Module

11

IEEKMA4116
Edition 1

Management of Micro, Small, Medium Enterprises (MSMEs)

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Contents

Introduction

This module focuses on managing micro, small and medium enterprises or what is often shortened to UMKM. Using a sample of nine G-20 countries, the study shows that in 2007 MSMEs contributed 52% of the GDP and 64% of the workforce.[1] In Indonesia, MSMEs have an essential role in the national economy. Data from the Ministry of Cooperatives and SMEs shows that there are 55.2 million MSME units in Indonesia, which absorbs around 101.7 million people (in 2011). The contribution of MSMEs to the national gross domestic product (GDP) this year can reach 65% or around IDR 2,394.5 trillion in 2019.[2] This module is related to the previous module, which discussed entrepreneurship. SMEs and entrepreneurship are closely related. Most of the time, entrepreneurship starts as a small business before growing to an enormous size. The business cycle usually moves like that. Therefore, some of the issues discussed in the previous module are also touched upon again. Several problems are mentioned again to keep the discussion flowing in this module.

This module consists of two learning activities. Learning Activity 1 discusses the MSME environment and initial decisions focused on business feasibility studies. The SME environment discusses the meaning of MSMEs, the characteristics of MSMEs, the role of MSMEs in the economy, and the legal entities that MSMEs can use. The following section discusses business feasibility studies, which include identifying new business ideas and evaluating business feasibility from marketing, financial and other aspects such as operational, social, legal (regulatory) and environmental aspects. Managers must always pay attention to other things that seem small but can cause the failure or success of a project.

Once feasible, the next stage is implementing UMKM. Learning Activity 2 discusses MSME management. MSME management includes corporate functions such as accounting, finance, marketing, and human resources. These three functions are emphasized more in Learning Activity 2. Other parts, such as the operations function, are discussed more briefly. After studying this module, you are expected to be able to explain the following.

1. Definition of MSMEs.
2. The role of MSMEs.
3. Characteristics of SMEs.
4. MSME legal entity.
5. Cooperative.
6. Limited Liability Company.

1 Donald, S. (2015). *The simple rules of disciplined innovation*. McKinsey.
2 https://ekonomi.bisnis.com/read/20190109/12/876943/kontribusi-umkm-terhadap-pdb-2019 diproyeksi tumbuh-5, didownload tanggal 18 Desember 2019.

1. Identify a business idea.
2. Partnerships.
3. Nucleus-plasma.
4. Franchise.
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6. Community Development Program Funds.
7. Business feasibility study.
8. Marketing aspect.
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12. Accounting.
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17. Internal Rate of Return.
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20. Cash cycle.
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29. Human resource management.
30. Recruitment.
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Micro, Small and Medium Enterprises (MSMEs) Environment

Learning Activity 1

Micro, small and medium business activities are often abbreviated as UMKM, which have different characteristics from large businesses or companies. In the previous modules, the context that is often discussed is large companies. Although the principles discussed so far have universal characteristics or can be used in all situations, this module discusses management applications for SMEs. This module consists of two learning activities.

Learning Activity 1 discusses the MSME environment, such as the understanding of MSME, the characteristics of MSME, and early-stage decisions. For early-stage choices, the discussion is focused on business feasibility studies. Learning Activity 2 discusses MSME management when MSMEs have started running.

A. SMES ENVIRONMENT

1. Definition of MSMEs

According to Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises (MSMEs), MSMEs can be defined by the following criteria.

Micro Business Criteria, namely

a. has a maximum net worth of Rp. 50,000,000.00 (fifty million rupiahs); no;
b. including land and buildings for business premises, or
c. having maximum annual sales proceeds of IDR 300,000,000.00 (three hundred million rupiahs).

Small Business Criteria is

a. has a net worth of more than IDR 50,000,000.00 (fifty million rupiahs) up to a maximum of IDR 500,000,000.00 (five hundred million rupiahs) excluding land and buildings for business premises; or
b. having annual sales proceeds of more than IDR 300,000,000.00 (three hundred million rupiahs) up to a maximum of IDR 2,500,000,000.00 (two billion five hundred million rupiahs).

Medium Business Criteria, namely

a. has a net worth of more than IDR 500,000,000.00 (five hundred million rupiahs) up to a maximum of IDR 10,000,000,000.00 (ten billion rupiahs), excluding land and buildings for business premises; or

b. having annual sales proceeds of more than IDR 2,500,000,000.00 (two billion five hundred million rupiahs) up to a maximum of IDR 50,000,000,000.00 (fifty billion rupiahs).

