

# Porter Generic Model Strategy for Micro, Small and Medium Enterprises (MSMs) in Dealing with ASEAN Economic Community (AEC) – (Case Study Deli Serdang Regency, North Sumatra –Indonesia)

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## Abstract

Indonesia has entered a new phase with partners in the neighboring countries, especially ASEAN members, namely ASEAN Economic Community (AEC) on December 31, 2015. One of the main pillars of AEC is free flow of goods, trade in goods in 2015 is conducted freely without barriers, both tariff and non-tariff. AEC implement schemes Common Effective Preferential Tariff (CEPT) that have previously been applied when the ASEAN Free Trade Area (AFTA), namely gradual tariff reductions made for certain types of goods carried in the timeframe that has been agreed. This study aims to find out the problems that often hinder the development of SMEs in Deli Serdang Regency in competitive advantage, especially in the face of the AEC, it is necessary for the existence of a strategy to create competitive advantage in the era of AEC. Many strategies to create competitive advantage and one generic strategy Porter. This strategy gives success in the company so that researchers want to adopt Porter generic strategies for MSMEs, especially in Deli Serdang. Objects in this study is micro, small and medium enterprises in the district of Deli Serdang. Data collection techniques using questionnaires and interviews / structured interviews and data analysis techniques using descriptive analysis techniques. The results showed that the strategy porter through indicators five forces porter that include competition among similar companies, the threat of new entrants, the threat of substitute products, bargaining power of buyers and bargaining power of suppliers is still included in the category enough or moderate, it indicates the presence of obstacles or problems faced by SMEs in Deli Serdang. Besides indicators porter five forces, the addition of the supporting indicators of the ability of innovation and technology as well as the government's attention is also included in the category enough or moderate, it indicates that the supporting indicators are still facing obstacles or problems.

**Keywords:** MSMEs, Porter Generic Strategy, Competitive Advantage, AEC.

## 1. Introduction

Micro, Small and Medium Enterprises or MSMEs are often referred to actively participate in investment activities in order to encourage the productive sector. At least there are three indicators that show the important role of MSMEs in the economy. First, the amount of effort that many and in every sector of the economy. Central Statistics Bureau (BPS) data in 2008 noted that the number of MSMEs reached 99.99% of the total business units in Indonesia. Second, MSMEs have enormous potential employment. MSME sector absorbs 97.3% of total labor force works. From every penny of investment in MSMEs can create more employment than the same investment in large enterprises. Third, MSMEs make a major contribution to the national income. MSMEs to contribute 53.6% of the total Gross Domestic Product (GDP) of Indonesia, Bank Indonesia (2009).

After a year we will enter a new phase with partners neighboring countries, especially ASEAN members. One of the main pillars of AEC is free flow of goods, trade in goods in the ASEAN region is conducted freely without barriers, both tariff and non-tariff. AEC implement schemes Common Effective Preferential Tariff (CEPT) that have previously been applied when the ASEAN Free Trade Area (AFTA), namely gradual tariff reductions made for certain types of goods carried in the timeframe that has been agreed.

The existence of the ASEAN Economic Community (AEC) in 2015 gives a challenge for Indonesia: (1) the competitiveness index, this is because the Global Competitiveness Index 2012-2013, and Indonesia ranked 50th out of 144 countries. Compared with countries ASEAN, the ratings are down from the previous ranking 46 (2011-2012). Singapore was ranked second, ranked Malaysia 25th, Thailand ranked 38th, the Philippines ranked 65th, and Vietnam ranked 75. Indonesian competitiveness index at the global level is still classifying Indonesia in the economy based on efficiency, in the middle of the ASEAN which has been based innovation (Singapore), towards innovation (Malaysia), which is based on factors of production or natural resources (Philippines, Vietnam, Cambodia, Laos, Myanmar), (2) global innovation index, this is because the position of Indonesia including average among the nine other ASEAN countries. Based on these two things we need the readiness of Indonesian SMEs face AEC 2015 and prospects of the Indonesian national security.

Indonesia does not encourage competitiveness and added value for the goods / products are produced; Indonesia could lose its role in the region and became the object of development progress in the region without obtaining maximum benefit. Therefore, the policy of strengthening the competitiveness of the program has been getting special attention from the government, among others, the strengthening of national MSMEs. It is important to facilitate national MSMEs are highly competitive, innovative and creative, and able to expand the market of the ASEAN Economic Community.

