

Strategic Factor Analysis for Exporter of Robusta Coffee Bean from Lampung, South Sumatra, Indonesia

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Abstract

Business of robusta coffee beans in Indonesia has been centralized in Bandar Lampung, the capital of Lampung province in South Sumatra, as the main gate of export from Indonesia. About 75 percent of Indonesia coffee bean export is exported from Bandar Lampung. A local company named PT Asia Makmur (PTAM) has been present since 2008 in Bandar Lampung and would need to develop its business strategy to preserve and escalate its incomes in the future. Internally the company strengths and weaknesses need to be identified as well as the external opportunities and threats for the company. This research considers the analysis of internal and external factors which to be summarized into Strategic Factor Analysis Summary (SFAS) which shall be divided into short term, medium term and long term strategic plan. The result of this research was shown that production of special (premium) beans, storage and processing capacity are the main strengths of the company while the company needs to overcome its weaknesses which consist of business communication in English, international trade knowledge and qualified human resource. The company has dominant opportunities as well in its ability to do direct selling to end-users, to produce internationally-certified beans and increasing demand in domestic market. While the main threats for the company are the competition with foreign companies (multinational companies), the dynamic volatility of world coffee exchange and sales competition. Recommended strategy would be based on SFAS analysis result which shall be implemented through forward and backward integration.

Keywords: Strategy, Robusta coffee bean, IFAS, EFAS, SFAS.

1. Introduction

Indonesia is the fourth biggest coffee production country after Brazil, Vietnam, and Colombia (ICO 2017). Robusta coffee is widely produced approximately 85 % of total coffee production in Indonesia (USDA 2015). The main producing areas of robusta are located in South Sumatra which produce 70 % of total Indonesia Robusta production (Neilson 2015). These areas are Lampung province, Bengkulu province and South Sumatra province. The production of robusta from these major areas are very much centralized in Lampung province for export business which has its sea port named Panjang Port and has bigger facilities than other two ports in other two provinces. According to the annual export data, Lampung port exports approximately 75 % of total coffee export from Indonesia. In such case Lampung province with its capital Bandar Lampung is the main gate of coffee export business from Indonesia and about 65 coffee-export companies are being registered under Association of Indonesia Coffee Exporters (AICE).

PT Asia Makmur (PTAM) is one of the export company in Bandar Lampung which is purely national and private company. It has been doing business in coffee-beans export and trading since 2008. Since established in 2008 until 2016, the main export destinations of export by PTAM are Germany (82,020 tons), Russia (41,027 tons), USA (33,710 tons), UK (32,647 tons), Italy (26,157 tons), Malaysia (24,856 tons), Algier (22,963 tons), France (15,688 tons), Belgium (14,677 tons) and India (11,981 tons). However with the increasing domestic demand annually at 4-5 % in Indonesia (ICO 2016) then PTAM decided to trade in domestic market as well since 2012. The decision was a right decision with return of increasing income at 168 % in 2012 and 20 % increase in 2013. However the sales income of trade in both export market and domestic market had decreased in 2014 at -7 % and in 2016 at -4 % due to the decreased production in 2014 and 2016. The availability of raw material decreased in 2014 due to excessive rains in 2013 which affected by La Nina phenomenon. While production in 2016 also decreased due to drought in 2015 which affected by El Nino phenomenon. The production rate of robusta in Indonesia is very much depending on weather as no irrigation applied in coffee plantation. On the other side, the availability of coffee is very much affected too by the existing foreign companies (multinational companies) in Bandar Lampung which do the export business as well for robusta coffee beans. The export volume of foreign companies has a higher-trend market share of export from Lampung. In period 2001-2005, the export market share by foreign companies stood at 20-34 % and in period 2006-2010 increased to 22-36 %. Their market share of export volume in period 2011-2016 had increased into 46-53 % of total export from Lampung. Given the existing situation, PTAM considers a strategic business development is needed to preserve and to escalate the company's income in coming years. The strategic business development will involve the analysis of strategic factors internally and externally. The internal factors include the company strengths and weaknesses while the external factors include the company opportunities and threats. All of these