Although, the law accommodates the possibility of changing the definition following economic developments.

2. The Role of MSMEs

MSMEs have an essential role in the Indonesian economy. Following are some of the parts of MSMEs in the economy.

a. Assisting in employment and alleviating poverty.
MSME activities can help absorb labour. Data from the Ministry of Cooperatives and SMEs shows that there are 55.2 million MSME units in Indonesia, which absorb around 101.7 million people (in 2011).

b. Help flatten the Indonesian economy.
MSMEs also have a vital role in spreading the Indonesian economy. MSMEs involve many individuals, with locations spread across 34 provinces in Indonesia. With such a spread, MSMEs can help flatten the Indonesian economy because MSMEs are not concentrated in specific regions or sectors. This spread meant Indonesians did not need to urbanize, moving to big cities to find work.

c. Encouraging the country's exports.
MSMEs can help the country provide income in the form of foreign exchange. If MSMEs sell overseas (export), then these MSMEs will usually receive payments in $. The US dollar will become a division (dollar reserves kept by Bank Indonesia). The division is required to make essential payments. Why use US dollars? Because usually, foreign exporters only accept payments in Rupiah. They want to be paid in a 'hard' currency, such as US dollars. If a country does not have US dollars, it will be difficult for that country to pay for imported goods, so it will be difficult for it to carry out import transactions. In 2016, the division generated by MSMEs reached IDR 88.45 billion.

d. Helping the resilience of the national economy.
MSME activities have characteristics, namely a tiny geographical coverage so that MSMEs tend to serve consumers in the vicinity. The sectors usually served by MSMEs are the consumption sector, such as restaurants, food ingredients,

and daily necessities. This sector is a sector that always survives in the event of a dire economic condition. Indonesia's economy is still supported by domestic consumption, which reaches around 60%.

3. Some Characteristics of SMEs

MSMEs have several characteristics that differentiate them from large businesses. The following are some of the features of SMEs.

a. Low income and assets

The income and assets of MSMEs are lower than those of large companies. One of the definitions of MSMEs is to use income and asset measurements. These shared assets will reduce MSMEs' economies of scale and competitiveness compared to large companies for some issues. For example, large companies such as bank BRI with total assets of around IDR 1,200 trillion. If the BRI bank is going to invest in an IT (Information and Technology) system worth IDR 100 billion, the bank will easily do it. With sophisticated IT, the bank can provide even better services for consumers, such as opening ATMs in various places, providing digital services using mobile phones, and bringing in more consumers/customers. For MSMEs, an investment of that size would indeed not be implemented. As a result, MSMEs cannot provide expensive, sophisticated technology-based services. For example, Savings and Loan Cooperatives or BMT (Baitul Mal wat Tanwil or Sharia-based savings and loan cooperatives) will never be able to provide ATM facilities to their customers.

Another aspect related to economies of scale is the economies of scope. The economic area is the use of inputs together (resource sharing). For example, one can use a brand for several products. Companies do not need to advertise every product; promote one brand so that a strong brand will emerge. A strong brand will encourage consumers to buy products that use the brand. For example, Japanese electronics companies use the Panasonic brand for several products, such as air conditioners, refrigerators, telephones, and other electronic products. Later, Panasonic advertised the brand with the tagline: Panasonic Ideas for Life. With these advertisements, it is hoped that a strong brand will emerge. This strong brand will encourage consumers to buy refrigerators, air conditioners, telephones and other products with the Panasonic brand.

Low income will not automatically result in a low level of profit (low Return on Equity or Return on Assets). Even though the profit level in rupiah is low, because the assets or capital used are also low, the ROE or ROA can be high or higher than the ROE and ROA of large companies. ROE is profit after tax divided by share capital, while ROA is profit after tax divided by total assets.

b. Small work team

SMEs employ a small number of workers compared to large companies. MSMEs hire a workforce of several people, up to under 100 people. Compared with big companies. For example, Walmart, a retail company in the United States, employs approximately

2.3 million people (in 2015) worldwide. McDonald's used around 1.9 million people worldwide in 2015. In Indonesia, these companies have the most significant number of employees: PT Astra International Tbk, with 95 thousand employees; PT Indofood Sukses Makmur Tbk, with around 66 thousand employees; PT Gudang Garam Tbk, with 63 thousand people; PT Bank Danamon Indonesia Tbk, a company engaged in banking, with a total of 64 thousand employees, and PT Bank Rakyat Indonesia Tbk, also a bank, with more than 37 thousand employees.

