

The Development of Demand for Small and Medium Industries in Indonesia

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Abstract:- This study looks at how the development of the small and medium business industry in Indonesia. This study uses secondary data and is a descriptive study that looks at how the development of the SME industry in Indonesia. The results of the study will illustrate how the potential of the SME industry and the role of SMEs can influence the development and growth of the SME industry in Indonesia. The hope is that this study can describe the state of the economy in Indonesia in terms of the contribution of the SME industry sector. From the existing SMEs, it will be seen how the situation of the SME industry in Indonesia tends to focus more on the supply side or on the demand side. Good business is a business that reaches a balance point when the number amount of goods demanded is equal to the quantifier of goods offered. So from this, it can be concluded that the right policy and can provide effective advice and policies to enhance the development of the SME industry in Indonesia.

Keywords:- Demand, SME Potentials, SME Role, SME Industry Development.

I. INTRODUCTION

The economy in Indonesia has a lot of potentials to be developed. One of them is small and medium businesses or SMEs. The government has made policies aimed at achieving prosperity and prosperity for the people. But in reality, there are often obstacles that hinder the process of growth increasing the economic. The main problems such as unemployment, income inequality, poverty problems and economic inequality between regions. Small businesses have a very strategic role, both in terms of socio-economic, and socio-political aspects. In the socio-economic field, small industries provide goods and services for consumers who have low to moderate purchasing power, contribute to GDP and contribute to increasing the country's foreign exchange. Socially and politically, small industries have a role in employment and efforts to reduce poverty. This can be seen from the existence of small businesses that can develop and grow to reach .241,303,263 or 99.85% of the total national entrepreneurs and contribute to GDP of 40.29%, from the employment aspect, small businesses can absorb 68.275 million or 88, 70% of the total workforce. These conditions indicate that small businesses are able to buffer the National Economy (Badan Pusat Statistik, 2003). For this reason, small industries need serious attention, both in terms of demand and supply. In everyday life, humans as consumers always do various requests for various goods and services needed. Demand made by consumers is their way to get satisfaction in meeting their needs. Of course in making a

request, consumers must match the demand made with the income they earn. If their income is high then the demand can be done in large numbers, and vice versa, if their income is low then the demand that can be done is small

In addition to income, prices also greatly affect consumer demand for goods or services. The more expensive the price of goods or services, consumers will reduce the consumption of goods or services or switch to looking for the same goods or services, even if seen from their income, consumers are still able to buy the goods or services. And conversely, the cheaper the price of goods or services, consumers will be loyal in consuming the goods or services and will not look for other goods or services. Therefore, making a request for goods that have speculative elements and prestige items may be good for the future and prestige, but it should be adjusted to the income available so that it can still make requests for items that are even more important in life daily. Similarly, from the supply side. According to the law of supply, when prices increase, in fact, the supply of goods will also increase or higher. But in reality, this is not necessarily true, because the number of requests also dominates. When prices increase, the number of buyers will decrease, and the seller will decrease the level of production following the amount of demand. So in this study, the researchers wanted to see how the development of the small and medium business industry in terms of demand, potential, a role for development and growth in Indonesia.

II. THEORIES

A. Small and Medium Enterprises Industry

Dr. Tambunan TH Tulus (2009) states that SMEs have quite different characteristics from other large businesses, namely as follows:

- Most SMEs are owned by individuals
- Capital is relatively small
- Corporate finance is one with the owner's finances
- Transactions with the owner often occur. I

Addition to the above, SMEs also have special characteristics that distinguish them from the types of large businesses, including characteristics that distinguish micro-small businesses and medium-sized businesses themselves. Based on BPS data (2006) cited by Tambunan (2009) it is known that in terms of labor, more than a third of SMEs are managed by workers aged over 45 years and only about 5.2 percent of SME entrepreneurs under the age of 25 years. Tambunan (2009) also revealed that the workforce needed by small industries does not require high formal education, most of the workforce needed by this industry is based on experience related to historical factors. Tambunan (2009)

continued that the structure of entrepreneurs according to formal education levels gave a message of a positive relationship. In addition, there are also 3 sectors that donate employment and a lot of work done by local workers. Among them the service sector 53.16 percent, the agricultural sector 34.85 percent, and the rest of the industrial sector 11.99 percent. Yonge L.V.Sihombing (2014) states that the failure of small businesses can be caused by several things below:

- The inability of Management,
- Lack of experience
- Weak financial control
- Failed to develop strategic planning
- Uncontrolled growth f. Bad business location.