four factors (Strengths, Weaknesses, Opportunities, Threats – SWOT) shall be evaluated through IFAS (Internal Factors Analysis Summary) and EFAS (External Factors Analysis Summary) which shall be concluded in SFAS (Strategic Factor Analysis Summary). The research carried by Joni, Siswoyo & Ebban (2015) about the strategic to increase the coffee's role in the economy's region of Jember District used the IFAS and EFAS for choosing the alternative strategy which being resulted of SWOT analysis formulation. It concluded that the positive impact by government toward the input factor and the value added received by farmers from the dry processed coffee would be better than the wet processed coffee due to the acceptance in domestic market for dry processed coffee. Nalurita (2014) supports the SWOT analysis being used into the strategic business development for coffee business in Indonesia by increasing export of processed coffee products (differentiated products) and to increase the production of specialty coffee. These two strategies need to be combined with the strategy of strengths and threats by increasing the quality of the coffee beans in the country and the application of Indonesia National Standard (SNI) gradually in the grass-root stake-holders with the continuity of sustainable training. Purba (2013) also utilizes SWOT analysis for business development strategy of arabica export in North Sumatra which conclude that the strengths points of exporters are quality of products, exporter's potential and delivery time. While the weaknesses points are capital and promotion with the opportunities points such as consumer's loyalty, export license and logistic management. The threats would be the demand, competitors, government's role and the international price. This research purposes are to identify the current company position in the industry, to identify its internal and external factors which affect most of the business development of PTAM and to give a recommendation of business development strategy for PTAM in short-term strategy, medium-term and long-term strategy.

2. Data

This research was conducted for two months in PTAM, located in Bandar Lampung, Sumatra. Primary data is collected through in-depth interview with management of PTAM which include the owner of the company Mr. Budi Setiawan, Finance Manager, Logistic Manager, Warehouse Manager and QC Manager. The secondary data is taken from literature study and from related institutions to this research. The obtained primary data is analyzed by using descriptive and qualitative analysis with a case study approach.

3. Methodology

Method to analyze the internal factors of PTAM, will use the method of IFAS (Internal Factor Analysis Summary) which determine the strengths and weaknesses factors within PTAM. While the method to analyze the external factors of the company will use the method of EFAS (External Factor Analysis Summary) which determine the opportunities and the threats to PTAM. Each indicators of internal and external factors are processed through IFAS and EFAS by giving its weight by paired comparison method. This method is comparing whether one factor has category 1 (less important than other factor), category 2 (equally important with other factor) and category 3 (more important than other factor). While the rate is given according to the response of PTAM to each factor which stands in range 1 (poor), 2 (below average), 3 (average), 4 (above average) and 5 (outstanding). The stages of data processing are input stage, synchronization stage and decision stage. In input stage, the analysis of internal and external environment are summarized into IFAS and EFAS). IFAS-EFAS result shall show the company's position as well in the industry and show the dominant factors of each environment. In synchronization stage, the dominant factors shall be summarized and processed in SFAS Matrix which shall give a result of weighted scores. These weighted scores shall be taken into consideration for strategic priorities in short-term, medium-term and long-term implementation based on dominant factors.

4. Empirical Result

4.1 Company Profile

PTAM is a private company owned individually by Mr. Budi Setiawan and the company is managed based on the family-relationship. It was established in 2008 and its processing capacity 84,000 tons annually with total storage capacity 40,000 tons. PTAM major business was initially for export market however PTAM decided to supply into domestic market since 2012 as well. The products of PTAM are commercial coffee standard grade such as Grade 4 to Grade 6, special coffee products (customized according to buyers' request) and internationally-certified coffee (4C). The sales are made into two channels which are direct sales to end users (mainly to domestic market and partly to global roaster as like JDE) and through international trading houses (as the middle-agent). To improve its income through sales of export and sales to domestic market, PTAM has to face challenges as like the availability of raw material which depends on the weather situation and also a tight competition with foreign companies.

4.2 Internal Factor Analysis Summary (IFAS)

Based on the analysis of internal factors PTAM which include its strength and weakness factors there are three

dominant factors on its internal environment.

Table 1. Analysis result of IFAS

	Strengths	Rate	Weight	Score
S1	Special Products	5	0.080	0.399
S2	Storage Capacity	4	0.094	0.377
S3	Processing Capacity	4.5	0.080	0.359
S4	Loyal Customers	5	0.063	0.314
S5	Wide Procurement Networking	4	0.072	0.290
S6	Banking Financial Support	4	0.056	0.222
S7	Reliable Suppliers	3.5	0.056	0.194
Weaknesses				
W1	Business Communication in English	3	0.087	0.261
W2	International Trade Knowledge	3	0.082	0.246
W3	Qualified Human Resources	3.5	0.068	0.237
W4	One-Man Show Decision Maker	3	0.072	0.217
W5	Claims Handle	3	0.072	0.217
W6	Capital	4	0.053	0.213
W7	Professionalism	3	0.065	0.196
	Total		1.000	3.742

On its strength, the dominant factors are special products, storage capacity and processing capacity (score 0.399; 0.377; 0.359). While its weakness, the dominant factors are business communication in English for business, international trade knowledge and qualified human resource (score 0.261; 0.246; 0.237).