This small number of employees allows MSMEs to establish personal (face-to-face) communication, cut bureaucracy and enable fast decision-making. As a result, MSMEs can move more agile than large companies. However, the small number of employees makes it less potent than large companies. As previously mentioned, economies of scale and scope of economies are smaller and cannot compete with large companies.

c. Small marketing area

MSMEs serve a narrower geographic market segment. Usually, MSMEs serve consumers of the surrounding community. For example, MSME grocery stores will serve the surrounding community; the restaurant will help the surrounding neighbourhood or buyers passing through the area. Compare that with big companies like PT Astra International, which has branches all over Indonesia.

A small marketing area has several positive and negative implications. On the positive side, a small marketing area allows MSMEs to get to know their customers better. Communication with consumers can be personal (face-to-face). Face-to-face communication can increase consumer loyalty. On the negative side, a small marketing area has a high level of vulnerability. If the region is less supportive or changes in preferences, then this limited coverage can hinder the development of MSME consumers.

4. Type of Legal Entity

The corporate model will only be suitable for some companies, such as large companies. MSMEs usually have the form of an individual company, CV, PT (Limited Liability Company), or cooperative. The following section discusses the forms of legal entities suitable for MSMEs. Legal entities commonly used for MSMEs provide considerable control for their owners to control their business. Because MSMEs are still small, this control can still be exercised. In addition, legal entities such as individual companies or CVs do not involve much bureaucracy, so they will be easier to run.

The simplest legal forms of MSMEs, such as individual companies and CVs, have drawbacks, such as mixing personal and corporate matters. Corporate finance can mix with personal finance. For this reason, MSMEs need to determine clear boundaries between personal affairs and finances and company affairs and finances. Here are some business entities that MSMEs can use. A business entity is often interpreted as a juridical (legal), technical, and economic institution or entity that aims to profit. Some business entities can use our Trading Companies Commanditaire Vennootschap (CV), Firms, Limited Liability Companies (PT), and Cooperatives. Trading business entities are no longer commonly used.

a. Trading business

A trading Business is a private company in which one entrepreneur owns and operates his business. This form of business is the simplest form of business. Practical trading business uses traditional or jurisprudential law sources. So far, no official regulation specifically regulating trading business has been established. However, because this form of business is typical and expected, its existence is acknowledged. Some examples of this form of business entity we often encounter are grocery store businesses, building materials stores, food stall sellers or street vendors, and others.

b. CV (Commanditaire Vennontschap)

CV is founded by one or more people, which is a business run by a partnership. The presence of a partner is the main feature of a CV or limited partnership. In concept, CV is a partnership consisting of one or more regular partners and one or more silent partners (Commander). The first partner usually becomes a manager or director and becomes an active partner. In contrast, the second partner is passive, namely a partner who submits funds as company capital.

The limited liability company has responsibility only for its contribution to the company (money deposited), while the active partner is responsible for personal property. The presence of a silent partner is a crucial feature of a CV or limited Partnership. In managing the Partnership, limited partners are prohibited from driving it even with a power of attorney. The limited Partnership may only supervise management if it is determined in the association's statutes.

c. Firm

Firma is a form of association to run a business between two or more people using a common name. The owner of the firm consists of several affiliated people, and each member of the partnership hands over personal assets according to what is stated in the company's deed of establishment. The founders consist of partners (members) who have shared responsibilities. Each member has the authority to represent the company in business activities and share each partner's risk—liability up to personal property (unlimited liability).

d. Limited liability company (LLC) -PT

PT is marked with the word limited liability, which means that the liability of shareholders is limited to the share capital submitted to PT. For example, suppose I set up a PT and put Rp100 million as share capital. Then my PT borrowed IDR 100 million from the bank. Then, for some reason, the PT went bankrupt. My obligations are limited to the value of the capital that I have submitted, namely IDR 100 million. Banks can only ask for compensation up to IDR 100 million. The bank cannot confiscate my personal property.

Usually, large companies prefer the form of a Limited Liability Company (PT) as a form of business entity. PTs have a high legal umbrella, namely Law Number 40 of 2007 concerning Limited Liability Companies (UU PT). Specific business forms can only be run by a PT, such as banks, financing institutions, travel agents, and several other companies. PT must be owned by at least two people with limited responsibility. Shareholders can appoint another person to be the head of the company. To set up a PT/limited liability company, a certain minimum amount of capital and various other requirements are required.

