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MSME Strategy for International Market: A Case Study of Fruit and Vegetable Chips in Batu, East Java, Indonesia

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Abstract

This study aims to describe the internationalization strategy of MSMEs and identify the strengths, weaknesses, opportunities, and threats of the internationalization process of export-oriented fruit and vegetable chips MSMEs at CV Arjuna 999 Batu. The approach used in this study is qualitative. This study is a SWOT analysis with an internal and external matrix (IFAS & EFAS) of one MSME, which is a key informant for fruit and vegetable chip exporters in Batu. The study results indicate that CV Arjuna 999 fruit and vegetable chips have a good level of success. Based on the results of the IFAS-EFAS analysis, the position is in quadrant VI, namely the cautious phase. The strategies that can be used to improve the internationalization process are expanding market segments with online and offline methods, increasing online marketing networks, creating other products or variants, diversifying products, expanding the role of associations, improving technological skills, lobbying policies to local governments, adapting to changes in consumer behavior, implementing cooperation with associations, and optimizing promotions through various media.

Keywords: Internationalization Strategy of MSMEs, SWOT Analysis, Export of Fruit and Vegetable Chips

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INTRODUCTION

Industrialization and export trade in various developing countries are starting to involve micro, small, and medium enterprises (MSMEs). MSMEs have evolved into the largest industrial group, have made significant contributions to industrial growth, and have opened up employment opportunities in developing countries. MSMEs in developing countries have also become drivers of export growth. MSMEs' contribution to export trade in Asia is recorded at more than 35%. The development of MSMEs in Southeast Asian countries has been placed as a priority scale for growth, as mandated in the Asia Pacific Economic Cooperation Forum (Hernanik, Sudarmiatin, & Sumarsono, 2023).

Micro, Small, and Medium Enterprises (MSMEs) are very important in a country's economy, especially in Indonesia. MSMEs contribute significantly to job creation, considering that this sector can absorb many workers in urban and rural areas. In addition, MSMEs encourage economic equality through a more even income distribution, especially in remote areas that are difficult for large companies to reach. MSMEs also play a role as the main driver in creating local product innovations, utilizing available natural resources, and strengthening the competitiveness of national products in the global market. In the macroeconomic context, MSMEs contribute more than 60% of the Gross Domestic Product (GDP), are the backbone of the national economy, and strengthen national economic resilience through diversification of business sectors. Thus, the sustainability and empowerment of MSMEs are important keys to inclusive and sustainable economic development.

One of the MSMEs contributing to the economy is the snack food MSME. Snack food products, easily accepted by various levels of society, are one of the sectors with stable and growing demand. These MSMEs create jobs and empower local communities, such as farmers and local raw material suppliers, to support production. In addition, snacks are often one of the leading products that promote local wisdom through unique regional flavors. In both domestic and international markets, MSME snacks are a mainstay commodity that strengthens a region's cultural image and identity. Through innovations in taste, packaging, and marketing, snack food MSMEs have also penetrated the digital market, reaching a wider consumer base. Thus, this sector is important in supporting economic growth, community empowerment, and promoting Indonesian culture.

In addition to contributing to GDP, MSMEs face complex challenges when trying to penetrate the global market. One of the main challenges is limited knowledge and

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understanding of international market dynamics, including quality standards, regulations, and consumer preferences in various countries. In addition, MSMEs often need help meeting international certifications that are the main requirements in global trade, such as product certification, safety, or sustainability. More production capacity is required to meet large-scale demand from the international market. On the other hand, competition with multinational companies with greater access to resources and strong global networks requires MSMEs to innovate and improve the competitiveness of their products. Other challenges are logistical constraints and high distribution costs abroad, especially for MSMEs located in remote areas. To overcome these challenges, support is needed in the form of training, mentoring, access to financing, and government policies that encourage exports and strengthen the competitiveness of MSMEs in the global market.

MSME CV Arjuna 999, which produces fruit and vegetable chips, is a MSME that has penetrated the global market. Although it has made sales to various countries, MSME CV Arjuna 999 has experienced problems, including the same product at a lower price, expensive container rental costs, difficulty obtaining permits from the government, and the need for export knowledge from the owner. Based on this, an internationalization strategy is needed to determine steps for the sustainability or improvement of the business in the future, one of which is a SWOT analysis.

