

APPENDIX 3

3.3 Types of Service

As mentioned above, supporters in the Central Java and Yogyakarta wood furniture value chains consist of several types:

- a) Technical skills: PIKA, FPESD, CEFED
- b) Managerial skills: ASMINDO, DETRO, CEMSED, & other local BDS
- c) Technical support: UPT (Jepara, Klaten)
- d) Financial support: BI, and commercial banks
- e) Marketing support: Riwani Globe, ASMINDO, DISPERINDAG

PIKA

PIKA is a private school which provides many types of technical education. This institution was established in 1979 and now has 4 divisions which are production, education, training, and general. In 2002, it was selected to be involved in the cooperation between Indonesia and the German Institute in Indonesia for wood technology. The activities offered by PIKA are arranged by anticipating the growth in the wood furniture industry. Besides school, PIKA also provides many types of short term training. The school consists of three concentrations: wood industrial technology, wood industrial management, and interior design.

The objective of the school for wood industrial technology is to produce technical experts in the wood industry that is able to conduct the wood production process using machinery or being done manually. This school also produces student who are able to supervise the wood processing industry. Meanwhile, the objective of the school for wood industrial management is to produce experts in production planning and control in the wood industry. This school also prepares students to be entrepreneurs in the wood industry. Furthermore, the objective of the school for interior design is to produce wood furniture designers. PIKA also offers many types of training such as technical aspect for wood and management, and it also provides training based on learning by doing. The problem faced by PIKA is a lack in design capability and entrepreneurship.

CEFED

CEFED is a Center for Furniture Design and Development. The initiatives to establish this institution come from four parties, which are the Central Java Investment Board, the Industrial Department, some wood furniture producers from Semarang, and Diponegoro University. The mission is to obtain a competitive position for Indonesian furniture and home furnishing industries in the global market through promotion; to expand market shares in the global market; to pursue product perfection through customer satisfaction by elevating the QCD of products; to achieve perfection of Indonesian furniture and home furnishing products through research, standardization, and

certification agenda; and to raise commitment regarding environmentally friendly issues and establish a culture of sustainability.

The activities of CEFED cover:

- To provide information about markets, technology, new designs, and policies concerning the wood furniture industry by publishing a wood magazine named “WOODBIZ”. This magazine is published monthly and freely distributed to wood furniture actors, supporters, and stakeholders.
- To provide training about technical aspects of furniture production (such as kiln dry, finishing) and management (such as PPIC, packaging, and costing). They cooperate with the government to gain access to financial support.
- To facilitate business people who want to participate in domestic or foreign country exhibitions.
- To improve research and development they cooperate with CATAS.

A problem faced by this institution is low participation of wood furniture actors.

FPESD

FPESD is a forum for economic and resource development in Central Java, in which the program covers:

- The establishment of a forum at the district level, called FEDEP (Forum for Economic Development and Employment Promotions). The goal of this forum is to facilitate dialog and cooperation among stakeholders.
- Capacity building is directed to encourage service providers to be involved in cluster development. The service providers are business development services, facilitators, and forums at the cluster level.
- The promotion of 2 wood furniture clusters, Blora and Sukoharjo. The program consists of training for financial management, production techniques, finishing, preparing a proposal, book keeping, and designs. The program also facilitates producers to participate in trade fairs held in Jakarta and Semarang. The program also supports machinery and show rooms for furniture products from the cluster.

A problem faced by this institution is that not all parties involved in the dialog facilitated by FPESD follow the agreement. For example, the agreement with Perhutani in order to maintain the stability of wood prices by rearranging the distribution mechanisms in fact does not work.

ASMINDO

ASMINDO is the Indonesian Furniture Industry and Handicraft Association. In order to obtain an export license - EPTIK (a member card that shows the company is listed in the wood industry), a furniture company needs to be endorsed

by Asmindo. Several local Asmindo are involved in providing training for managerial or technical aspects in cooperation with the Industrial Office. In Central Java, for instance, Asmindo also facilitates a dialog with stakeholders to solve particular problems. However, the project of local Asmindo highly depends on government support.

DETRO

DETRO is a business development service located in Jepara. It provides training in management, financing, and tax consultation. The problem is that the clients are large companies who are able to pay the fee.

CEMSED

CEMSED is an institution that offers services in research, training, and consulting. This institution is located in Salatiga. The problem is a lack of practical capabilities, especially concerning technical aspect.

UPT

UPT is a unit which provides technical services such as sawmill, kiln dry, and carving. The machinery is provided by the Industrial Office. These units are found in the Jepara cluster and Klaten cluster. In Jepara, the unit is managed by an official from the Industrial Office, whereas in Klaten the unit is managed by a Wood Producer Cooperative. However, these services are not used by small producers. In Jepara, the

reason not to use the services is due to the expensive service fee since the kiln dry uses electricity. Moreover, the unit is managed like a government office especially in terms of office hours. Meanwhile, for UPT in Klaten, the problem of kiln dry is similar to what has happened in Jepara.

Forwarding and shipping services

This company provides services for delivering products to buyers in foreign countries and dealing with administrative work needed. The problems faced by forwarding and shipping are usually related to excess weight, poor roads, and incompatible documents with products. In many cases, buyers ask forwarders to act as brokers on behalf of foreign buyers.

Riwani Globe

Riwani Globe is a business development service that focuses on international promotion and trade services. The activities cover trade fairs, training, and consulting.

- International trade fairs are set up to help Indonesian furniture companies to penetrate the export market. To use the service, businesses people have to pay 10,000 Euro (stand); this does not include tickets, product transportation, or accommodations. For new clients, Riwani provides market information, booting space, and information about how to send products.
- There are 20 clients for each trade fair.