Shareholders' rights in a PT are: (1) electing and appointing Commissioners and Directors, and (2) residual claims, namely profits remaining after all obligations (e.g. paying debts and interest) have been fulfilled. Based on Law no. 40 of 2007, the company's authorized capital is set at a minimum of IDR 50,000,000 (fifty million rupiahs). Of the authorized money, a minimum of 25% or Rp. 12,500,000 must have been placed and paid up by the Company's Founders as the Company's Shareholders. Owners of capital can be from the private sector (foreign and domestic), other business entities, and both central and regional governments.

e. Cooperative

Cooperatives are business entities that have the status of legal entities and are protected by laws in Indonesia, namely Law No. 17 of 2012 concerning Cooperatives. According to the Law, Cooperatives are legal entities established by individuals or Cooperative legal entities with the separation of the wealth of its members as capital for running a business, which fulfils shared aspirations and needs in the economic, social and cultural fields by the values and principles of Cooperatives. Cooperatives consist of two types, namely Primary and Secondary Cooperatives. Primary cooperatives can be established by individuals with a minimum of 20 members (individuals) by separating a portion of the founder's or member's wealth as the initial capital of the cooperative. A minimum of three primary cooperatives can establish secondary cooperatives.

Cooperative membership is voluntary and open. In contrast to PT, where voting rights are calculated based on the Rupiah value of shareholder contributions, Cooperatives apply a one-member, one-vote mechanism. Even so, the principle of deliberation and agreement is prioritized. Cooperative members are owners and users of convenient services. Provisions regarding the organizational structure of Cooperatives contain Cooperative Supervisors and Management, which are inseparable units. Supervisors are tasked with giving advice to Management and supervising the performance of Management, while Management is in charge of managing the Cooperative. Like a PT, cooperative members have limited obligations, which are limited to Principal Deposits, Cooperative Capital Certificates, and Participation Capital owned by cooperative members.

B. BISNIS INITIAL DECISION: BUSINESS FEASIBILITY STUDY

The second part discusses the business feasibility study. The conversation began with a discussion of the identification of business ideas, which was then continued with a feasibility study on marketing aspects, financial aspects and other aspects.

1. Identify Business Ideas

Can generate business ideas from various sources. Business ideas can be described as air; they are everywhere. Our task is to take these ideas from the "air". To take the idea, it takes entrepreneurial sensibility. Entrepreneurial sensitivity makes a person see business opportunities and take advantage of them. The idea of a business opportunity can come from various sources; it can be from internal company sources, external, namely from consumers and competitors, or other external sources. It can also link business ideas to benefits such as new consumers, new technology and new uses.

a. Internal source

One study found that more than 55% of new product ideas come from within the company. Companies can seek these ideas from official research and development, scientists, engineers, production department, and salesmen (because of direct contact with consumers). Toyota admits that its employees submit 2 million ideas per year, about 35 suggestions per employee, and more than 85% of them are implemented.

Another survey shows that around 14% of innovation comes from the research and development unit and 41% from employees. Another 36% comes from consumers. Many companies develop "intrapreneurial" (entrepreneurship within an organization) so that creative organizations create and take advantage of existing opportunities, such as an entrepreneur. Innovative companies such as Google (Alphabet) produce many technology-based products, such as Google Maps and Google Play Book, in addition to Google search, which is its backbone. The 3M company, with 90,000 employees worldwide, with annual sales of $31.7 billion, is known for producing many products, including insulation, tissue paper, memo paper, and many other products. These products are developed through research and development. The company's tagline is "Science applied to Life". Research and development activities are the critical base of the company. From 2011-2015, research and development costs totalled $8.5 billion.

b. Consumer

About 28% of new product ideas come from seeing and listening to consumers' complaints. This need can be seen from the survey. Consumers can even design their products (e.g. Dell). Many new business or product ideas come from consumers. Consumer complaints or expectations can lead to new business ideas. For example, suppose someone works in a speciality paper manufacturing company. Speciality paper is used for several situations, such as tea bags, paper in food cans, and wrapping textile fabrics. The form used for tea bags is unique and insoluble in liquid. The report used in food cans is also special because the paper must meet certain hygienic (health) standards. Paper for wrapping cloth also uses a unique technology because the form must be tight (no pores). The technology used to make unique paper was imported from Europe. Companies that produce a report in large quantities, namely sheets.

