

# Value Chain Collaboration, MsMEs Strategy in The Covid Period

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## Abstract

Corona pandemic that occurred in 69 countries including Indonesia, encouraged the government to issue regulations on Large-Scale Social Barriers and Work from Home. This regulation has an impact on the decline in sales and the emergence of raw material problems in MSME activities. Even though the government has prepared ways to help MSMEs, such as providing social assistance, tax incentives, relaxation and credit restructuring, working capital assistance program and as an output offtaker, MSMEs still need to implement strategies in order to survive in this pandemic era. This paper aims to explain the strategies that need to be carried out by SMEs to be able to maintain sales and overcome the problem of raw materials. The way to do this is to use the concept of collaborative value chains.

## Keywords

Strategy, Value chain collaboration, MSME, Covid

## 1. Introduction

Based on data from The GISAID (Global Initiative on Sharing All Influenza Data), at least 69 countries in the world are infected with the corona virus, including Indonesia. The case of corona in Indonesia originated from the presence of a dance party participant at the Paloma and Amigos clubs who contracted it from other participants from Japan (Fadli, n.d.; Wajdi et al., 2020). The trend of corona cases in Indonesia from day to day continues to increase. Based on government data (up to July 19, 2020) there are currently 86,521 people confirmed positive, counting the first patient registration poems on March 2, 2020 (Yahya, 2020).

To accelerate the handling of corona cases in Indonesia, the Government issued regulations. Minister of Health Regulation No. 9 of 2020 regulates Large-Scale Social Restrictions (PSBB). Large-scale social restrictions are restrictions on certain activities of residents in an area suspected of being infected with Corona Virus Disease 2019 (COVID-19) in such a way as to prevent the possibility of spreading Corona Virus Disease 2019. These restrictions are followed by the closure of schools and workplaces, restrictions on religious activities, and or restrictions on activities at public places or facilities.

This regulation has an impact on the sustainability of Micro, Small and Medium Enterprises (MSMEs). According to TM Zakir Sjakur Machmud, Chair of the Universitas Indonesia, UKM FEB Center, this regulation has caused MSME entrepreneurs to not be able to meet suppliers of goods or buyers so that UMKMs cash flow is disrupted. This happens because the product produced is a consumer product that is sold directly to the buyer. In addition, the work rhythm of MSME actors is daily. If sales do not occur within one day, then cash flow will be affected (Kristianus, 2020). The same thing was expressed by Teten Masduki, Minister of Cooperatives, Micro, Small and Medium Enterprises (KUKM), that the existence of PSBB resulted in the loss of the market for MSMEs (Nurhaliza, 2020).

## 2. Literature Review

Research conducted by the Ministry of National Development Planning (Bappenas) shows that there is a decline in sales in almost all MSMEs. 36.7% of respondents said there were no sales at all, 26% of respondents experienced a

decrease in sales of more than 60% and only 3.6% of respondents experienced an increase in sales. The complete data is presented in Figure 1.

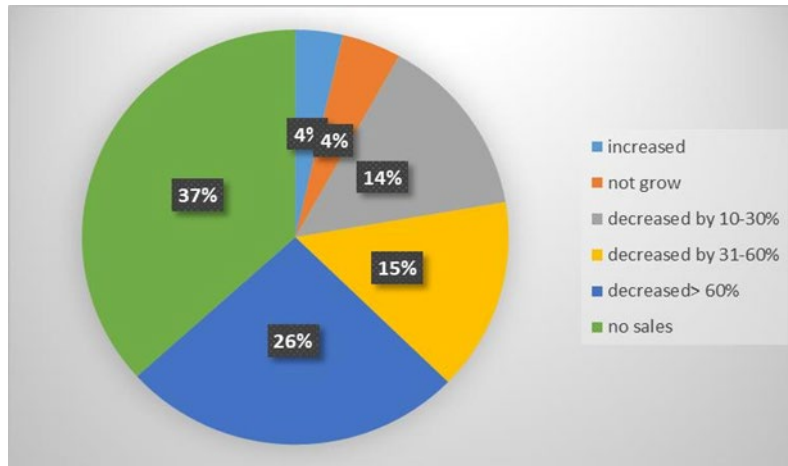


Figure 1. MSMEs Sales Conditions in The Pandemic Period (April 2020)  
 Source: Asosiasi Business Development Services Indonesia, Bappenas

In addition to experiencing difficulties in sales, production at SMEs, also experienced difficulties in meeting the needs of raw materials. A total of 344 respondents complained of an increase in prices. Complete data on the results of the study are presented in Figure 2.