4.2.1 Dominant Strength Factors

Dominant strength factors are defined as follow. Special products (S1 with score 0.399) are special quality of coffee beans which usually produced based on the requirement of specific buyers as like Extra Large Beans (ELB), Nestle 7.2 (fits with cupping profile required by Nestle, known as quality 7.2), Lavazza special specifications (with specific screen size of the green bean and defects). Storage capacity (S2 with score 0.377) means the total storage capacity which owned by PTAM which are in total capacity at 40,000 tons. Processing capacity (S3 with score 0.359) means the total production in quantity which owned by PTAM at 7,000 tons per month or 84,000 tons annually.

4.2.2 Dominant Weakness Factors

Dominant weakness factors are defined as follow. Business communication in English (W1 with score 0.261) means the skills and abilities of key employees in PTAM to communicate in English for business purpose. International trade knowledge (W2 with score 0.246) means the knowledge that owned by key employees in PTAM related with international trading knowledge. Qualified human resource (W3 with score 0.237) means the competency of key employees which are 60 % high-school graduates only and qualifications are not prioritized because the company is based on the family-relationship management.

4.3 External Factor Analysis Summary (EFAS)

Based on the analysis of external factors PTAM which include its opportunities and threats, there are three dominant factors of each external environment.

Table 2. Analysis result of EFAS

	Opportunities	Rate	Weight	Score
O1	Direct Sales to End Users	5	0.083	0.417
O2	Certified Products	4	0.086	0.343
O3	Domestic Demand	5	0.065	0.324
O4	Pre Finance Scheme	4.5	0.063	0.281
O5	Trust & Loyalty of Big Customers	5	0.056	0.278
O6	Currency Exchange	3	0.074	0.222
O7	Consistent Quality	3.5	0.056	0.194
Threats				
T1	Competition with Foreign Companies	4	0.086	0.343
T2	Volatility of Coffee Exchange	4	0.081	0.324
T3	Sales Competition	4	0.069	0.278
T4	Purchase Competition	3.5	0.069	0.243
T5	Rising Cost of Labour	3	0.079	0.236
T6	Weather Anomaly	3	0.069	0.208
T7	Rising Cost of Export	3	0.065	0.194
	Total		1.000	3.885

On its opportunities, three dominant factors are direct sales to end users, certified products and domestic demand (score 0.417; 0.343; 0.324). On its threats, three dominant factors are competition with foreign companies, volatility of coffee world exchange and sales competition (score 0.343; 0.324, 0.278).

4.3.1 Dominant Opportunity Factors

Dominant opportunity factors are defined as follow. Direct sales to end users (O1 with score 0.417) means the ability of company to do direct sales to end users both in domestic market and international market. Certified products (O2 with score 0.343) means the certified product which has been produced by PTAM (4C Certification) and the other certifications which are not yet obtained by PTAM as like organic certification, rainforest certification. Domestic demand (O3 with score 0.324) means the demand from domestic market of robusta coffee beans which can be supplied by PTAM.

4.3.2 Dominant Threat Factors

Dominant threat factors are defined as follow. Competition with foreign companies (T1 with score 0.343) means the direct competition with foreign companies which do the processing-toll and do the business as well in export market and domestic market. Volatility of coffee exchange (T2 with score 0.324) means the volatility of robusta coffee exchange in London (ICE / Intercontinental Exchange) which determines the robusta coffee price in daily basis for the whole world. Sales competition (T3 with score 0.278) means the sales competition in both market of export and domestic market which can be a threat if others are giving offer at below market's price in order to do speculation business.

4.4 Company's Position

Based on the IFAS and EFAS result, the company position in the industry is at the growth strategy which the application of the recommended strategy would be the vertical integration. According to Wheelen & Hunger (2012), growth strategies is determined to expand the company's activities. The vertical integration would be achieved by taking over a function previously provided by a supplier (backward integration) or a distributor (forward integration).

4.5 Strategic Factors Analysis Summary (SFAS)

SFAS is a summary compilation of IFAS and EFAS with weighted score. Each three dominant factors from strengths, weaknesses, opportunities and threats are combined to find out the prioritized strategy within short-term, medium (intermediate) term and long-term implementation. The rates used for each factors in SFAS are same according to the rates of each factors in IFAS and EFAS.