On the other hand, a food company, for example, requires pre-cut paper to fit directly into a can. A business idea emerged to become an intermediary between companies producing speciality paper and companies that use the form. The business idea is to buy paper in bulk from a paper manufacturer, cut it to the specifications of the user company, and sell the scrap to the company that uses the form.

The demand for healthier food gave rise to more nutritious ingredients such as organic products (e.g. organic vegetables). Catering services that offer healthy food are also starting to appear. Fast food restaurants like McDonald's are beginning to provide more nutritious menus, such as yoghurt (in the United States) and grilled chicken (not fried). Kentucky Fried Chicken was branded as KFC (only an abbreviation) to 'remove' the word fried because fried foods were considered incompatible with healthy food trends that wanted to reduce fried foods. Restaurants often adapt to local tastes. For example, warm Yogya, usually sweet, becomes salty when sold in Jakarta. Jakartans prefer a salty taste.

c. *Distributors and suppliers*

These parties are closest to consumers, so distributors and suppliers can provide information about consumer needs, which can be translated into new products.

d. *Competitors and other sources*

About 27% of new product ideas come from competitors. Companies can buy competitors' products and elaborate on them. For example, the successful Ford Taurus automobile brand was designed by breaking down 50 of its competitors' models. Acceleration pedal copied from Audi, petrol measurement copied from Toyota Supra, tire system and jack storage imitated BMW 528i, and 400 other attributes.

New business ideas can also come from competitors. Determining a location for a minimarket is sometimes easier if there is already a large minimarket standing around the area. The establishment of large minimarkets is usually based on a survey of the potential in the surrounding area. If a site is considered potential, then a minimarket can be established. Suppose a large minimarket is already set in a location. In that case, the area has potential and is appropriate for establishing a minimarket without conducting a survey ourselves. Food is often made in imitation of competitors.

There are many other sources of product or business ideas. Some sources that can be mentioned include trade fairs, interests and hobbies, feedback from distributors, discussions with friends, information from the internet, patents and innovations, and other sources. It would help if you opened your eyes and ears to capture information about new business ideas or products. Then, after the concept is determined, the next step is to realize the vision concretely. In this case, we need to conduct a business feasibility study, starting from screening, market testing, commercialization, and evaluating business feasibility in all critical aspects such as marketing, financial, operational, social, legal and environmental aspects, and other small things.

Other sources for new product ideas can be trade shows, seminars, government agencies, consultants, advertising firms, universities, and others.

2. MSME Business Idea: Partnership with Big Business

a. Partnership

MSMEs can learn a lot from and cooperate with big businesses. For example, MSMEs can take advantage of CSR funds and partnership programs from these large companies. According to Article 26 of Law No. 20 of 2008 concerning MSMEs Cooperation/partnerships for small, medium and large businesses can be carried out in the following pattern:

1) plasma-nucleus;
2) subcontract;
3) franchise;
4) general trading;
5) distribution and agency; and
6) other forms of partnership, such as: profit sharing, operational cooperation, joint ventures, and outsourcing.

b. Core-Plasma

With this concept, large companies will act as the core, while MSMEs will act as plasma. The core company has obligations such as coaching, from providing production facilities and technical guidance to marketing products. MSMEs run businesses according to the schemes run by large companies. As an illustration, the following is an example of a nucleus-plasma partnership for a broiler business.

MSMEs that want to do chicken business can partner with large chicken farming companies (for example, Charoen Pokphand Indonesia or JAPFA Comfeed). GENERAL can act as a plasma to become breeders for these large livestock companies. With this scheme, the core partnership company must supply seeds, DOC, feed, and medicines throughout the broiler cultivation system. Prices for seeds, feed and drugs generally follow market prices (no contracts are decided), so they can fluctuate. The core company must also assist farmers (plasma) regarding aquaculture management procedures. Plasma must also provide chicken coops that comply with the standards set by the core company. When the chickens are ready to be slaughtered, the core company will buy the chickens from the plasma at a price specified in the contract (not the market price). Thus, if the market price increases, plasma will receive the same price (unchanged).

This partnership pattern will benefit MSMEs such as technical assistance, smaller capital, and guaranteed sales. However, this pattern still contains risks such as rising raw material prices; while the selling price is fixed, the risk of disease that can kill chickens.

c. Subcontract

The pattern of subcontracting between MSEs and large companies is a partnership relationship in which MSMEs produce some components needed to make certain products, with standards set by large companies. Thus, these MSMEs become one of the product chain links of large companies. Such a pattern has several advantages, such as profit, obtaining guidance, technical skills, and possibly technology from large companies. Such a pattern has a weakness, namely the dependence of MSMEs on large companies.

d. Franchise

Franchising is a collaboration in which the franchisor (franchise) gives rights to the franchisee (franchise) to use certain intellectual property rights or inventions, with certain rewards, based on a predetermined agreement. Franchising is one of the business innovations of this century. Here are some examples of businesses developed using the franchise concept.