Each organization would have a plan, and the scope of the company we know the term strategic planning, where the strategic planning can help us evaluate on a regular basis to achieve the goal, helping the company to grow and progress, enlarge market share amid competition is getting sharper (Allison, 2005). One key to the success of strategic planning is on the selection of the market and the determination of how to compete in the competition (Greenley, 2004). The layout of the competition is the differentiation of products and services in selected markets to their competitors. Referring to the idea of Porter (1980) regarding the competitive advantage can be achieved through various strategies one of them with the business strategy either cost leadership, differentiation and focus.

Research on the development model of generic strategies Porter has been done among others: Dimas (2008), which examines the relationship between the dynamism of the environment and the structure of small companies, strategy and performance, which concluded that the dynamism of the environment affects the strategy chosen by small companies and moderate the relationship among the organizational structure, strategic posture and firm performance. Productivity of MSMEs increased substantially on a level not far away with a larger company, besides it was also discovered that MSMEs face the crisis more resilient than larger firms, further explained that MSMEs were able to more quickly and flexibly respond to the issues that suddenly occur. Furthermore research finding of Alan (2000), which state that one of the keys to business success of small companies / MSMEs are the internal factors of the company through its business strategy. Dinda (2006) with the results of research that competitive advantage will be created when the performance is good where the performance of the company this is influenced by strategic planning.

This study will be conducted in Deli Serdang Regency - North Sumatra Province - Indonesia, which has an extensive area, besides there are problems that often hinder the development of SMEs in Deli Serdang is weak institutional factors and individual, which include: the ability to find opportunities business, entrepreneurial culture, entrepreneurial leadership, market availability, level of education, availability of information and communication technologies, and the ability to innovate. It required an effort in improving the growth of SMEs by using competing strategies, especially in the face of the AEC.

## **2. Literature Review**

### *2.1. Strategic Planning*

Strategic planning is present around the mid 1960's and the leaders of companies recognize that strategic planning is "the one best way" to decide and implement strategies that can increase competitive in every business unit. As expressed by the expert Frederick Taylor's research, strategic planning is a way that involves thinking through a work, the creation of new staff management functions, namely the emergence of planning experts. Where the planning system is a good strategy as a stage strategy to be implemented businessmen, company managers and direct order not to make mistakes (Mintzberg, 1994).

According to (Allison, 2005) definition of strategic planning is a systematic process agreed between the organizations and establishes the involvement of major stakeholders-on priorities that are vital to its mission and responsive to the operating environment. Strategic planning is particularly used to sharpen the focus of the organization, so that all resources are used optimally organization to serve the mission of the organization. This means that the strategic plan to guide an organization must be responsive to the dynamic environment and difficult to predict. The strategic plan emphasizes the importance of making decisions that put the organization's decision failed to respond to environmental changes. Strategic planning focus is on strategic management, meaning that the application of strategic thinking on the task of leading an organization in order to achieve the intent.

Another understanding of strategic planning according to (Shrader et al, 1989) is a long-term planning that is written which involves a series of agreements the mission and objectives of the company. According to Philips (2000) strategic planning of effective influence on the financial performance in the case of the hotel, indicated the role of managers in decision-making behavior. Further study of Barker and Duhane (1997) suggest a relationship between the processes of planning the company's financial performance on selected show significant results.

Another study by Pearce et al (1987) analyzed the moderating effect of the strategic planning in the strategy's performance in 97 manufacturing company with 60 different industries generate positive and significant moderating effect.

Linkages in the future regarding the development of strategic planning are the creation of sustainable

competitive advantage. This was achieved when management capabilities and use the creation and implementing the strategy in order to hold the advantage of being much going impersonation, able to create resistance factor in the long term (Bharawaj et al, 1993; Grant, 1991). Keep in mind that this strategic planning process is a strategic thinking of business owners. Strategic planning does not have to be formal, but this strategic thinking at least synthesizes intuition and creativity into the entrepreneurial vision of the future. So it can be concluded that the strategic plan to guide an organization to be responsive to the dynamic environment and difficult to predict. Strategic plan emphasizes the importance of making decisions that put the organization to successfully respond to changes in the environment.

## *2.2. Competitive Advantage*

The concept of competitive advantage the company has been developed from the generic strategies proposed by Porter (1985). A thing that may indicate variable competitive advantage is imitation, durability, and ease of equaling. Competitive advantage is the heart of the company's performance in a competitive market. Advantage of the company basically grows of the value or benefit to a company creates for its buyers. If then the company is able to create excellence through one of the three generic strategies, it will get the competitive advantage (Aaker, 1995)

Competitive advantage can be understood by looking at the company as a whole, come from many different activities undertaken by the company in the design, manufacture, market, deliver and support sales (Porter, 1985). So that competitive advantage is a position that is still done in an effort to beat the competition organization.

