

## LEATHER CRAFT INDUSTRY DEVELOPMENT STRATEGY IN TANGGULANGIN FACING ASEAN ECONOMIC COMMUNITY (AEC) IN 2015 WITH IFE AND EFE APPROACH

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### ABSTRACT

*In facing Asean Economic Community (AEC) in 2015, the challenges that are faced by Indonesian in using ASEAN markets with competitiveness is still relatively low compared to other ASEAN nations; especially Singapore, Malaysia, and Thailand.*

*The problem faced by large employers who joined INTAKO Cooperatives in facing competition are qualified products, Standar Nasional Indonesia (SNI) certificated, or excellent services. For that reason applied, Leather Craft Industry in Tanggulangin needs a development strategy so that the industry could be acknowledge in facing the competition.*

*The purpose of this research was to determine the internal and external factors that affect, formulate strategies and create alternative strategies that can be applied in developing the leather industry in Tanggulangin Sidoarjo especially for a relatively large employers that are included in the INTAKO Cooperatives Sidoarjo.*

*The data analysis method that is being used are IFE (Internal Factor Evaluation), Matrix EFE (External Factor Evaluation). IFE calculation results showed a total score of 2870 which consists of score weighting factors force of 2,362 and score weighting factor of 0.508 weakness. EFE matrix results generated a total weight of 1.00, the total score of the weight of 3,019 consisting of score weighting factor of 2,628 opportunities and threats score weighting factor of 0.391. Results of determining the ranking of alternatives by calculating eigen vector for each criteria and sub criteria, then the bag is eligible to sales improvement with a value of 0.479.*

**Keywords:** IFE Matrix, EFE and leather craftsmen

### INTRODUCTION

Tanggulangin is one of the districts in Sidoarjo which most of the population conducts small leather industries. A wide variety of needs (leather goods) in this place are produced, ranging from handbags, belts, purses, sandals, shoes, luggage and jackets as well as items made from other leathers. Leather craft has actually been established since 1939, when only a few of Tanggulangin leather craftsmen starts off with the manufacture of bags and luggage only.

With the enforcement of Asean Economic Community (AEC) in 2015, the products quality standard will be adhered with ASEAN's standard. All this time, the products of SMEs which have market opportunities in ASEAN, are constrained by the quality standards. The minor and moderate industries have important roles, especially judging in terms of business units and labor numbers. Appropriately, government should not disregard the role of minor and moderate industries as one of the driving force of the national economy. Instead, the government should actively involved in creating the policy for the minor and moderate industries.

**Tabel 1. Assets and Volume of SME's in 2014**

<i>Type of Business</i>	<i>Amount</i>
Micro	154.892
Minor	14.836
Moderate	1.536
Assets	Rp. 191.700.000.000
Business Volume	Rp. 9.419.520.000.000

Source: LKPJ Regent Sidoarjo 2015

Based on the data in the table above shows that the number of SMEs in Sidoarjo until the year of 2014 has reached 154.892 with a business volume of Rp. 9,419,520,000,000. While the number of minors are 14.836 and the moderates are as much as 1,536. This indicates that in Sidoarjo is growing rapidly with significant sales volume shows that Sidoarjo regency has become the best place for investment. Moreover, Sidoarjo regency became the winner of the best investments since 2011, 2012 and 2013 East Java Province's level.

The problems of SMEs today is capital, because capital becomes the driving force as well as an anti-climax to the bankruptcy business. If capital can be applied to support efforts such as adding machines or raw materials in order to increase the productivity of SMEs then it will increase the performance of SMEs. Conversely if the capital is used in other than to develop and to enlarge SMEs with unused personal consumptive purposes to enrich themselves could it affect capital loans provided by the government, banks or private parties, it would become problematic and a boomerang for the business continuity of SMEs. It can even be involved into bankruptcy.

Their limited access to the Bank, and the application of prudence in providing credit to minor and moderate industries become an obstacle to develop their business. Although the government of President Jokowi is now conducting economic policy volume 4, (one of them which is financing the SMEs). Therefore the government is expected to regulate the issue of working capital loans and business loans from banks that originally transferred from the employer to be distributed to cooperative banks. Cooperative will extend credit to SMEs that needs capital, both of export orientation and local orientation. Another issue is, most of the availability of the industrial raw varieties are still imported; or in other words, the absence of the Indonesian National Standard (SNI). It is based on the results of research that has been done in INTAKO, where most of SMEs do not have ISO certification. Moreover, it is very unfortunate for the scale of Southeast Asia. In addition to this, the resolution is to direct SME products to have ISO certifications.