Table 11.1
Franchise Example

Jenis Waralaba		
Food	1.	McDonald
	2.	Rocket Chicken
	3.	Kentucky Fried Chicken
	4.	Bakso
Education	1.	International Language Program
	2.	Primagama
	3.	Kumon
	4.	Sakamoto
Laundry	1.	Melia
	2.	Cleanlite Laundry
Automotive	1.	Shop n Drive
	2.	Ahass
Retail / mini market	1.	Alfamart
	2.	Indomaret
	3.	OMI
	4.	Superindo
Pharmacy	1.	Kimia Farma
	2.	K-24

As an illustration, for example, MSMEs want to obtain an Indomaret or Alfamart franchise. MSMEs will pay a certain amount of franchise fees, for instance, around IDR 500 million, which includes franchise fees and merchandise. Then MSMEs need to invest in location, land and buildings. The franchisor will survey to determine the feasibility of the site. MSMEs must build shops with specifications according to the franchisor's requirements. Then, the franchisee will carry out the operational activities of the minimarket business. The franchisor will receive a franchise fee of a specific value from the sales turnover of the minimarket.

e. General trading

General trading is a partnership relationship between MSMEs and large companies. Large companies market the products of small businesses or small businesses that supply the needs of their partner's medium or large business. General trading activities can take the form of product marketing cooperation, providing business locations, or receiving supplies from small business partners to meet the needs of large companies. For example, MSME products are sold through supermarkets. Supermarkets provide a place (shelf) that displays MSME products.

Another example is horticultural business activities run by horticultural farmer groups affiliated with cooperatives. The group then partners with a supermarket or supermarket group. Farmers must supply goods by the terms and quality of the product that has been mutually agreed upon.

This pattern will benefit small businesses because MSMEs can access distribution channels without building their own. Creating your distribution channel is expensive. There is a potential loss; if the bargaining power of MSMEs is small, then large companies can force less profitable agreements. For example, supermarkets will pay money for MSME goods that have been sold for the next two months. Such an agreement will make the funds embedded in merchandise last longer, even though MSMEs may need cash to be used again.

f. Agency

Agency partnerships have a pattern; namely, small businesses (MSMEs) are given special rights to market goods and services for medium or large business partner companies. For example, a company has a particular brand. Then, MSME partners are given special rights to market these products/brands in certain areas.

g. Other forms

In addition to the forms of partnership that we have discussed previously, the law provides freedom to carry out partnership patterns outside the previously discussed ways. Examples of alternative designs are profit sharing, operational cooperation, joint ventures, and outsourcing. For profit-sharing, MSMEs become executors or run businesses owned or financed by large/medium-sized companies. In this pattern, each party contributes, according to the profit-sharing design, to its capabilities and resources and is agreed upon by both partnering parties.

In the operational cooperation partnership pattern, the partnership is aimed at running a temporary business. MSMEs and large companies can run quick enterprises until the work is completed. Meanwhile, for the joint venture partnership pattern, MSMEs can enter into partnerships with large/medium companies through joint ventures. This mechanism allows both parties to carry out everyday economic activities by establishing a new company.

For outsourcing cooperation, large companies provide opportunities for MSMEs to do some of the work previously done by large businesses. For example, a bank has a primary function (e.g. teller, credit) and a non-main function (e.g. cleaning/cleaning of buildings). For non-main functions, banks can outsource to MSME parties while banks carry out the main parts.

Government regulations require that each form of the partnership be contained in a written agreement in Indonesian. Meanwhile, if one of the parties is a foreign person or legal entity, the deal is made in a foreign language.

3. Utilize CSR (*Corporate Social Responsibility*)

Utilizing the Company is expected to contribute to society as a form of social responsibility (corporate social responsibility). CSR in Indonesia is regulated through several laws and regulations, including Law Number 40 of 2007 concerning Limited Liability Companies (UU PT), Decree of the Minister of Finance Number 232/KMK.013/1989 dated 11 November 1989 concerning Guidelines for Developing Weak Economy Entrepreneurs and Cooperatives through State-Owned Enterprises (BUMN), Law Number 19 of 2003 regarding BUMN, Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises. CSR activities take many forms, such as training, providing funds in the form of loans with soft interest, or donations of funds.