## *2.3. Porter Generic Strategies*

Porter generic strategies are a strategy commonly used by a company in its business to achieve and maintain its advantages. Michael Porter explains that there are three types of strategies that are generally used by businesses to achieve and maintain its competitiveness. These three strategies are distinguished by the scope of the strategy and the ability of the strategy. The scope of the strategy in terms of demand and also the views from the large and the composition of the market that wants to enter. Ability strategy seen from the supply side or supply-owned and views of the capabilities of the company. In this case, he divided it into two competencies that are considered essential, namely product differentiation and price of the product (generally equated with efficiency). At the beginning of its formation, Michael Porter split strategy made into 3 dimensions: low, medium and high, and gives the approach in the form of 3-dimensional matrix. This category scheme indicated by the cube 3x3x3. But the majority of the 27 combinations that are owned by the cube are not commonly used in business. Currently, there are three main strategies that are commonly used by companies today. These three strategies are Cost Leadership Strategy, Differentiation Strategy and Focus Strategy.

## **3. Research Methodology**

This research in the Research and Development (R & D), starting from the preliminary survey activities, porter generic strategies model development, testing, dissemination and implementation through the module. Data collection techniques in general use: (1) A field study with the deployment of research instruments to sample in this case MSMEs in Deli Serdang where the interviews will be conducted to identify the problems faced related to SME loans. (2) Study Library on Porter generic strategy. Furthermore, reference literature and research as a support in the development model of development. The research instruments that have been collected will be analyzed using descriptive analysis method.

## **4. Finding And Discussion**

This study was conducted to identify the problems faced by MSMEs in Deli Serdang in creating a competitive advantage in the era of AEC. In determining the strategy of analysis is required to get an overview and proof of the results of this analysis, the evidence of such evidence can be data, or from a variety of sources that have been validated, predictions and assumptions. Therefore, at this portion external environment analysis using Porter five forces analysis. The following will be explained by variables at five forces analysis porter.

Porter's Five Force Analysis is used to analyze the external environment is based on competition among similar companies, the threat of new entrants, the threat of substitute products, bargaining power of buyers and bargaining power of suppliers (Porter, 1980).

Table 1. Recapitulation Score And Distribution Based Response Indicators  
Porter's Five-Force Analysis

No	Indicators	Response			Score	Category	
		F	High	Medium			Low
<b>Competition Inter Company</b>							
1	Fixed costs are quite high	F	0	59	11	4,01	Medium
		%	0	84,29	15,71		
2	Many competitors for the same effort	F	0	46	24	3,74	Medium
		%	0	65,71	34,29		
3	Has little difference with competitors' products in terms of quality and quantity	F	0	51	19	3,90	Medium
		%	0	72,86	27,14		
4	Sluggish business growth	F	1	14	55	3,09	Medium
		%	1,43	20,00	78,57		
5	The cost of production is quite high	F	0	37	33	3,63	Medium
		%	0	52,86	47,14		
6	Able to sell the product at the normal price to get higher profits than competitors	F	0	43	27	3,69	Medium
		%	0	61,43	38,57		
7	Has the ability to promote the advantages of the product	F	0	20	50	3,10	Medium
		%	0	28,57	71,43		
<b>Threat of New Entrants</b>							
8	Products produced by large-scale competitors can interfere	F	0	48	22	3,76	Medium
		%	0	68,57	31,43		
9	Products from competitors has variation of products	F	0	29	41	3,47	Medium
		%	0	41,43	58,57		
10	Have sufficient financial resources to invest	F	0	33	37	3,46	Medium
		%	0	47,14	52,86		
11	Have an efficient marketing channels	F	0	27	43	3,36	Medium
		%	0	38,57	61,43		
<b>Threat of Substitute Products</b>							
12	There is a possibility that your product production can be emulated by other entrepreneurs	F	1	50	19	3,94	Medium
		%	1,43	71,43	27,14		
13	Your product has a replacement product	F	0	47	23	3,71	Medium
		%	0	67,14	32,86		
14	the price of substitute products cheaper than the price of the product that you produce	F	0	43	27	3,67	Medium
		%	0	61,43	38,57		
15	Replacement products owned competitors have better market share	F	0	45	25	3,72	Medium
		%	0	64,29	35,71		
<b>Bargaining Power of Buyers</b>							
16	Consumers had information about the products that produce	F	0	40	30	3,64	Medium
		%	0	56,14	42,86		
<b>Bargaining Power of Suppliers</b>							
17	Manufacture of raw materials is dominated by a few companies	F	0	43	27	3,67	Medium
		%	0	61,43	38,57		
18	Products from raw material suppliers as an essential product for you	F	0	47	23	3,80	Medium
		%	0	67,14	32,86		
19	Enterprises that you have not an important customer for the supplier	F	0	44	26	4,31	Medium
		%	0	62,86	37,14		
20	Industrial supplier of high integrity with your effort	F	0	49	21	3,86	Medium
		%	0	70	30		