Table 3. Analysis result of SFAS

		Rate	Weight	Score
S1	Special Products	5	0.088	0.441
S2	Storage Capacity	4	0.069	0.275
S3	Processing Capacity	4.5	0.072	0.324
W1	Business Communication in English	3	0.101	0.304
W2	International Trade Knowledge	3	0.105	0.314
W3	Qualified Human Resource	3.5	0.088	0.309
O1	Direct Sales to End Users	5	0.075	0.376
O2	Certified Products	4	0.078	0.314
O3	Domestic Demands	5	0.072	0.359
T1	Competition with Foreign Companies	4	0.101	0.405
T2	Volatility of World Coffee Exchange	4	0.072	0.288
T3	Sales Competition	4	0.078	0.314
	Total		1.000	4.021

According to the SFAS result we have vary scores. The highest score will be considered to be implemented within long term strategy (in period of three years and beyond), the middle/medium score will be into medium term strategy (in period one year to three years) and the lowest score will be into short-term strategy (in period within one year). In strength factors, long term strategy will be based on special products (S1 with highest score 0.441) and medium term strategy based on processing capacity (S3 with middle score 0.324) while short term strategy based on storage capacity (S2 with lowest score 0.275). In weakness factors, the long term strategy of long-term will be based on international trade knowledge (W2 with highest score 0.314). For medium term strategy will be based on qualified human resource (W3 with middle score 0.309) while short term strategy will be based on business communication in English (W1 with lowest score 0.304). In opportunity factors, long term strategy will be based on direct sales to end users (O1 with highest score 0.376) and medium strategy will be based on domestic demands (O3 with middle score 0.359) and short term strategy which based on certified products (O2 with lowest score 0.314). In threat factors, long term strategy will be based on competition with foreign companies (T1 with highest score 0.405), medium term strategy will be based on sales competition (T3

with middle score 0.314) and short term strategy will be based on volatility of world coffee exchange (T2 with lowest score 0.288).

4.6 Strategic Implementation

Strategic implementation will be prioritized through three different period which are long term strategy (in period three years and beyond), medium term strategy (between one year to three years) and short term strategy (within one year) according to SFAS analysis.

Table 4. Strategy implementation according to SFAS result

No.	Weight	Rate	Score	Strategy		
				Short Term	Medium Term	Long Term
S1 Special Products	0.088	5	0.441			X
S2 Storage Capacity	0.069	4	0.275	X		
S3 Processing Capacity	0.072	4.5	0.324		X	
W1 Business Communication in English	0.101	3	0.304	X		
W2 International Trade Knowledge	0.105	3	0.314			X
W3 Qualified Human Resources	0.088	3.5	0.309		X	
O1 Direct Sales to End Users	0.075	5	0.376			X
O2 Certified Products	0.078	4	0.314	X		
O3 Domestic Demands	0.072	5	0.359		X	
T1 Competition with Foreign Companies	0.101	4	0.405			X
T2 Volatility of World Coffee Exchange	0.072	4	0.288	X		
T3 Sales Competition	0.078	4	0.314		X	
	1.000		4.021			

4.6.1 Long Term Strategies

Long term strategy will include four major factors with highest score according to SFAS analysis which are S1-W2-O1-T1 (special products, international trade knowledge, direct sales to end users and competition with foreign companies). These long term strategies can be implemented through:

- 1) Direct sales to end users for special products. Which means PTAM needs to make a direct approach with the end users in domestic market or export market for special (customized) products without the role of trading houses or middlemen. This would be part of vertical integration through forward integration.
- 2) Continuous trading training which means PTAM key employees needs to be trained in order to gain knowledge of international trading in order to be able to make a direct sales approach to end users and to compete with foreign companies. This training will be much related to digest the global market information related with supply and demand in domestic market and or export market. These informations usually will be significantly affect to business expansion of PTAM in the global market. The global market information shall affect too for decision making process which shall be taken by PTAM related with supply-demand market.
- 3) Increase the production of special products in competition with foreign companies and PTAM would need to expand other special products according to special needs from the end users. Special products means products customized according to special requirements from buyers in term of quality specifications.