The scope of CSR is broader because CSR is aimed at helping the corporate environment, not specifically at developing MSMEs. The following are some examples of CSR activities that receive funding from companies.

The following is an example of a CSR program from an Indonesian Tbk company.

a. Planting 846,263 trees from the target of 550,000 trees through the Astra program for the environment.
b. Delivery of 75,491 blood bags from the target of 55,000 blood bags through the Astra program for health.
c. 222,234 hours of training have been carried out from the target of 55,000 hours of movement through the Astra program for SMEs.
d. Training for 70,750 hours of Astra executives sharing of the target of 55,000 hours through the Astra knowledge sharing program.

Some examples of other CSR activities are companies fund reading activities for children in outdoor environments (outdoor activities). Borneo Orang Utan Survival (BOS) Foundation from BCA sponsors activities to conserve orangutans. Bank BNI has a CSR program called the “Let’s Read, Let’s Save” Program. This activity aims at elementary school children to encourage them to read and learn financial literacy from an early age through MSMEs training and capacity-building activities.

Closely related to CSR is PBL (Environmental Development Program). Both have something in common, that is, both help from the company. However, the two have different principles. CSR is part of an effort to improve the company's image, while PBL is purely a company activity to provide social benefits to the community. The following is the difference between CSR and PBL.

Table 11.2
The Difference between CSR and PBL

	CSR	PBL
Characteristics	Part of a corporate image enhancement program, much like publicity for the company	Pure corporate social contribution, without looking at the economic benefits for the company
Source of funds	From the company's operational costs	From the company's operational costs
Regulation	Follow company regulations	Regulation from external parties such as the government

4. Business Feasibility Study: Introduction

After the business idea is obtained, the next step is to realize the vision concretely. The next stage is to conduct a feasibility study on the business idea. A business feasibility study is intended to evaluate whether a business idea is feasible. A feasibility study is knowledge of the techniques and factors controlled to assess the success of an investment project, including market, technical, financial, management, juridical, national economic benefits, and environmental aspects. A business Feasibility Study is conducted to ensure that the business to be carried out or the business concept to be carried out is feasible. A business feasibility study can also be defined as a controlled process for identifying problems and opportunities, setting goals, describing situations, determining the results to be achieved, and estimating the costs and benefits associated with several alternatives for solving the problem.

Why is a business feasibility study necessary? There are many business ideas, but it is estimated that only one in fifty is commercially viable. Another study showed that out of 1750 product ideas, 1000 met market requirements. Of those 1000 ideas, 500 completed the functional specifications, which then dropped to 100 pictures that met the product specifications. Of the 100 ideas, 25 entered the design, testing and launch stages. Of the 25 ideas, only 1 joined the commercialization stage. The percentage of product ideas that go into commercialization is only 0.057%. A business feasibility study is conducted to prevent unnecessary investment or resource expenditure. The feasibility study becomes material for evaluating stakeholders who require: potential investors and others.

A business feasibility study is conducted to prevent unnecessary future investment or resource expenditure. The feasibility study becomes material for evaluating stakeholders who require: potential investors and others. Product failure is expensive. For example, Ford lost up to $350 million on the failed Edsel brand. RCA lost up to $580 million on its failed video disc player. Texas Instruments lost up to $660 million on its failed line of PCs. The failure rate of new products is also high. For consumer products, the failure rate reaches 40%; for industrial products, it comes to around 20%; for service products, it reaches 18%. Other studies show that new product success rates are about 65%. Another study showed that out of about 2,500 unique products, 90% didn't last more than three years. The illustration above shows the importance of conducting a business feasibility study.

The larger an investment proposal is, the more significant the investment, and the more formal a feasibility study analysis is necessary. The feasibility analysis will ensure the guarantees needed to support the success of the investment proposal, such as guarantees of market presence, ease of obtaining raw materials, availability of labour supply, access to local services, the certainty of all costs/costs (cost) for equipment, and labour.

More formal business feasibility study activities will involve many aspects, such as marketing, financial, operational, social, legal and regulatory, environmental, and other aspects. In this module, the feasibility analysis will focus on the feasibility of the following elements: (1) marketing, (2) finance, and (3) technical operations. The following are the stages for a business feasibility analysis.