Besides that, the constraint that is faced by SMEs in Sidoarjo is the inability to fulfill the demand quantity (quantities) of product buyers it could reduce the credibility of SMEs. Another problem is the lack of facilities to INTAKO, so it would be difficult for buyers who do not know for sure and it will impact buyers saturation or less comfort. This can impact the buyer's desire to look for someplace else besides INTAKO. While the last factor is the quality of service. Lack of uniformity both on clothing and the service would be bad for SMEs. The more unmatched service the buyer's get, then the buyer will move to other place that is more welcoming and comfortable.

The specific objectives of this study were (1) Determining the internal factors that influence the development strategy of the leather industry in Tanggulangin Sidoarjo. (2) Determining the external factors that influence the development strategy of the leather industry in Tanggulangin Sidoarjo and (3) Creating a development strategy in the leather industry in Tanggulangin Sidoarjo.

**LITERATURE REVIEW**

David (2006) defines the strategy is a tool to achieve long-term goals. Strategy is a potential action that requires upper management decision and company resources in large numbers. The strategy has multifunctional and multidimensional consequences as well as the need to consider external factors and internal faced by enterprises. According to David (2006), an important strategy formulation techniques can be integrated into the decision-making framework in three stages that can be seen in Picture 1. The tools presented in this framework can be used for all sizes and types of organizations and can create strategies in identifying and selecting strategy.



Picture 2.1. The Analytical Framework for Strategy Formulation (by: Indonesia Language)

Source : (David, 2009:324)

Several previous studies that can be used as a reference of this study are:

**Table 2. Previous Research**

No	Name, Year, Title	Analysis Tool	Result
1	Murti (2010). Analysis and first strategy alternative idea to maintain company's existent from the concept of Fred R. David (Case study to Meilleur Beauty Clinic)	<i>Quantitative Strategic Planning Matrix</i> (QSPM)	The first alternative strategy is the product development strategy because the TAS numbers shows the biggest number that is 6,5. The product development strategy here is to create product that gives a potential excellence to markets.
2	Ronald, Sangkala, and Noor (2013). Business unit of outpatient service strategy in Banua Mamase Hospital, Sulawesi Barat	<i>Quantitative Strategic Planning Matrix</i> (QSPM)	The QSPM matrix analysis result shows that the best strategy for Banua Mamase Hospial is to develop logistic management system, recruitment, and financial management quality based with TAS score ( <i>Total Attractiveness Score</i> ) of 5,628.

<p>3. Hariastuti (2014). IKM Tas Gadukan business strategy formulation with QSPM method</p>	<p><i>Quantitative Strategic Planning Matrix (QSPM)</i></p>	<p>The best strategy for IKM is marketing verification strategy tools with 6,13 TAS score. The promotion's product development tools that needs to be done by IKM in introducing its product into markets are brochure making, catalog, company profile, and using marketing online through internet.</p>
<p>4. Supriyono, Wardhana, and (2007) Structural Election with AHP Method</p>	<p>AHP Method</p>	<p>1. Can be built a decision-maker system with AHP method to determine structural office candidate's order in a High School.                  2. Simulation result for the order of Head Sub of Fixtures structural official candidate: Semar, SST with score 0.357741801, Srikandi, SE with score 0.342234743 and Gareng, A. Md with score 0.342234743.                  3. Simulation result for the order of Head Sub of Correspondence and Personnel structural official candidate: Gareng, A. Md with score 0.400834260, Dewi, SH with score 0.303295196 and Srikandi, SE with score 0.295870544.                  4. Simulation result for the order of Head Sub Financial structural official candidate: Srikandi, SE with score 0.379755402, Bimo, SE with score 0.368120130 and Dewi, SH with score 0.252124468.                  5. This simulation could be used for other decision-making.</p>
<p>5. Kusumawardani, Choiri, and Efranto. Competitive Marketing Planning Strategy with SWOT and AHP Analysis Method (Case Study of PT. XY in Malang)</p>	<p>SWOT dan AHP Analysis Method</p>	<p>Company in quadrant I that is Grow and Build which has 6 alternative strategies that is intensive strategy (market penetration, market development, and product development) or integration strategy (front integration, behind integration, and horizontal integration)</p>

