offered?</p>	<p>After the monetary crisis, 2003 to 2005, Indonesian furniture exports are declining because of a bad image of illegal logging. In the meantime, there is an opportunity in the niche market of eco friendly product (sustainable product). Companies, especially SMEs, which are using illegal wood, are declining. Several large and medium companies are applying wood certification (FSC and VLO). Some of them create a strategic alliance under ECO EXOTIC group which is supported by SENADA Project. They are promoting sustainable products in every exhibition they participated. Finally, since 2006 – 2007 the volume of Central Java furniture exports is increasing (Figure 3.6 – Appendix 2). It indicates that customers' perceived value of Indonesian wood furniture products is changing.</p>

No	Questions	Answers
3.	<b>To provide detailed information about the typical business services required by the producers and exporters within the value chain (see appendix 3 for detail)</b>	
	How many channels for business services exist in the sector?	<p>Supporters in the Central Java and Yogyakarta wood furniture value chains consist of two main groups Supporting services and Supporting agencies:</p> <p>Supporting services can be distinguished in to several groups.</p> <ul style="list-style-type: none"> <li>• <b>Technical skills:</b> There are not many institutions which provide technical services such as wood treatment, carving, and finishing. Among these firms are PIKA, FPESD, CEFED</li> <li>• <b>Managerial skills:</b> Unlike technical skills, there are many institutions offer managerial skills such as ASMINDO, DETRO, CEMSED, &amp; other local BDS. There is no data available about the number of BDS, but in Central Java and Yogyakarta it is believed that the number of BDS is a large number since a large number of small and medium enterprises are in this province.</li> <li>• <b>Technical support: UPT (Jepara, Klaten)</b> Technical service units that focus on wood furniture can be found in 2 wood furniture clusters are in Jepara and Klaten area</li> <li>• <b>Financial support:</b> For financial support consists of Indonesia central bank, commercial banks and non bank financial institutions. Concerning commercial banks, there are 48 units in Central Java and 30 units in Yogyakarta. Meanwhile, for people banks, there are 343 units in Central Java and 65 units in Jogya.</li> <li>• <b>Marketing support: Riwani Globe, ASMINDO</b> In this industry, several NGOs like PENSA, SENADA, also provide several supporting services.</li> </ul> <p>Supporting agencies consist of the Industrial Office, Trade Office, Cooperative and Small and Medium</p>

No	Questions	Answers
	Which channels are growing and which are declining?	<p data-bbox="436 244 1056 574">As mentioned above, although various types of services are available for the wood furniture industry, not many actors utilize these services. In general, the services can be distinguished between government services and private services. The government services are frequently free or subsidized, while for private services usually users have to pay on a commercial basis. However, currently in implementing their projects many government offices cooperate with private commercial institutions, in which the participation fee is subsidized by the government.</p> <p data-bbox="436 597 1056 899">In general, institutions that provide managerial skills and financial support grow very fast, but those which offer technical skills, technical support, and marketing support are almost the same. There are many new BDS established since the government develop a policy to give assistance to small and medium scale enterprise. Moreover, the above policy is also conducive for the emergence of the People’s Credit Bank (BPR) and many cooperatives that focus their operations to serve micro and small scale firms.</p> <p data-bbox="436 921 1056 1223">The involvement of BDS in the promotion and development project by the Ministry of Cooperative and Small and Medium Enterprises since 2001 has created many projects oriented toward BDS. Since that time, many new BDSs have appeared as BDS generalist (doesn’t have any specialization) since they are able to do all kinds of work as long as they get the authority from the government. The low quality of BDS and the shortsighted mindset from the BDS people have made SMEs reluctant to utilize BDSs services</p> <p data-bbox="436 1246 1056 1328">Meanwhile, based on our interviews with respondents, we present the perceptions of respondents regarding the quality of services offered by BDS (providers).</p> <p data-bbox="436 1350 1056 1524">Table 3.2.1 shows that most respondents use banks as service providers. Only ASMINDO identified a decline in the performance of service providers whereas the services provided by banks and financial institutions are growing. One important thing is that the services offered by the government has not grown.</p>