OBJECTIVES

The Uppsala Internationalization Process Model

The Uppsala model describes the characteristics of a firm's internationalization process. Several studies have shown that Swedish firms often begin internationalization with ad hoc exports. They then formalize their entry through an agreement with an intermediary, usually an agent representing the focal firm in the foreign market. As sales grow, they typically replace their agent with their own sales organization. As growth continued, they began producing in the foreign market to overcome trade barriers in the post-World War II era. Another feature of the pattern is that internationalization often begins in a foreign market close to the domestic market in terms of psychic distance, defined as factors that make it difficult to understand the foreign environment. The firm then gradually enters other markets that are more distant in terms of psychic distance. This process begins with the liability of foreign presence, a concept that originally explained why foreign investors need to have firm-specific advantages to more than offset

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this liability. The greater the psychic distance, the greater the liability of foreign presence (Buckley & Ghauri, 2015).

The underlying assumptions of the model by researchers at the Department of Business Studies at Uppsala University in 1977 are uncertainty and bounded rationality. The model also has two mechanisms of change (Daszkiewicz & Wach, 2012). First, firms change by learning from their experiences in current operations and activities in foreign markets. Second, they change through their commitment decisions to strengthen their positions in foreign markets. Experience builds a firm's knowledge of the market, and that body of knowledge influences decisions about the level of commitment and the activities that develop from it. This leads to the next level of commitment, which generates more learning (Figure 1).

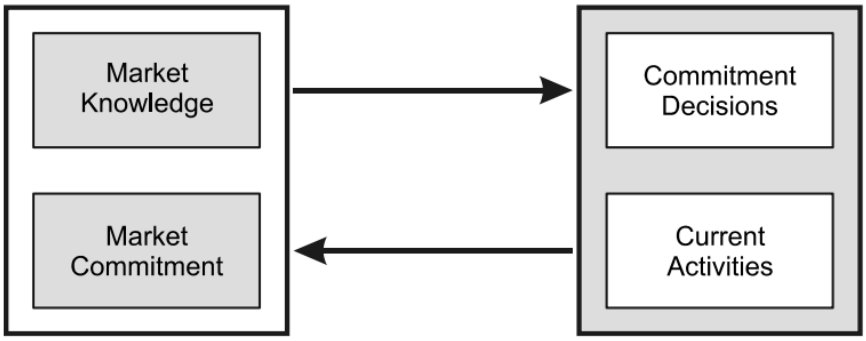


Figure 1. The Basic Mechanism of Internationalization
Source: (Johanson & Vahlne, 1977)

SWOT Analysis

SWOT analysis is a strategic planning method used to evaluate the strengths, weaknesses, opportunities, and threats that occur in a project or a business venture or to evaluate one's product lines or competitors (Yuliani, Mufidah, Dharma, & Qomariah, 2024). An effective SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis allows MSMEs to formulate robust and adaptive strategies (Herlina, 2024). The data analysis technique in this study uses SWOT analysis. According to (Maisaroh & Siswahyudianto, 2023), (Hayadi & Fadlli, 2024), SWOT analysis steps consist of:

a) Data collection can be obtained from interviews, documentation, and in-depth observation.

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b) Analysis of internal factors, namely the strengths and weaknesses (IFAS) and external factors, namely the opportunities and threats (EFAS).
c) Compiling a SWOT matrix that produces an organizational development strategy, which includes SO (Strengths-Opportunities Strategy), WO (Weaknessess-Opportunities Strategy), ST (Strengths-Threaths Strategy), and WT (Weakness-Threaths Strategy).

According to (Feriandy, Abdila, & Masrifah, 2023), SWOT analysis consists of four quadrants as follows:

a) Quadrant 1: This is a very profitable situation. The company has opportunities and strengths so that it can take advantage of existing opportunities. The strategy that must be implemented in this condition is to support an aggressive growth policy.
b) Quadrant 2: Despite facing various threats, this company still has internal strength. The strategy that must be implemented is to use strength to take advantage of long-term opportunities through a diversification strategy.
c) Quadrant 3: The company faces huge market opportunities, but on the other hand, it faces several internal constraints/weaknesses. The focus of this company's strategy is to minimize the company's internal problems so that it can seize better market opportunities.
d) Quadrant 4: This situation is unfavorable; the company faces various threats and internal weaknesses. In this case, the company must be prepared with the support of a defensive strategy or one that can make the company survive when facing a difficult situation.