**RESEARCH METHODS**

The population in this study are all entrepreneurs who joined INTAKO Cooperatives in total of 360 members. According to Sugiyono (2005: 60), nonprobability sampling is a technique that does not give opportunity / equal opportunity for each element or member of the population to be selected into the sample. The technique used is purposive sampling that is a sampling technique with a certain consideration (Sugiyono, 2005: 61). Sampling was conducted in April-June 2015. The respondents criteria that will be researched must have knowledge and experience about the under study's object. Respondents that were selected to represent a company that is considered to have deep understanding of the competitive conditions and the condition of the company as a whole, such as the head or director (1), chairman of the INTAKO Cooperatives (1), and Kadin Disperindag Sidoarjo East Java Province. Processing and analysis of data in this study the first year (2015) is using Porter's Diamond Model to identify the factors of competitive advantage SMEs in District

Tanggulangi leather craft as well as to analyze the internal and external environmental factors of the industry through EFE and IFE matrix analysis.

**Table 3. Sample of Respondents**

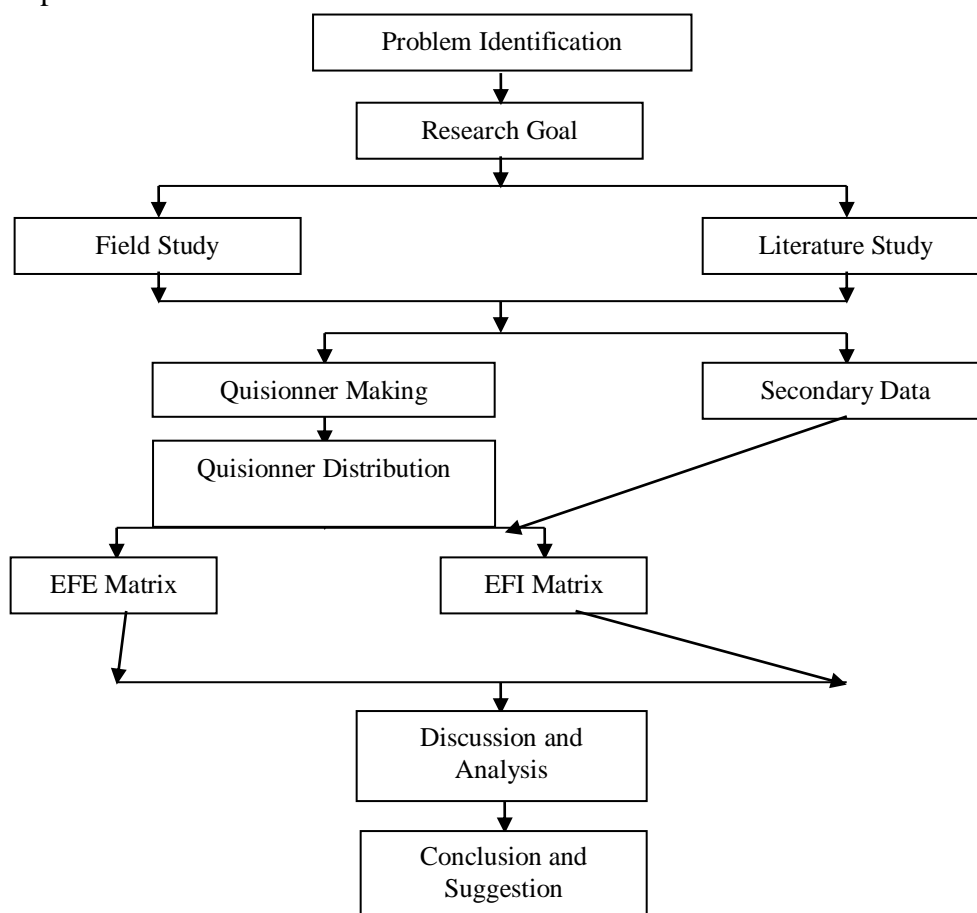
No	Employer	Amount
1	Major employer	10 people
2	Moderate employer	20 people
3	Minor employer	15 people
	Total	45 people

Source: Processed INTAKO data (2015)

Data processing is performed using the Microsoft Excel 2007 and data collection is using several methods: questionnaires, interviews, observation and document / literature.

**ANALYSIS MODEL**

The steps for this research are:



**Picture 3.1. Analysis Model**

## RESULT AND DISCUSSION

### A Brief History of Cooperative INTAKO Tanggulangin

The idea of the establishment of the container was finally realized on April 7, 1976, stood a bevy of Cooperative named INTAKO (Industrial Bags and Luggage). Approximately from 100 craftsmen only 27 craftsmen was the first to join at that time with a principal of each member of Rp. 5.000, - (Cooperative INTAKO initial capital is  $27 \times \text{Rp. } 5.000, - = \text{Rp. } 135,000, -$ ). Number of 27 members were not increased until the year of - 3, only in the year of 4 - there is an additional number of 40 members, so the number of members are 67 people. From 1976 until 1980 the business that was being carried on is the procurement of raw materials for the needs of members to occupy one of the houses as a place of business administrators.