No	Questions	Answers
	Which services are mostly used/ purchased from related service providers?	<p>According to the government decree (Ministry of Cooperative and Small and Medium Enterprise, BDS has several roles: (1) to act as a trading house for small and medium firms in a cluster or industrial district, (2) act as a business consultant for SMEs; and (3) act as intermediary between SMEs and financial institutions. However, not many SMEs use BDS services. The table below shows the number of respondents who use the services.</p> <p>The percentage of respondents who use services range from 2.5% to 35%, and the highest number of respondents use banks. Respondents use banks frequently to gain access to capital, or transfer money. Concerning banks, the wood furniture industry is considered as a sunset industry, so that many banks are hesitant to provide financial assistance for companies. Some firms use management consultancy to improve their capabilities. Among respondents, about 20% - mostly exporters- use services offered by an association (ASMINDO). The services supply information about marketing, specifically concerning international trade, exhibitions, business developments, information about patents and designs, design developments, and endorsements to get an export license. Meanwhile, about 12.5% of respondents use services provided by the government such as trade fairs and information.</p> <p>From the data above, we found that not many firms use facilities from banks, and very few use professional service to improve the manager or worker capabilities. There are several reasons for firms not to use services providers: (1) many actors do not believe training is beneficial of; (2) they do not want to disturb their target production or sales; and (3) businesspeople are concerned when worker capabilities increase, the workers will have more mobility to move to another company.</p>



No	Questions	Answers
	Who are the key actors and how do they interact in each channel?	<p>The key actor in the supporting service channel in the wood furniture industry is Asmindo. The interaction between Asmindo and other wood furniture is membership. This association has a close cooperation with the government, so that they can get access to many kinds of government projects. In many cases, Asmindo is asked to execute of the government program. Asmindo is also frequently asked by foreign NGOs to conduct projects. Therefore, being a member of Asmindo provide potential access to many types of government and NGO projects.</p> <p>However, not all wood furniture enterprises are members of Asmindo. Several SMEs in the wood furniture sector complaint as the association only focuses on the problems faced by large and medium firms instead of SMEs. Moreover, they complain that only the board members have access to many types of projects.</p>
	How does service flow through the channel?	<p>There are 2 types of services channels: government channel, and private channel. The first channel usually starts from a government project to promote SMEs or a group of SMEs in particular cluster. This channel usually tends to be top down, involving the BDS appointed by the government. Although most of these services are free, in many cases the services do not solve the problems faced by SMEs.</p> <p>The second channel is the private channel. SMEs come to the BDS to get help to solve the problems faced by SMEs. In this case, usually SMEs are ready to pay for the services they need.</p>
	What are the standards and practices required to service the target market?	<p>There are no government standards that can be used by wood furniture actors to assess BDS competency, so that user could not distinguish between the good and bad BDS. The Ministry for Cooperative Small and Medium scale firms has taken the initiative to invite and discuss the opportunities for upgrading capabilities for BDS. The discussion also emphasizes the possibility to apply standardization for BDS competency. Up to now, there are no standards available in the market, so we suggest that SIPPO introduce a standardization system for service providers.</p>

No	Questions	Answers
	How is the process regulated in and between channels?	In a channel, the changes in industry regulations are mostly initiated by the government with the input from Asmindo. In the future Asmindo will be involved in reviewing the draft before it is issued.
	Which linkages exist with others (sub-sectors, partners, strategic alliances, joint-ventures, etc.)?	<p>As a service provider, BDS in Central Java is a member of ABDSI (Indonesian BDS Association). In Central Java, the objective of ABDSI is to act as a source of communication media, information, representation, consultation, facilitation, and advocating between BDS and SMEs. This institution has cooperation with the Ministry of Cooperatives and SMEs, the Ministry of Industry, the Ministry of Trade, and other relevant ministries. They also cooperate with international NGO's such as the Asia Foundation, JICA, USAID, local forums, and banks such as bank BRI, bank Bukopin, PNM, KBI Semarang, and KKMB.</p> <p>Besides BDS, Asmindo also has strategic links with government, local, and international NGOs.</p>