Based on research (Musarofah, Ardiansyah, Kusnanto, & Sawabi, 2022), To obtain an in-depth analysis, informants provided perceptions of weight and ranking on the internal environment (IFAS) and external environment (EFAS) based on the theory of MSME internationalization from the Uppsala Model and Networking (Al-Hyari, Al-Weshah, & Alnsour, 2012), and previous research on supporting and inhibiting factors for the internationalization of MSMEs (Chandra, Paul, & Chavan, 2020), (Chen, Sousa, & He, 2016), (Lloyd-Reason, Deprey, Ibeh, & Lunati, 2009), (Nurfarida, Mukhlis, & Murwani, 2022). Then, to obtain the analysis conclusion, a SWOT analysis matrix can be prepared. (Sulhan & Sudarmiatin, 2022), as described below:

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Table 1. SWOT Analysis Matrix

Internal and External Factors	Strengths	Weaknessess
Opportunies	SO Strategy	WO Strategy
Threats	ST Strategy	WT Strategy

Source: (Rangkuti, 2008)

METHOD

This study uses a qualitative research type with a case study approach. The research location is in Sidomulyo Village, Batu City. The research subjects are MSME owners engaged in the snack industry sector who have internationalized their businesses by conducting export trade. One informant is the main informant and the owner of MSME CV Arjuna 999, while the supporting informants are employees. The data analysis technique in this study uses SWOT analysis. Research data collection is carried out through interviews, observations, and documentation, as well as secondary data to strengthen the research results (Jatmiko, Udin, Raharti, Laras, & Fil-Ardhi, 2021).

DISCUSSION

Internationalization Strategy of MSMEs in the Chips Industry

The internationalization process of the MSME chips industry in Batu has gone through the process of mode of entry into the international market for a long time, namely around 2011 with the form of exports and following the Uppsala Internationalization Model. The interview results, as presented by Mrs. Hari Mastutik, the owner of MSME CV Arjuna 999 Batu City, are as follows.

"Alhamdulillah, it started in 2011; I expected there to be something other than foreign buyers. Our product was only peyek then, so my son created a Facebook account to promote peyek. About two months after the Facebook account was created, a buyer from Hong Kong contacted me, and the payment was made immediately in advance. After there was a buyer from Hong Kong, there were journalists who covered it, so the Mayor of Batu invited me to participate in training and exhibitions. Finally, I got a buyer from Korea for tempeh chip products. As time went by, I also sent my products to Malaysia."

According to the research results (Chen, Sousa, & He, 2016) which states that Internationalization plays an important role in business growth and profitability, and Export is the main form of entry of many Indonesian MSMEs into the international market.

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MSME chips in Batu also carry out the network internationalization model through network collection in other countries, as shown in the results of the interview presented by Mrs. Hari Mastutik, the owner of MSME CV Arjuna 999.

"I am very helpful, so I was found with a good forwarder to take care of export documentation. Overseas buyers also understand that I need more knowledge related to exports."

SWOT Analysis of MSME Internationalization Strategy in the Chips Industry

The informant in this study was Mrs. Hari Mastutik, the owner of MSME CV Arjuna 999, located in Sidomulyo Village, Batu City. MSME CV Arjuna 999 has been exported to Hong Kong, Korea, Singapore, the Philippines, Malaysia, Canada, and the United Arab Emirates. Based on data mining obtained through interviews, observations, and documentation, the internal and external aspects of MSME CV Arjuna 999 are seen in Tables 2 and 3. Analysis and diagnosis are carried out on the internal and external strategic environment, and then weighting, ranking, and calculating the total score will show strengths, weaknesses, opportunities, and threats. Tables 2 and 3 show that the total score shows a value of 3.12 and 3.13, which is above the cut off value = 3, which means that MSME CV Arjuna 999 has strengths that far exceed its internal weaknesses and has opportunities that exceed threats. Based on the IFAS-EFAS matrix, the IFAS and EFAS scores are obtained, which are then depicted in the IE matrix, which shows the position in quadrant VI, as shown in Figure 2.

Table 2. Strengths and Weaknesses of Fruit and Vegetable Chips

No.	Strategic Internal Factors	Bobot	Rating	Score	Information
1	MSMEs have the knowledge and potential to grow	0.20	3	0.60	Strength
2	Past experiences become material for reflection for MSMEs	0.21	4	0.84	Strength
3	MSMEs have abundant resources	0.15	4	0.60	Strength
4	Product design according to international standards	0.13	3	0.39	Strength

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5	Mastery of technology is still low	0.07	3	0.21	Weakness
6	Products become secondary needs during a disease outbreak (Covid-19)	0.09	2	0.18	Weakness
7	MSMEs do not yet have product branding	0.08	2	0.16	Weakness
8	MSMEs do less promotion	0.07	2	0.14	Weakness
	Total	1		3.12	

Source: Data Processing Result (2024)

Table 3. Opportunities and Threats of Fruit and Vegetable Chips

No.	Strategic Internal Factors	Bobot	Rating	Score	Information
1	The disease outbreak (Covid-19) expands online sales	0.09	4	0.36	Opportunity
2	Demand for products in the international market is quite high	0.23	4	0.92	Opportunity
3	MSMEs are members of international associations	0.19	3	0.57	Opportunity
4	Competitors have the same product	0.08	4	0.32	Threat
5	Export licensing from the government is still difficult	0.14	2	0.28	Threat
6	Rental/transportation costs in the destination country are expensive	0.14	3	0.42	Threat
7	MSMEs will fail if they do not adapt to the international environment	0.13	2	0.26	Threat
	Total	1		3.13	