4.6.2 Medium Term Strategies

Medium term strategy will include four major factors with middle score according to SFAS analysis which are S3-W3-O3-T3 (processing capacity, qualified human resources, domestic demands, sales competition). These medium term strategies can be implemented through:

- 1) Increase the processing capacity to supply into domestic demands. PTAM may need to introduce as well into domestic market for special products or certified instead of commercial standard grade.
- 2) Continuous training to achieve qualified human resource in particular in commercial side and logistic side in order to meet domestic market requirements. The proper training will be much related to the execution process in domestic buyers which shall less complex rather than export market. Qualified human resource also in focus of sales or marketing strategy to anticipate the sales competition in domestic and export market. This can be started by team building to do crop survey to measure supply supply market which can affect the sales decision made by PTAM. The alternative way to be competitive in sales competition is to expand its business relationships in abroad related with funding in order to get better and cheaper loan interest for PTAM.
- 3) PTAM needs to consider to increase the processing capacity to have a competitive sales price in the both market either domestic or export market. Evaluation will be needed before PTAM decides to replace or to add the processing machineries.

4.6.3 Short Term Strategies

Short term strategy will include four major factors with middle score according to SFAS analysis which are S2-W1-O2-T2 (storage capacity, business communication in English, certified products, volatility of world coffee exchange). These short term strategies can be implemented through:

- 1) Utilize storage capacity for certified products which shall give a higher sale-value in particular for certified products as like 4C. Other certifications which are quite rare owned by competitors, may need to be obtained as well as like organic certification or rainforest certification which usually required by buyers.
- 2) Proper training for business communication in English in anticipation of the volatile coffee market in a day to day business activities. The information of the dynamics global coffee market would be informed mostly in English. These would be including the over supply situation or shortages situation or even the weather situations which affect to the global coffee prices. These global informations will be useful if PTAM has ability to digest it and take actions related to the decision to buy, or to sell or to keep the stocks for a while. Business communication in English is also needed to maintain the current-owned international certification (4C) or to obtain the new international certifications such as organic certification or rainforest certification. The audits will be executed in English before those certifications are obtained. Therefore the proper training for business communication in English would be urgently needed by PTAM.
- 3) Utilize its storage capacity in maximum usage in order to be able to store the beans in anticipation of volatile market in world coffee exchange. This means PTAM can keep the stocks a while when the world coffee price moves in the down-trend and sell more when the world coffee price moves in the up-trend. Description for the above table.

4.7 Managerial Implications

This research is conducted to formulate the prioritized strategy for PTAM which is based on SFAS analysis. According to the result of this research there are long term, medium term and short term strategies which need to be implemented by the company. The implementation through the growth strategy shall be conducted through backward integration and forward integration. In the backward integration, PTAM will need to expand its new sourcing areas. While the forward integration PTAM will need to expand its ability to do business in direct sales to end users which will eliminate or minimize the role of trade houses (middle-agent). To increase the direct sales to end users can be achieved by PTAM through joining the trade exhibition which can be facilitated by Indonesia government. The target market to increase direct sales to end users shall be into the top ten export destination in export market and also the direct sales to end users in domestic market.

On its strongest strength factor, PTAM needs to develop more on special products which customized according to special needs by end users both in export market and domestic market. While on its weakest factor, PTAM needs to escalate its capacity for business communication in English through the continuous and proper training. Meantime in its strongest opportunity of PTAM would be needed to be developed in building business relationship to do direct sales to end users both in domestic and export market. While to face its strongest threat, which is the competition with foreign companies, PTAM needs to develop qualified human resource to be able to digest the global information or even to expand its business relationship to funding or partner companies in abroad. In competition too with foreign companies, PTAM needs to produce more special products than foreign companies as these special products will be valued higher than other standard products.

5. Conclusion

Current business position of PTAM is on the growth position with the strategy of vertical integration. This integration would be executed through backward and forward integration. The dominant strength factors of PTAM are special products, storage capacity and processing capacity. The dominant weakness factors of PTAM are business communication in English for business, international trade knowledge and qualified human resource. The dominant opportunity factors for PTAM are direct sales to end users, certified products and domestic demands. The dominant threat factors for PTAM are the competition with foreign companies, volatility of world coffee exchange and sales competition. In a combination of all those dominant factors according to SFAS perspective will be built based on the combination of highest score for long term strategy which involve special products, international trade knowledge, direct sales to end users and competition with foreign companies. In medium term strategy would involve factors with middle score as like processing capacity, qualified human resource, domestic demands and sales competition. In short term strategy which means urgently to be executed is related with factors with lowest score such as storage capacity, business communication in English, certified products, and to anticipate the volatility of world coffee exchange in daily basis.

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Notes

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