In the above problems can be classified into 5 aspects:

➤ Capital Small business marketing generally constrains business capital, even though there are quite a lot of credit schemes for this business. But because the banks provide fixed conditions in granting credit, so it is difficult for small businesses to fulfill it. On the other hand, the banks also extend credit based on prudence, so that the loans disbursed are not bad. Obstacles in applying for credit whether it is applying for loans from banks or non-bank institutions are small entrepreneurs so that they can immediately prepare proposals for credit applications or revolving funds from the government or private entrepreneurs. This has been done by many supervisors and advisors.

➤ b. Marketing Another obstacle faced by SMEs is the marketing of products offered is only local. If there is more demand it cannot fulfill it because of limited capital. This can be facilitated by agribisnis or agro-industries, or by searching for local and export market opportunities.

➤ Technology Another obstacle that becomes an inhibiting factor that is not felt by SMEs is the entrepreneurship of these constraints as an internal weakness that can only be observed by economic coaches and observers and supporters of SMEs. In this case, related to the relatively low level of education and personal character formed in the process of learning from experience. creativity and innovation are often formed in those who experience the field of business. In general, it can make crafts in the field of entrepreneurship that can determine the craftsmen have the soul of art.

➤ Human Resources This obstacle was revealed from embroidery entrepreneurs in the Tasikmalaya area who took advantage of the opportunity to strengthen the product market. SMEs are also challenged in the use of technology, one of which is the use of computer systems to produce embroidery products that can be designed according to the tastes of consumers who in a faster time produce products that are guaranteed quality and neatness.

➤ Business Management Weaknesses that occur in this business management because they are less able to manage their potential. Most who enter the business world, but are unable to measure themselves. The success of a leader depends on many others as a result of performance. Therefore, if you have dared to enter a business competition, it is important to manage a business well, must be focused and not half-centered. If you start a new business then you must imagine failure, but it is the other side of success.

B. Theory of Demand

Demand is the desire of consumers to buy an item at various price levels over a certain period of time. In short, demand is a large number of goods demanded at a particular market at a certain price level at a certain income level and within a certain period. Factors that affect demand:

- The price of the item itself
If the price of an item is getting cheaper, then the demand for that item increases.
- Prices of other related goods
Have an effect if there are 2 interrelated items whose relationship can be substitution (substitute) and complementary (fulfillment).
- Per capita income level
It can reflect purchasing power. The higher the level of income, the stronger purchasing power, so that the demand for an item increases.
- Tastes or habits
High or low demand is determined by the tastes or habits of a community's lifestyle.
- Total population
The more the number of residents who have a taste or habit of certain goods needs, the greater the demand for these goods.
- Estimated price in the future
If we predict that the price of an item will rise, it is better to buy the item now, thus encouraging people to buy more now to save on future spending.
- Distribution of income
The per capita income level can give the wrong conclusion if the income distribution is bad. If the income distribution is poor, it means that purchasing power is generally weakening, so the demand for goods decreases.

8. Producer's efforts to increase sales.

Persuading the sellers to buy goods plays an enormous role in influencing society. Promotional efforts to buyers often encourage people to buy more than usual.

C. Balance of Demand and Supply

In economics, equilibrium prices are prices that are formed at the meeting point of the demand and supply curves. The formation of a price and quantity of equilibrium in the market is the result of an agreement between the buyer (consumer) and the seller (producer) in which the quantity demanded and offered is equal. If this balance has been reached, usually this balance point will last a long time and become a benchmark for buyers and sellers in determining prices. In other words, the price of a balance is the price at which both consumers and producers do not want to increase or decrease the amount consumed or sold. The request is the same as the supply. If the price is below the equilibrium price, there is excess demand. Because demand will

increase, and supply will decrease. Conversely, if the price exceeds the equilibrium price, an oversupply occurs. The number of offers increases, the number of requests decreases. Changes in market balance occur when there are changes in demand and or supply. If the factor that caused the change is price, the balance will return to the starting point. But if what changes are *ceteris paribus* factors such as technology for the supply side, or income for the demand side, the balance does not return to the starting point.