Source: Data Processing Result (2024)

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Table 4. Results of Internal and External Factor Analysis

Internal Factors External Factors	Strengths (S) • MSMEs have the knowledge and potential to develop • Past experiences become a reflection material for MSMEs • MSMEs have abundant resources • Product design meets international standards	Weaknesses (W) • Technology mastery is still low • Products become secondary needs during a disease outbreak (Covid-19) • MSMEs do not yet have product branding • MSMEs do not do enough promotion
Opportunities (O) • The disease outbreak (Covid-19) expands online sales • Demand for products in the international market is quite high • MSMEs are members of international associations	**S-O Strategy** • Market coverage is expanded with a mix of offline and online methods • Leverage online sales networks	**W-O Strategy** • Selling other products that suit the needs of domestic consumers • Optimizing the role of associations
Threats (T) • Competitors have the same products • Export permits from the government are still difficult • Rental/transportation costs in the destination country are expensive • MSMEs will fail if they do not adapt to the	**S-T Strategy** • Improve technological skills by attending training, bringing in a team or learning independently • Approach the government to facilitate export trade	**W-T Strategy** • Quickly adapt to changes in consumer behavior • Cooperation with shipping associations to make costs more attractive • Promotion online dioptimalkan

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international environment		

Source: Data Processing Result (2024)

Total External Strategy Aspect Score	Total Internal Strategy Aspect Score: Very Strong 4,00 - 5,00	Strong 3,00 - 3,99	Weak 2,00 - 2,99	Very Weak 1,00 - 1,99
Very Likely 4,00 - 5,00	I GROWTH (Concentration on vertical integration)	II GROWTH (Concentration on horizontal integration)	III STABILITY (Internal Concentration)	IV RETRECHMENT (Switch to scoping)
Opportunity 3,00 – 3,99	V GROWTH (Fast)	VI GROWTH (cautious)	VII STABILITY (Internal Integration)	VII RETRECHMENT (Scoping)
Threatened 2,00 – 2,99	IX GROWTH (Concentric diversification)	X GROWTH (Concentric diversification)	XI STABILITY (Conglomerate Diversification)	XII RETRECHMENT (Bankruptcy and liquidation)
Highly Threatened 1,00 – 1,99	XIII GROWTH (Concentric diversification)	XIV GROWTH (Concentric diversification)	XV STABILITY (Conglomerate Diversification)	XVI RETRECHMENT (Bankruptcy and liquidation)

Figure 2. Internal-External Matrix
Source: Data Processing Result (2024)

Based on Figure 2 (Internal-External Matrix), MSME CV Arjuna 999 is in quadrant VI, namely Growth Position (cautious). This developing position is certainly supported by the internal conditions of MSME, which have several strengths. These strengths include MSMEs' knowledge and potential to build resources and product design. Of course, this strength can increase the internationalization process so that it is in a growth position. Meanwhile, several weaknesses that must be fixed to improve the internationalization process include mastery of technology, the position of snack products as secondary needs, product branding, and promotion still needs to be improved, and not yet optimal in synergy. These weaknesses of MSME are what make it in a cautious growth phase.

MSME CV Arjuna 999 must increase its growth by utilizing existing opportunities, including the potential for online market expansion; market demand and a network of associations are still high. These opportunities must be used carefully to improve the

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internationalization process in terms of facing threats, including similar products from competitors, government export policies, rental or transportation costs, and adaptability. Due to the growth position (cautious) experienced by MSME CV Arjuna 999, it is very necessary to prepare a strategy that can support better growth, which, of course, also encourages an increase in the internationalization process, which can be done by implementing SO, WO, ST, and WT Strategies as stated in the IFAS-EFAS matrix in table 4.

CONCLUSION

Fruits and vegetables are some commodities easily found in Batu, which have been exported by MSME CV Arjuna 999 as chips. The main exports are to Hong Kong, with the initial form of the internationalization process following the Uppsala and Network Models. The pandemic has had a major impact on declining sales and other obstacles in the form of high transportation rental costs.

Based on the results of the IFAS-EFAS analysis, the position is in quadrant VI, namely the cautious phase, with strategies in increasing the internationalization process being to expand market segments with online and offline methods, add online marketing networks, create other products or variants, diversify products, increase the role of associations, improve technological skills, lobby policies to the local government, adapt to changes in consumer behavior, carry out cooperation with associations, and optimize promotions through various media.

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