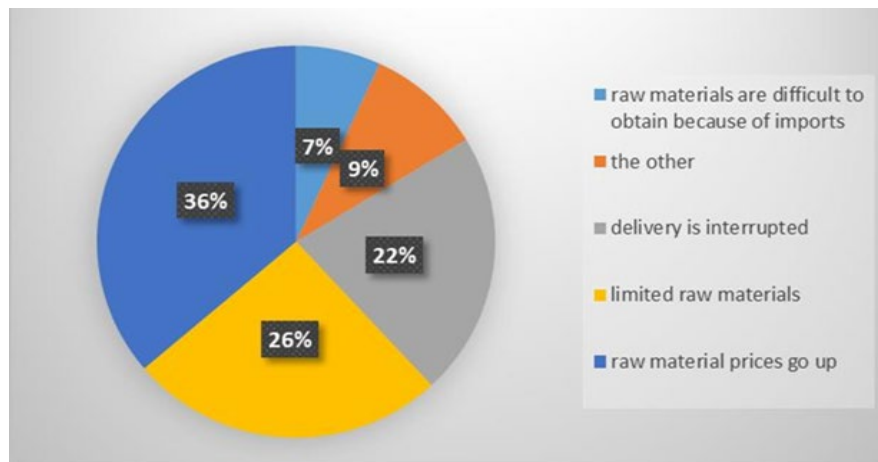


Figure 2. Barriers to Supply of MSMEs Raw Materials in The Pandemic Period (April 2020)  
 Source: Asosiasi Business Development Services Indonesia, Bappenas

The increase in raw material prices will have an impact on rising selling prices. To maintain the stability of the selling price, it is also better to do the cost efficiency of MSMEs activities.

To overcome the condition of MSMEs that experienced a decline in sales and difficulties in fulfilling raw materials, the government has provided a number of schemes in economic protection and recovery programs, namely, social assistance, tax incentives, economic protection and recovery programs, stimulus for working capital assistance, becoming an offtaker (absorbent) for the production results of the SMEs (Presiden, 2020). Although the government has established five such schemes, MSMEs should have a strategy to be able to survive in this pandemic. Therefore, this paper aims to explain the strategies that can be done by MSMEs in the sale and procurement of raw materials through collaborative value chain.

### 3. Methods

This research is a public policy study. Research describes public policy efforts, an assessment of the positive impact on industrial society. Also, analysis of the negative impact on industrial society in pandemic era. From the results of regulatory analysis that applies in the pandemic era, further solutions are made to be implemented as strategies in order to survive in this pandemic era for sales and MSME activities .

### 4. Data Collection

The data referred to in this study are various regulations that will be analyzed the impact on the strengths and weaknesses that cause on the decline in sales and the emergence of raw material problems in MSME activities. Data collected from a variety of valid and reliable references to elaborate some problem to be solving.

### 5. Results and Discussion

#### 1. MSMEs Business Profile in Indonesia

There are around 64 million MSMEs in Indonesia; 98.68% of MSMEs are self-employed, Micro Enterprises, which are included in the large-scale MSME category of only 0.01%. This structure hasn't changed in 10 years. When compared to other countries, large-scale MSMEs show a small number. China has 0.4%, Japan 0.3%, European Union 0.2% and Malaysia 1.5%

MSMEs in Indonesia contribute 61% of GDP. This amount can actually be increased. Unfortunately, most of these MSMEs have low productivity and do not yet have a growth mindset. Management is still traditional; have not been able to do transactions in non-cash, do not have financial records and Standard Operating Procedures. Only about 20% of perpetrators go online and less than 9% use online advance technology (Haryanti, 2020).

#### 2. The condition of MSMEs in the COVID era

In this pandemic era, there was an increase in turnover that was able to sell online. Products that have increased are: herbal products, frozen food, hygiene and endurance support products, cooking oil and seasonings. This product can survive because consumer behavior changes. Consumers now pay more attention to their health and prefer to produce their own food.

The performance of MSMEs that experienced a decline was MSMEs that were related to tourism, textiles, building materials, property and construction, automotive, shopping centers [6]. With social distancing and work from home, people find it difficult to travel, as a result the tourism business has experienced a very sharp decline in performance. Likewise, many shopping centers have to be closed, resulting in many layoffs and low purchasing power.

The same thing was revealed by Destry Anna Sari, Deputy Marketing Assistant at the Ministry of Cooperatives and SMEs, that there were five types of businesses most affected, namely the provision of food and beverage accommodation, wholesale and retail trade, the processing industry and the agricultural, forestry and fisheries businesses. The decline in performance resulted in a decline in sales, the difficulty of raw materials, distribution, capital and production which was hampered by the large-scale social restriction policy (PSBB) (Prayoga, 2020).