- If the price changes, there is an excess of supply which causes the price to fall back to P_0 . The balance point remains E_0 .
- The supply curve shifts to the right because of technological change. The balance point shifts from E_0 to E_1 .
- The demand curve shifts to the right because of changes in income. The balance point shifts from E_0 to E_1 .

III. METHOD RESEARCH

A. Research Approach

The research approach used in this research is descriptive qualitative because this study aims to determine the development of the small and medium business industry in Indonesia in terms of demand, role, and potential. This qualitative research presents an analysis of statistical data and the development of the SME industry in Indonesia.

B. Data Analysis Methods

This data analysis technique uses quantitative and qualitative data. The data used in this research is secondary data. Secondary data collected to support the analysis of this study include the development of small industries in Indonesia, while other secondary supporting data are obtained from the North Sumatra Provincial Statistics Office, the Office of Industry, the Journal of Economics and Development, research results and reports of results, previous research, and other scientific publications that are related to research. Data collection techniques used in this study using the method of documentation that is by collecting data relating to research problems, both from relevant agencies as well as print media and the Internet.

IV. RESULT

A. The role of the SME industry in Indonesia

The development of small industries has a very important role in Indonesia's economic development, mainly because of four things, namely:

First, the production process in small industries is more labor-intensive. Therefore, its development has become one of the government policy instruments that can be considered effective in overcoming unemployment and poverty.

Second, the location of small industries is scattered, which means the formation and distribution of income are highly dependent on the development of small industries. The development of small industries will assist government

efforts in reducing income disparities or development between regions.

Third, the production process in small industries is very intensive in the use of local natural resources or fuels that can be made domestically. Therefore, the growth of small industries is not too affected by the negative impacts of the current account and Indonesia's balance of payments, as are the medium and large industries.

Fourth, the development of small industries can support government efforts to increase non-oil and gas exports. In general, small industries face various obstacles, especially: (1) limited capital, (2) limited professional staff, (3) lack of organization and marketing network, and (4) the production process and product quality are not optimal.

Thus, the goals of developing small and medium industries can include:

- (1) increasing market share at the local, domestic and export levels, and
- (2) increasing competitiveness, through business efficiency, improving product quality, and marketing networks (Subiakti, 1994). Moving on from these problems and related to their objectives, the small industry development strategy is based on policies based on improving the quality of human resources.

General strategies that can be taken are:

- (1) Utilization and creation of business opportunities and increasing access and market share,
- (2) Increasing the ability of capital fertilization independently,
- (3) Enhancing technological mastery,
- (4) Improve organizational and management capabilities.

B. Potential of Small and Medium Industries

The potential of small industries in an area is not only determined by the available natural resources, but also by the knowledge/skills possessed by the population. The development of small industries in an area does not always mean that the region has abundant raw materials (endowment resources), but rather is a traditional activity that illustrates the existence of a traditional skill that is owned by the population. Small industries are known in people's lives because of their long historical roots and are closely related to the traditions and life paths of a large number of popular economic sectors. This means that small industries are not just parts of industries whose material value can be measured solely. Thus, the development of small industries must consider at least three main aspects, namely: a. The small industry is a subsector that houses the life and cultural traditions of a large number of community members. b. Small industries are part of the means of creating employment opportunities and developing creativity for the workforce, which generally have an inadequate level of formal education for employment in the sector modern. c. The small industry is a means of distributing business opportunities and income that better ensures the realization of equitable development and its results.