With the store bags and suitcases owned Cooperative INTAKO, development of craft Bags and Luggage was having a significant increase which are: (1) The number of visits from guests to see and buy crafts items from day to day continues to increase, and (2) Ideas for improving the production results by the craftsmen from both the model and the quality is very enlightening. While the market share includes (1) Exports (Yamaha trumpet was made according to the standard casing of Japan and (2) Local, covering the airport tourist travel and retail.

### External Assessment of Tanggulangin's Leather Craft Industry

This external assessment carried out an identification of two factors, namely opportunities and threat factors for leather craft industry Tanggulangin Sidoarjo for the commencement of the Asean Economic Community (AEC), including:

#### *Opportunities Factor*

Chance factor is a part of the external factor for an organization or preusan, including: a. Leather industry has a huge potential market where the largest population of Indonesia in ASEAN, b. Government policies in terms of increasing the industrial sector to face the Asean Economic Community (AEC), c. Leather industry in Tanggulangin Sidoarjo until today is still regarded as the best craft center in East Java, d. With the ASEAN free trade or AEC, it affects an increase in tourist visits to Tanggulangin and e. Raw materials and the addition of production equipment from abroad can be purchased easily.

#### *Threat Factors*

Threat factors are a part of the external components of an organization or company, including: .a. The products from ASEAN will flood the Indonesian market in the promulgation of the Asean Economic Community, b. Product from other countries will come with cheaper prices and a wide variety and quality of products, c. Indonesian residents often prefer to buy foreign products as their life style because they assume that foreign products have better quality, d. The emergence of similar products originating from ASEAN countries and e. The increase in labor costs is likely to be caused by a number of skilled workers seeking work in Indonesia.

#### *External Factor Evaluation (EFE)*

External Factor Evaluation (EFE) is an assessment of the opportunities and threats factors owned company or an organization. In evaluating external factors, it can be described in a EFE matrix. Components of the EFE matrix that is the factors of opportunities and threats, weights, rank, and a weight score. Based on the analysis EFE matrix, sizable market is the company's biggest market which has potential with a value rating of 3,400. EFE matrix



generated total weight of 1.00, the total score of the weight of 3,019 consisting of score weighting factor of 2,628 opportunities and threats score weighting factor of 0.391, meaning that the opportunity that is owned by the leather industry is still bigger than the existing threats.

### **Internal Rate of Tanggulangin Leather Craft Industry**

Internal Rate of leather craft industry Tanggulangin Sidoarjo involves strength and weaknesses factor, including:

#### ***Strengths***

The power factor is a part of the internal components of an organization or company. The strength factor of Industrial Leather Craft Tanggulangin Sidoarjo when facing Asean Economic Community as follows: (1) Manufacture of leather craft Tanggulangin Sidoarjo have a lot of skilled workers, (2) Having a cooperative that collects the products of leather craftsmen, (3) Availability of leather raw materials from the supplier until today remains smooth and fulfilled, (4) Having advanced production machinery equipment from the assistant of the Ministry of Commerce, (5) Getting a good promotional support from the local government of Sidoarjo and provincial governments. East Java in the form of a place or facility that exhibits superior products of leather and (6) Products that are marketed has an affordable price in the eyes of consumers.

#### ***Weaknesses***

Areas of weakness are a part of the internal components of an organization or company. When an organization has many internal weaknesses, it will have an impact on the ability to take advantage of opportunities or business opportunities, and weaknesses in the industry leather crafts Tanggulangin Sidoarjo as follows: (1) Acceleration in terms of product development seem still slow, (2) Less maximum service to the buyers, (3) Independently promotion without the assistance of relevant authorities is still less than the maximum, (4) product craft Tanggulangin Sidoarjo not yet ISO certified, (5) lack of product innovation and (6) lack of venture capital.