#### 3. Collaborative Value Chain

In this COVID era, MSMEs must react quickly to survive. One way is by value chain collaboration. The term value chain was first introduced by Michael Porter (1985). Value chains are defined as representations of company activities that add value based on pricing strategies and cost structures. The added value of a product or service can be created through the production process from the procurement of raw materials, physical transformation, and distribution activities to customers. With the existence of a value chain it is expected that companies can improve quality and reduce delivery time in an efficient manner and minimize non-value-added costs. This value is not only created by the company itself, but the entire network of suppliers, distributors and business partners. Therefore, in the creation of a collaborative process between partners there is a need to be able to move and redistribute costs, risks and benefits throughout the value chain (Frank, 2012).

So, value chains mainly focus on market collaboration strategies. Value chain collaboration is two or more autonomous companies that work together in the long run in carrying out company operations. The purpose of collaboration is to improve the performance of all chain members. The collaborative value chain consists of two structures namely vertical, horizontal structure.

Vertical collaboration in the value chain shows the quality of relationships between companies that are vertically connected in the value chain (Figure 3). The vertical relationship shows the relationship between suppliers, companies

and customers. In order to improve industry competitiveness, this relationship must be efficient. MSME has a vertical relationship with various market participants; namely suppliers and service providers, as well as their customers.

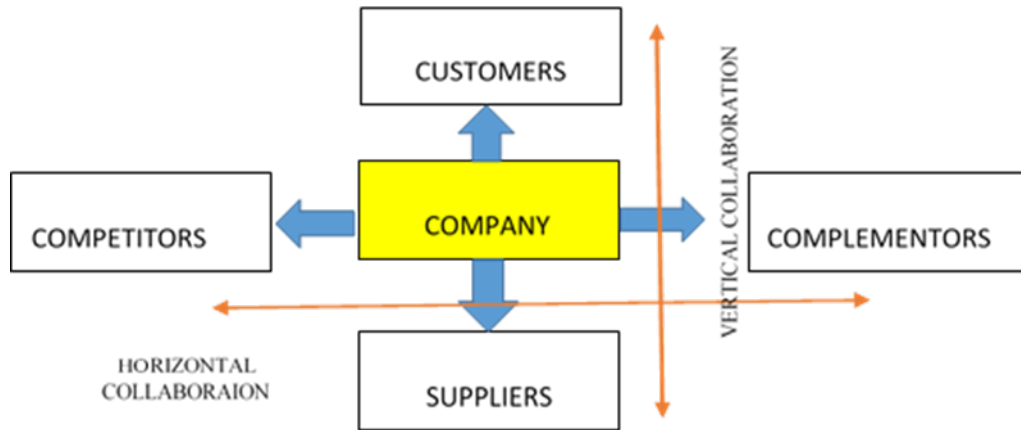


Figure 3. Collaborative Value Chain Source : Björnfoth and Torjussen (2012)

MSMEs have limited purchasing power. Managing relationships with suppliers is the key to the success of MSMEs. In traditional activities, activities are simple by comparing the price list, then buying what is offered by the supplier. The characteristics of this purchasing activity are only clerical activities and are short term. Purchasing activities should be a strategic activity to get a competitive advantage by collaborating with suppliers. By working together, it is hoped that input costs will be lower and increase the adequacy of quality raw materials in the long run. Supplier integration can be expanded through joint efforts in product development, problem solving, design support and technology exchange (Chin et al., 2014).

Collaboration between companies and customers has an important role in achieving successful innovation practices, through the company's understanding of the needs of its customers. In this pandemic era, MSME must focus, what products they want, how to get the product and when the customer wants it. Companies that can maintain it is a hallmark of a successful company. Companies like this are companies that are able to cope with changes and respond quickly. If the company is not responsive, then the customer will leave it.

Horizontal collaboration (Figure 1) occurs when two or more unrelated organizations, competitors work together for various information or personal resources in the form of a joint distribution center, joint production capacity. Horizontal collaboration is useful in reducing transaction costs, creating economies of scale that will contribute to the improvement and competitiveness of an industry. The benefits of horizontal collaboration can reduce costs in the value chain; reduced logistics costs, storage and shipping costs to customers. This collaboration occurs between the company and its competitors or complementors (Kossyva et al., 2014). Complementors are companies that independently provide complementary products or services directly to mutual customers (Habets, 2012), while competitors are companies that sell similar products and to the same customer groups.

Added value can be created from competitors and complementors who have relevant and complementary resources and capabilities. Companies with competitors and complementors who have the same interests can form alliances that can increase market size and create new markets. This can be done by holding a jointly sponsored event and joint marketing campaign. In addition, with the formation of this alliance, the company will have the ability to reduce production costs by ordering larger volumes of raw materials at lower prices (Kossyva et al., 2014). Adding value to the production process can also be done by using shared assets, such as equipment production, vehicles, factories. The use of labor can also be done together. This will reduce labor costs, especially if there is a surge in product demand (Björnfoth et al., 2012). Another effort to create value is by consolidating the transportation of raw materials from suppliers, as well as transportation to customer

#### 4. Application of Collaborative Value Chain in the COVID era

##### Collaboration with suppliers

The MSMEs culinary business which is based on flour is increasing in number and also growing in the absorption of local agricultural commodities. The MSMEs are increasingly showing local wisdom. Many of these MSMEs are partners of PT Indofood Sukses Makmur which is the main supplier of raw materials. Therefore, PT Indofood Sukses

Makmur Tbk, Bogasari Division as the first and largest flour mill in Indonesia will continue to support the growth of MSMEs through various coaching programs they have. The fostered activities carried out are product education, promotion and marketing strategies and licensing. The activity is carried out through seminars, culinary festivals and customer visit (Gunawan, 2020).