C. *Development of Small and Medium Enterprises Industry*

Sri wahyuningsih (Role of the SME industry in the Indonesian economy) stated that UKM (Small and Medium Enterprises) is a business activity that is in great demand after the economic crisis that impacts layoffs on large companies. Helena Thatcher Pakpahan (2014) states that the role of small and medium enterprises (SMEs) in the Indonesian economy has been recognized by the wider community. Regions that have a strong network of small businesses will succeed in industrial competition in the Domestic and Global markets. Local governments have known from the beginning the role of SMEs in their respective regional economies. The challenge faced by each region is the preparation of employment due to the rapid increase in the workforce. This can be seen from the high unemployment rate in almost all regions. The role of SMEs is felt to be very important because this sector is not only a source of livelihood but also provides employment work both directly and indirectly for people with low levels of knowledge and skills. Basically, SMEs can conduct transactions with economic actors from anywhere, both fellow SMEs, large businesses, and can foster international cooperation. UKM plays a role in fulfilling most of the people's needs of life. At the same time, SMEs contribute to a country's exports. In this case, SMEs act as distributors and share various products produced by large businesses. For certain consumer products such as instant noodles and cosmetics, SMEs are the main market reaching 91 percent share. The description of the condition of SMEs in Indonesia there are also around 40 million business operators in Indonesia consisting of 39 million micro business operators, 640 thousand small business units, 70 thousand medium business actors and 11 thousand large business actors. Among the micro-businesses, 39 percent of them are farming and other businesses related to agriculture, including capturing farmers, tenants, and small farmers.

Thus it is clear that micro is the main dominant business actor in Indonesia and micro agriculture is the biggest portion. As stated above, SMEs open up employment opportunities to help the regions deal with unemployment. Indonesia's experience so far shows that SMEs and micro-businesses provide 97 percent of employment opportunities. The development of the SME industry has an important role in the development of Indonesian businesses. Judging from its significant development, the role of SMEs is also the largest contributor to GDP in Indonesia. From 2007 up to 2012 it showed an increase in the number of UKM GDP from Rp 2,107,868.10 to Rp 4,869,568.10 billion. This shows how the role of SMEs is very dominant in Indonesia's economic growth. So that it can spur on the direction towards a better UKM in terms of economy and its empowerment. SMEs are also the embryo of the growth of large businesses "almost all large businesses start from SMEs". SMEs must continue to be improved and active in order to stay ahead and compete with large companies. If SMEs do not exist in Indonesia, Indonesia does not advance and develop, the development of SMEs in Indonesia is driven by steps that simply do not constitute steps that must be taken by the government and are the responsibility of the government itself. SMEs are

also supported by the banking sector which is very important especially in terms of funding such as lending. Particularly in terms of capital, especially domestic or foreign investors, we cannot forget, because it is a trigger so that SMEs can add better opportunities. There are also 3 problems with SMEs, namely the market, capital, and technology. And there are also things that must be considered in the development of SMEs, namely working conditions, promotion of new businesses, access to information, access to talks, access to markets, improvement of product and HR quality. In developing SMEs there are also several factors that cause low levels of SMEs, namely the mastery of technology and entrepreneurial ability. There are characteristics of themselves from small and medium companies in general as follows:

- The management is independent, in the sense that the owner is a manager in UKM.
- Capital is provided by an owner of capital.
- UKM operations also have orientation from outside and within the country.
- The size of small and medium-sized companies also do not have strengths or weaknesses in economic terms.

In addition to the characteristics, there are also strengths and weaknesses in SMEs as discussed above. Power freedom to act and adapt to local needs, participate in doing business or action, weakness:

- Limited development capital
- It's hard to get employees
- Relatively weak in terms of specialists in the development of SMEs

There are several determinants of business success, namely the ability to develop and implement company plans, both short and long term and the capability and management potential. Companies can meet the capital needs to run a business. In the midst of the global crisis that hit the world in 2008-2009, Indonesia became one of the countries affected by the global crisis, although we have learned from previous experience that the SME sector is facing the era of the global crisis is the absence of a clear division of tasks between administration and operations. Most SMEs are managed by individuals who concurrently are owners and managers of the company, and utilize the workforce from their family and close relatives. Most small businesses are characterized by not having legal entity status. The main problem faced in meeting the needs of the workforce is unskilled and expensive labor. The regeneration of skilled craftsmen and workers is relatively slow. In the field of marketing, the problem is related to the number of competitors engaged in the same industry, the relative lack of foreign language skills as an obstacle in negotiating and penetrating overseas markets. And one of the strategic steps to secure SMEs from the threats and challenges of the global crisis is to strengthen multi-facets.