#### ***Internal Factor Evaluation (IFE)***

Internal Factor Evaluation (IFE) is an assessment of the strengths and weaknesses of the factors that owned enterprise or an organization. In evaluating internal factors it may be described in a IFE matrix. The components of the IFE matrix are factors of strength and weakness, weight, rank, and a weight score. Based on the results of IFE matrix generated total weight of 1.00, the total score of the weight of 2,870 consisting of score weighting factor of 2.360 strength and weaknesses score weighting factor of 0.510. This means that large employers INTAKO has great strength and is able to overcome the weakness of their business.

### **Internal-External Matrix (IE Matrix)**

#### ***Matrix I-E Major Employers***

IE matrix is obtained from the merger of IFE and EFE matrix. From the results of this IE matrix analysis it can be seen the position of INTAKO employers. Merger IFE and EFE matrix will produce an IE matrix to position the various parts of an organization in a view of nine cells. Based on the results obtained from the IFE matrix (2870) which illustrates the company's ability to accommodate internal strategic factor in average condition. EFE matrix M (3,019), then the IE matrix can be described as follows:

		IFE TOTAL SCORE		
		Strong 3.0-4.0 3.0	Medium 2.0-2.99 2.09	Weak 1.0-1.99 1.0
E F E  T O T A L  S C O R E	4.0 High 3.0-4.0	I Grow and Build	II Grow and Build 2,870; 3.019	III Hold and Mountain
	3.0 Medium 2.0-2.99	IV Grow and Build	V Hold and Mountain	VI Harvest or Divesture
	2.0 Low 1.0-1.99	VII Hold and Mountain	VIII Harvest or Divesture	IX Harvest or Divesture
1.0				

Picture 4.1. Major Company INTAKO IE Matrix

After IFE and EFE matrix score is matched with IE matrix, INTAKO’s Major Employers in the District Tanggulangin are in the quadrant II position and it illustrates that INTAKO Major Employers in the Tanggulangin District is in the “grow and build” region. In this area a business entity must carry out the strategy of intensive or integrative strategies. Intensive strategy may be a market penetration strategy, market development, and product development. Integrative strategy could be backward integration strategy (do the acquisition of the supplier), forward integration (perform acquisition of the distributor), and horizontal integration (acquisition of the company's competitors doing similar). Major Employers of INTAKO’s position in the Tanggulangin District should be tailored to the type of strategy that resulted in SWOT matrix, which is market penetration strategy that can be done through market development or product development.

**Moderate Entrepreneurs I-E Matrix**

Merger of IFE and EFE matrix will produce an IE matrix to position the various parts of an organization in a view of nine cells. Based on the results that is obtained from the IFE matrix (2600) and EFE matrix (2726), then the IE matrix can be described as follows:

		IFE TOTAL SCORE		
		Strong 3.0-4.0 3.0	Medium 2.0-2.99 2.09	Weak 1.0-1.99 1.0
E F E  T O T A L  S C O R E	4.0 High 3.0-4.0	I Grow and Build	II Grow and Build	III Hold and Mountain
	3.0 Medium 2.0-2.99	IV Grow and Build	V Hold and Mountain 2.600; 2.726	VI Harvest or Divesture
	2.0 Low 1.0-1.99	VII Hold and Mountain	VIII Harvest or Divesture	IX Harvest or Divesture
1.0				

Picture 4.2. Moderate Company INTAKO IE Matrix



After IFE and EFE score matrix is matched to the IE matrix, INTAKO’s Moderate Company in Tanggulangin District is in the quadrant V position or Hold and Maintain or Preserve and Maintain strategy. According to Kusumastuti (2006), the right strategy for the company that is in the quadrant V, is the market penetration strategy, product development strategy, and enhanced customer service. Based on this analysis, a strategy that can be developed to a Minor Business INTAKO in District Tanggulangin is market penetration strategy, product development strategy, and improvement of quality of service management of moderate-sized entrepreneurs in the district INTAKO Tanggulangin

**Minor Entrepreneur I-E Matrix**

Merger of IFE and EFE matrix will produce an IE matrix is to position the various parts of an organization in a view of nine cells. Based on the results that obtained from the matrix IFE (2599) and EFE matrix (2738), then the IE matrix can be described as follows:

		IFE TOTAL SCORE		
		Strong	Medium	Weak
		3.0-4.0	2.0-2.99	1.0-1.99
		3.0	2.09	1.0
E F E  T O T A L S C O R E	4.0 High 3.0-4.0	I Grow and Build	II Grow and Build	III Hold and Mountain
	3.0 Medium 2.0-2.99	IV Grow and Build	V Hold and Mountain 2,599; 2.738	VI Harvest or Divesture
	2.0 Low 1.0-1.99	VII Hold and Mountain	VIII Harvest or Divesture	IX Harvest or Divesture
1.0				