Another partnership is between BGR Logistics and DANA in terms of increasing the inclusiveness of digital technology for MSME actor in order to survive. By utilizing digital technology, stall owners and all SMEs can easily do non-cash transactions, or grocery stores to get supplies of raw materials at affordable prices. The SMEs can purchase raw materials from ordering to payment without having to physically mobilize (Wuri, 2020).

### **Collaboration with customers**

The existence of social distancing and to remain at home, resulting in more consumers choosing to shop online to meet household and food needs. Efforts made by MSMEs are in collaboration with large companies such as Grab. Grab has launched a program called GrabMart. With this program, Grab invites traders in nine traditional markets to become partners, and helps traditional traders switch to digital platforms. Grab has also provided training on how to sell online and teaches how to package products to ensure the freshness of the products it sells. This program also provides added value for customers. With the Mix and Match feature, customers can make purchases at a number of different traditional market traders and the items purchased can be sent simultaneously to their address (Wijaya et al., 2020).

During this pandemic, consumers also need more health equipment. The need for medical equipment is increasing in 213 countries, which includes the need for Personal protective equipment (PPE), masks, drugs to ventilators. MSME began to see this opportunity and began to produce it. The NextDev Telkomsel, namely Jahitin and Kostoom realize collaboration with MSMEs to produce those needs; PPE for medics and cloth masks is produced by a number of local tailors (Mulyawan, 2020).

### **Collaboration with competitors and complementors**

The Joint Shop, BERSAMA (Berih, SehAt, MAju). This shop has initiated by the Ministry of Cooperatives and Small and Medium Enterprises (Kemenkop and UKM) of the Republic of Indonesia in collaboration with UKM Center Faculty of Economics and Business, University of Indonesia (UKM Center FEB-UI), Coca-Cola (PT Coca-Cola Indonesia and Coca-Cola Amatil Indonesia), and QASA. This movement was formed because the main problems of MSMEs in the COVID era were declining sales and the difficulty of raw materials. The purpose of this movement can arouse enthusiasm and restore the strength of the shop or shop businessman (Sugandi, 2020).

Development of the concept of Cloud Kitchen. This concept arose because many restaurant businesses failed in the first year. They have to close down their businesses, even though they have incurred considerable investment costs; rent buildings, interiors, kitchen equipment, food equipment, tables and chairs. Provision of cloud kitchen business people can save investment costs. In Indonesia, Gojek is one who invests in this field, in accordance with its commitment to provide solutions to the challenges and needs of the informal sector and society. This service is dedicated for MSMEs to accelerate the growth of their business. MSMEs can utilize this cloud kitchen facility as a first step to get technology assistance and kitchen facilities as well as delivery service providers. Thus, MSMEs can save on investment costs for equipment purchases and rental premises and MSMEs remain business owners (Noviyanti, 2020).

## **6. Conclusion**

During this pandemic, due to the PSBB and Work from Home regulations, the impact of declining sales and the difficulty of supplying raw materials for most MSMEs. In order to survive, MSMEs can use collaborative value chain strategies. Collaborative value chain is a strategy to establish cooperation between suppliers, customers, competitors and complementors.

Collaboration with suppliers can provide value-added benefits; cost efficiency of raw materials, availability of raw material supply in the long run, product development assistance through process innovation. An example is PT Indofood Sukses Makmur, developing a program for MSMEs. The built program can help in terms of product innovation, promotion and marketing strategies as well as licensing. BGR Logistics and DANA also provide support to MSMEs in developing digital technology for MSME shop owners.

Collaboration with customers provides an opportunity to find out what consumers want. In the current pandemic, consumers need online shopping and medical equipment. This opportunity can be used by MSMEs to work with Grab

to meet online shopping needs. To meet the needs of medical devices, SMEs in collaboration with The NextDev Telkomsel succeeded in producing PPE and masks. Collaboration with competitors and complementors, allows the purchase of raw materials in large quantities, resulting in cost savings. In addition, another benefit is being able to use assets together. One way is to use cloud kitchen and stalls together.

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## Biography

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**Diana Veranita Latif** is an Alumni of the Bandung Institute of Technology. Since college, in 1993, both at the undergraduate and masters level, she has been running his business. One of her leading businesses is Oralie fashion