Some of the entrepreneurship in overcoming challenges in SMEs are: Having a creative mindset, Acting innovative, Dare to take risks, and adjust risk profiles as well, know the risks and benefits of a business. It is indeed a tough challenge to strengthen the structure of the national

economy. Middle business development. But it is also realized that the development of small businesses into medium-sized entrepreneurs. But it is also realized that the development of small businesses faces several obstacles such as the level of ability, skills, expertise, human resource management, entrepreneurship, marketing, and finance. This weak managerial ability and human resources results in small entrepreneurs being unable to run their businesses well. The empowerment of small and medium businesses is a strategic step in improving and strengthening the basis of economic life among the majority of the Indonesian people, particularly through providing employment and reducing inequality and poverty. Thus efforts to empower SMEs must be planned, systemically and thoroughly both at the macro, meso and micro levels which include

- (1) creator of the business climate in order to open up business opportunities to the widest possible extent, and ensure business certainty accompanied by economic efficiency;
- (2) developing a business legal support system for SMEs to increase access to productive resources so as to take advantage of open opportunities and potential resources, especially local resources;
- (3) developing entrepreneurship and competitive advantages of SMEs;
- (4) empowerment of micro-scale businesses, especially those that are still of poor family status.

The development of a large role for SMEs is shown by the number of business units and entrepreneurs, as well as their contribution to national income and employment. The increasing development of SMEs in terms of quantity has not been matched by the evenly increasing quality of SMEs. The classic problem faced is low productivity. This situation is caused by internal problems and external problems. Based on the explanation above, it can be concluded that Indonesian Small and Medium Enterprises (SMEs) have proven their role as contributors to Indonesia's economic growth, by proving themselves to be historically resistant to crises. There are at least 7 challenges faced by SMEs in the global financial crisis that can threaten the competitiveness and operations of SMEs. The entrepreneurship aspect can play a role in facing challenges faced by SMEs, namely, how SMEs must be able to act in an innovative way, think creatively and take risks.

➤ Sulistyono (Development of small and medium-sized businesses on a democratic economy basis) states that in general the problems faced by most of the examples of SMEs are as follows: Problems of internal factors of SMEs Lack of capital as a major factor that is indispensable in developing a business unit. Limited Human Resources (HR). SMEs in Indonesia are mostly small businesses that have traditionally grown and are a family business that goes down and down. Weak Business Network and Market Penetration. The average SME in Indonesia is a family business unit.

➤ Problems of External Factors Business Climate Still Not Completely Conducive The condition of the business climate in Indonesia is very dependent on government policy to grow the development of SMEs. Problems of Limited Facilities and Business Infrastructure Lack of information

related to the progress of science and technology. Implications for Regional Autonomy Implications for Free Trade Systems As we all know that AFTA in 2003 and APEC in 2020 will have a very wide impact on SMEs to compete in free trade. Limited Market Access In general, the range of market access that can be reached by SMEs, especially in Indonesia, is very limited and this will result in products that cannot be competitively marketed in both the National and International markets.

V. CONCLUSION AND RECOMENDATION

Based on the results of the analysis and discussion carried out, the following conclusions can be drawn:

- The development of the SME industry has an important role in the development of Indonesian businesses
- The problem of internal factors of SMEs, namely the lack of capital as a major factor that is needed in the development of a business unit. Efforts are needed to develop small and medium industries with a more basic and intensive role of government such as the creator of the business climate in order to open up business opportunities to the widest extent, and ensure business certainty accompanied by economic efficiency;
- Development of a business legal support system for SMEs to increase access to productive resources so as to take advantage of open opportunities and potential resources, especially local resources;
- To improve existing SMEs, intensive efforts are needed such as training, simplifying procedures and administration, holding overseas exhibitions, increasing and helping with production costs and creating new product innovations, entrepreneurship development, and SME competitive advantages.
- Government policies that can ease businesses to expand exports abroad, such as tax relief and baggage or shipping issues that are given a kind of subsidy to stimulate especially new businesses that want to export their merchandise abroad. Besides having an impact on increasing exports, this also adds to the country's foreign exchange income by increasing international trade.
- Future studies, are expected to analyze SME demand and supply as a whole and include more other variables by using different methods and deeper explanations.

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