Based on Table 1 above that the indicators of the five forces porter has a value in the Average category, this indicates that there are problems in MSMEs in Deli Serdang and if specified can be explained as follows:

1. Competition among peers. Based on the above results indicate the occurrence of adequate high competition between companies, where this happens because (1) The MSMEs still have fixed costs are quite high (2) sufficient number of competitors with the same effort, (3) Slight differences with competitors' products, (4) business growth is slow (5) the cost of production is high enough, (6) are less able to compete in selling prices with competitors, and (7) less able to promote the product.
2. The threat of new entrants. Based on the results above show the threat of new entrants is high enough

- among enterprises, this happens because (1) the product produced / prepared by new entrants (competitors) have a fairly large scale (2) the products of competitors has a range of products that is enough many, (3) inadequate financial capital, (4) the distribution channels that are less efficient.
3. Threat of Substitute Products. Based on the above results indicate the threat of substitute products is quite high, where this happens because (1) production may be imitated / copied by other entrepreneurs who become competitors, (2) the product produced quite a lot of substitute products, (3) substitute products have prices are much cheaper, and (4) replacement products have a good market share.
  4. The power to bargain shoppers. Based on the above results show the bargaining power of buyers are sufficiently high or medium, where this is the case for lack of information about the product to the buyer.
  5. The power of bargaining suppliers. Based on the above results show the bargaining power of suppliers is quite high or moderate, where this happens because (1) the lack of supply of raw materials, (2) Products from a supplier failed to give meaning to the business, (3) Businesses that have not a customer important for suppliers, and (4) lack of integrity towards suppliers.

In addition to the five (5) indicators, the researchers added other indicators as supporting SMEs in creating competitive advantage in the face of the MAE. The proficiency level indicator can be seen in table 2 below:

Table 2 Recapitulation Score And Distribution Based Response Indicators  
 The ability of innovation and technology, as well as government involvement

No	Indicators	Response			Score	Category	
		High	Medium	Low			
<b>The ability of innovation and technology</b>							
1	Designing products so that the product manufacturing process becomes more efficient	f	0	47	23	3,86	Medium
		%	0	67,14	32,86		
2	Expertise is quite high in terms of the production process of the products	f	1	42	27	3,90	Medium
		%	1,43	60,00	38,57		
3	Has various types of product	f	1	55	14	4,09	Medium
		%	1,43	78,57	20,00		
4	The ability to conduct market research as well as research on superior product	f	0	10	60	2,73	Low
		%	0	14,29	85,71		
5	Has a team of highly skilled developers	f	0	11	59	2,76	Low
		%	0	15,71	84,29		
6	Have had a good reputation in terms of quality and innovation	f	0	43	27	3,67	Medium
		%	0	61,43	38,57		
7	Able to make common products to be specific	f	0	52	18	3,97	Medium
		%	0	74,29	25,71		
8	The technology used is able to produce products to meet market demand	f	0	39	31	3,56	Medium
		%	0	55,71	44,29		
<b>Government attention</b>							
9	Giving attention to enterprises through the provision of credit facilities	f	0	25	45	3,23	Medium
		%	0	35,71	64,29		
10	Provide an opportunity to promote products through regional and national	f	0	27	43	3,26	Medium
		%	0	38,57	61,43		

Based on Table 2 above that the indicator of the ability of innovation and technology as well as the government's attention also has a value in the Average category, this indicates that there are problems in SMEs in Deli Serdang, particularly regarding the innovation capabilities of the product and the use of technology as well as the attention of the government, and if specified can be explained as follows:

1. The ability of innovation and technology. Based on the above results indicate a lack of ability of innovation and technology, where this is the case because of lack of capability in designing products, expertise in the production process is lacking, lack of market research on the products, the lack of reputation on product quality, market segmentation is small, and the technology is still very simple.
2. The attention of the Government. Based on the above results indicate that the government's attention to MSMEs is still relatively less, where this is the case because the provision of such uneven and lack of opportunity to promote a product that is supported by the government.