Picture 4.3. INTAKO Minor Company in Tanggulangin District IE Matrix

The average value IFE matrix is 2.966 and the average value is 2.471 EFE matrix, of the average value of these puts a Minor Business INTAKO in Tanggulangin District in the quadrant V position or Hold and Maintain or Preserve and Maintain strategy. According to Kusumastuti (2006), the right strategy for the company that is in the quadrant V, is the market penetration strategy, product development strategy, and enhanced customer service. Based on this analysis, a strategy that can be developed a Minor Business INTAKO in District Tanggulangin is market penetration strategy, product development strategy, and improvement of quality of service management of small-scale businesses in the district INTAKO Tanggulangin District.

Based on the mapping into IE matrix, of each total score of internal and external factors, the placement of small entrepreneurs who joined INTAKO is in the quadrant V. This quadrant is including in the Hold and Maintain (keep and maintain) and the most appropriate strategy to be used in this position is the market penetration and product development. Market penetration strategy seeks to increase market share for existing products on the market through a more vigorous effort. The increase in market share can be done by reaching markets that were previously untouched by other competitors to increase cooperation. This can be done by increasing promotional efforts through promotional activities of leather products abroad and increasing sales contract with the buyer. Market penetration should be done by extending or expanding into new markets.

Product development strategy aims to increase sales by improving the quality of leather products that already exists to create a characteristics of the product. Another thing that can be done is to develop products by creating new products to export. In the product development strategy, it requires the support of a reliable and professional employees as well as capital for large product development.

## **CONCLUSIONS AND RECOMMENDATIONS**

### **Conclusion**

Based on the results of data processing and analysis in the previous chapter, it can be concluded as follows:

1. IFE matrix result (a) In major employers, it generated a total weight of 1.00, the total score of the weight of 2,870 consisting of score weighting factor of 2.360 strength and weaknesses score weighting factor of 0.510, (b) In the moderate entrepreneurs, it generated total weight of 1:00, total score weighting 2,600 consisting of score weighting factor of a force of 2,130 and score weighting factor of weakness for 0640, (c) In minor businesses, it generated a total weight of 1.00, the total score of the weight of 2599 consisting of score weighting factor of a force of 2,153 and score weighting factor of 0.446 weakness.
2. EFE matrix result (a) In major employers, it generated a total weight of 1.00, the total score of the weight of 3,019 consisting of score weighting factor of 2,628 opportunities and threats score weighting factor of 0.391, (b) In the moderate employers, it generated total weight of 1:00, the total score of the weight of 2726 consisting of score weighting factors opportunities for 2369 and score weighting factor of threat for 0357, (c) In minor employers, it generated a total weight of 1.00, the total score of the weight of 2738 consisting of score weighting factors opportunities for 2381 and score weighting factor of threat for 0357.
3. IF matrix's calculation result showed that major employers signed in quadrant II and it illustrates that in the region of the Major Entrepreneurs is in the grow and build area. IF matrix calculation results obtained that in the moderate entrepreneurs and minor entrepreneurs to get in on quadrant V or Hold and Maintain or Preserve and Maintain strategy.

### **SUGGESTION**

Suggestions that can be submitted in this study are:

1. Facing Asean Economic Community in 2015 needs to be improved internally that is mapping the quality of leather products in Tangelangin with conducting a certificate of Indonesian National Standard (SNI) and to those who most have not been ISO certified. The purpose is to protect SNI or consumer society and encourage national products to go global. Ordinances and filing as well as the process of SNI can be seen in the White Book.
2. Capital Angle, in general most leather craft is still dealing directly with a bank or other services. Considering there are risks if the leather craftsman party can not afford will then it will be problematic and it could even be seized by the bank. So we suggest with involving INTAKO Cooperatives as a guarantor for leather craftsmen. The funds are submitted to the cooperative banks after the bank agrees with the various requirements of the cooperative INTAKO as guarantor.

3. Service Angle, the craftsmen are still with no uniform and also services in general to prioritize customer satisfaction. They need training on how to serve customers with a friendly smile that makes consumers want to come back that could be seen in the White Book.
4. Sale Angle, although the location indicator already existed, but it still has not given accurate information for consumers who just came to Tanggulangin, it is necessary to make a large permanent billboard so it's easy to see in the road. In addition to the promotion of the road indicator, it will also need to set a display to display the products that will be sold in various ways with the aim of attracting consumers who can be seen in the White Book.

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