- Training started 2 years ago. It consists of MICE (meetings, incentives, conferences, and exhibition activities), and training (TOT and TOE in cooperation with ILO, which has a module on how to start and improve your business). The goal of these activities is to improve market access. For private training, business people usually pay Rp 300,000 for 2 days of training.
- Consulting: usually in cooperation with regional / local economic development (eg. with GTZ in brand development).

In doing the business, Riwani has not had any problems with her clients but she has had difficulty in communicating with the event organizers of international trade fairs, especially after the EO set up a branch in Singapore. She complained that communication takes longer and any mistakes that happen will be charged to the client.

Growing channels and declining channels

Although various types of services are available for wood furniture industry, not many actors utilize these services. The table below shows the number of respondent uses the services.

Table 3.2.1 Number of firms used services

Service providers	number of firm used	%
ASMINDO	8	20
BDS	7	17.5
Government	5	12.5
Bank	14	35
NGO	1	2.5
NBFI	4	10

The type of services mostly used by wood furniture actors is bank (used by 20% of respondent), followed by ASMINDO, BDS, government office, and non bank financial institutions. Respondent use banks frequently for access to capital transfer of money, information on credit. Concerning banks, only about 42.5% of respondents used services provided by banks such as credit or money transfers, whereas only 23.7% of respondents used commercial services such as training and consulting. Some firm use management consultancy to improve their capability. Among respondents, only 20%, mostly exporters, used services offered by an association (Asmindo). The services are in terms of information about marketing specifically information concerning international trade, exhibition, information on business development, information about patent and design, design development, endorsements to get an export license and access to information. Meanwhile, about 13.2% of respondents used services provided by a government office such as trade fairs and information.

From the data above, we found that not many firms used facilities from banks, and very few companies used professional services to improve the manager or worker capabilities. Concerning banks, the wood furniture industry is considered as a sunset industry, so that banks are hesitant to provide financial help for companies. Meanwhile, there are several reasons for firms not to use services providers: (1) many actors do not believe the benefits of training; (2) they do not want it 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.

Regarding the used of services, the growth in using services are found in bank, followed by BDS, NBFI, ASMINDO, and LSM. Meanwhile, one of respondent reduces the use of services offered by ASMINDO.

APPENDIX 4

4.4 Woods as furniture raw materials

Indonesian furniture export is growing over the years. According to material used, the furniture export consists of wood, rattan and bamboo, metal, plastic and other. From this total export, the wood furniture covers about 75%. In 2006, the furniture industries need 4.5 to 5.0 million cubic meter of wood material annually (Asmindo, 2008); among of it about 1.5 to 2.2 million cubic meters is consumed in Jepara district (Roda et al., 2007). Many types of wood are used by producers and bought from many sources. For example, teak, mahogany, pines are supplied by Perhutani; acasia, gmelina are supplied by HTI (community plant forestry) and Inhutani; fruit wood such as durian, mangos, teak, mahogany, *mind*i, and *waru* supplied by people/community forestry. Another type of wood like rubber is supplied by the state plantation; and a small amount of wood such as *meranti*, *nyatoh*, *bangkirai*, *kempas* etc are taken from natural forestry. Although many types of wood are available and can be used to produce furniture, our respondent are highly dependent on teak in which about half of the respondent use teak wood bought from Perhutani and community forest. The quality of wood from community forest usually low since it has high MC content so that it needs long time to make it dry. Moreover, this wood is also not standardized in size so that difficult to be used in production. Producers who use teak, especially producer from Jepara, said

that their ancestor also used it so it become their habit and feel uneasy to switch to other type of wood.

Most materials are from many local suppliers such as local wood traders or directly bough from Perhutani. As the teak wood from community forest is low in quality and unstandardised, more people rely on Perhutani supply. Perhutani is a state own enterprise plays monopoly position for selling wood especially teak. According to entrepreneurs, the price of teak is growing continuously and changed frequently and fast. Compare to 5 years ago, the price of teak become more than 2 times whereas the price of product slowly changes (e.g. in 2003 one wooden chair price US \$27; in 2008 becomes US \$34, or increase about 25%). Compare to 2007, the teak price increased by 20% whereas mahogany and in-kind wood increased by 30% to 60%. The price growth of wood furniture products in international market overtime is showed by Figure 3.7. According to one large producer who use grade A teak wood said that the cost of raw material has changed significantly. In 2005 the wood covers about 60% from total cost and currently covers about 70% to 75% of total cost.

Moreover, the supply of wood especially high grade wood is getting difficult to be found. The frequent and fast changes in wood price caused producers have difficulty to put the price in the price list. Meanwhile, SMEs based industry require good quality raw material with competitive price. Since the good quality of wood are scarce, some exporters outsourced to sub contractors so that they get unfinished products without facing difficulty in finding wood. Due to the

problem of availability and price of wood, some producers decided to import the wood. They said the price of imported wood is not so expensive and also stable. Furthermore, the wood is certified and already dry and do not need to be put in kiln dry so that decrease production cost. The wood usually imported from US, but some respondent said US hardwoods are not popular for wide use.

Although the trend of international market requires certified wood, still we find many furniture manufacturing companies are not certified and used non certified wood. One of the reasons for SMEs is many international buyers do not require the wood to be certified, but they encourage their supplier to use Perhutani wood. Some producers think that wood from Perhutani are certified as they issue letter or permit to cut and transport the wood (SKSHH) but in fact this letter is not a certificate. The other reason is that the price of certified wood is very high. Some respondents said the price of certified wood can be 2 to 3 time more expensive than uncertified wood. According to entrepreneur, to be more efficient, Perhutani as the wood producer should initiate in obtaining the certification.

Figure 3.7 The development of wood furniture price in international market from 1986 to 2005.