MSMEs in Deli Serdang not run a good business strategy in order to improve competitiveness. Based on the interview that almost all MSMEs are still running a conventional business strategy. This condition can be seen in the description of the data that has been described, in which almost all indicators have moderate category



or enough, there are even lower in the category of the ability of innovation and technology.

In indicator of competition among similar companies in the category of being, it does show still need attention for MSMEs in Deli Serdang, so as to create a competitive advantage in the face of the AEC. The effort to do MSMEs to excel in competition among them: should MSMEs need to make efficiency of fixed costs, due to the fixed costs are high will cause the selling price is also high, with pushing costs that the sale price can be more competitive with similar industries. In addition to keeping your costs, MSMEs should also be able to reduce the cost of production because the production cost is also a thing to be considered in determining the selling price. By being able to lower production costs, the selling price will be able to compete with competitors. Furthermore, MSMEs need to be able to promote their products to consumers, with a competitive price; the sale will be easier to do.

At the threat of new entrants indicators are also included in the category enough or moderate, it indicates that the presence of AEC then most likely MSMEs face the threat of new entrants. The effort must be made by MSMEs to be able to compete with the data immigrants (entrepreneurs) new are: the need for financial capital which is great to invest towards infrastructure and facilities that support the production process of the products so that the products produced much higher quality than the product produced the competitor. To diversify products to more diversified products so as to increase profits for MSMEs. Creating a more efficient distribution channels so that the product more quickly accepted by the market.

In indicator threat of substitute products is also included in the category enough or moderate, it indicates that the replacement products become a significant threat to the development of MSME in Deli Serdang. The efforts made to anticipate the threat of substitute products are: to create a product that has unique specific that it is difficult to imitate by competitors, and the sale price is more competitive with its competitors, as well as attention to market segmentation for our product.

In indicator of bargaining power of buyers are still included in the category enough or moderate, it indicates that there is still insufficient bargaining of buyers towards the products of MSMEs. The efforts made in order to bargain from a buyer can be increased then the thing to do; provide information about the product to consumers through promotions in print and electronic media about the excellence of the products, as well as to provide complete information about the composition of the product.

In indicator bargaining power of suppliers included in the category enough or is, it indicates the bargaining of suppliers for raw materials is still facing obstacles, so that MSMEs have difficulty raw material supply. The measures to be carried out by MSMEs is, building a good relationship with supplier of raw materials to maintain the integrity so that MSMEs can be the main customers of the suppliers of raw materials.

In indicator of the ability of innovation and technology as well as the government's attention was also included in the category of moderate or moderate, it does show that MSMEs are still weak in innovation in the products it produces and uses simple technology or traditional. In addition to the government's attention to MSMEs in the district is also still a little. The effort must be made so that the ability to innovate and technology and increased are: improving capability in designing products with always followed that training conducted by related institutions, conduct market research on the products that will be produced so that the products according to market segmentation, keeping the product's reputation with how to always maintain the quality of the products, and the use of appropriate technologies. Furthermore, the government is expected to give more attention to MSMEs in providing capital assistance for the provision of soft loans to MSMEs have the financial capital sufficient to produce a product, but it is expected the government also always hold events involving MSMEs both nationally and internationally so that the products of MSMEs more widely known.

## 5. Conclusions And Recommendation

Strategy porter through indicators five forces porter that include competition among similar companies, the threat of new entrants, the threat of substitute products, bargaining power of buyers and bargaining power of suppliers is still included in the category enough or moderate, it indicates the presence of obstacles or problems faced by MSMEs in Deli Serdang. Besides indicators five forces porter, adding supporting indicators of the ability of innovation and technology as well as the government's attention is also included in the category enough or moderate, it indicates that the supporting indicators are still facing obstacles or problems On indicators five forces porter that include competition among peers, threats new entrants, the threat of substitute products, bargaining power of buyers and bargaining power of suppliers, the need for improvement of the moderate category or simply being good or high through: the efficiency of fixed costs and production costs, setting the selling price more competitive, the quality of the resulting product has a unique by doing product design up to date, market research and market segmentation right, doing a good promotion in print and electronic media about the superiority of the product so as to compete facing the AEC. In supporting indicators that include the capability of innovation and technology as well as the government's attention was also included in the category enough or moderate, so the need to increase either through: procurement of technology for MSMEs and always follow the development of the product as well as the training of training in the mastery of technology and

innovation capabilities for products resulting from. The participation of the government is expected to MSMEs competitive advantage in Deli Serdang in the face of the AEC.

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