5. Feasibility Study on Marketing Aspect

The feasibility study of marketing aspects includes two things, namely (1) evaluation of market potential, (2) marketing strategy and aspects of competition.

a. Market potential

Market potential aims to evaluate the market potential that can be served by the product (needs served by the product). In contrast, competition analysis seeks to assess the ability of a product to meet needs relative to (compared to) its competitors. Can use several dimensions to estimate the total market, such as the area dimension, the product area dimension, and the period dimension. Managers can divide the territory into international, national and regional areas to a regional extent. For example, regional areas will be more suitable for use if a product has biased coverage. MNC companies with global scope may be more convenient to evaluate with international coverage. For the broad product dimension, suppose the manager wants to calculate the market potential for motorcycles. Managers can use motorcycle products, mopeds (narrower), and 100cc mopeds (even thinner). Managers can use short-term, medium-term, or long-term time coverage for the timeframe dimension. The scope of time can also divide potential into current potential (already existing) and potential in the future (not currently available). Table 11.3 below illustrates how we narrow down the population into potential markets.

Table 11.3
Detailing the Potential Market

Total Population, Total Market Potential, Served Market Potential Total population: 100%
Market potential: 10% (those interested in buying the product).
Available Market: 4% (plus have access)
Qualified Market: 2% (plus qualified, for example, 18 years and over)
Market that can be served: 1% (targeted, for example, the Java region)
Market served: 0.5% (those who have purchased products)

Besides statistical techniques, managers can use various other methods, such as purchase intention surveys, expert opinion surveys, and salesmen surveys. These techniques involve other people to estimate the demand for a product.

1) Calculating Maximum Sales Amount

Another technique for calculating market potential is to calculate the maximum possible sales volume available to all firms in an industry in a given period, given the industry's marketing effort level and given conditions. The following formula can be used.

$$Q = nqp$$

where:
Q= total potential market n= number of buyers
q = number of purchases
p = average price per unit

An entrepreneur wants to develop agrotourism, with the target being children under nine years of age. In the district area, there are 101,768 children aged nine and under. Not all children visit the facility. The survey shows 68% show interest. The ticket price is IDR 25,000 per entry.

Market potential: 101,768 x 68% x 25.000 = Rp1,730,056,000

An entrepreneur wants to open a burger counter in a tourist area. His investigation showed there were 500 visitors per day. There are several food counters on the territory. The market share to be obtained is estimated at 10%. Burger price: IDR 10,000. It is estimated that 90% of the visitors eat.

a) Market potential: 500 x 360 x 0.9 = 162,000 people
b) Market potential (Rp): 162,500 x 10,000 = 1.62 billion
c) Market potential (from the entrepreneur side): 10% x IDR 1.62 billion = IDR 162 million

2) Potential Market and Current Market

The current market may reflect something other than the potential market. For example, the milk consumption in an area is two litres per month. One litre of milk is supplied from imports, while domestic businesses supply the other. Supply from abroad can be considered a market opportunity because domestic companies may be able to provide milk at a lower price. However, current milk consumption may reflect a different potential for milk consumption. For example, if the government conducts effective education and people are increasingly aware of the importance of milk for health, milk consumption will increase.

The total market potential will be greater than the current consumption of milk. How to measure market potential beyond current consumption? There are several methods, as follows. (1) Comparison with other regions/countries, (2) projections using historical data, (3) calculating market potential using the chain ratio method. Then, the market opportunity can be calculated as follows.

Market opportunity = market potential – served share

Comparison with Other Regions. As an illustration, the following is the consumption of milk in several countries and the ideal consumption.

Table 11.4
Comparison of Milk Consumption per Year

Indonesia: 11.9 liters
Vietnam: 12.1 liters
Thailand: 31.7 liters
India: 70 liters
Ideally: 100 liters

Source: http://www.thejakartapost.com/news/2010/10/06/

What is the potential consumption of milk in Indonesia? If you use figures from other countries, then consumption in Indonesia can still increase. If you use ideal consumption figures, then the potential for milk consumption in Indonesia can still grow even more. How to achieve perfect potential? Of course, many things need to be done, such as more intensive outreach and education so Indonesian people consume milk as they should.

Projections with Historical Data. For example, we have hypothetical data on the consumption of product A from 2004-2018 and the supply of that product. The rest is imported from abroad. How significant is the potential of this product?

Table 11.5
Consumption and Supply of Product A (2004-2018)

Year	Consumption	Supply	Consumption Growth	Consumption Growth
2004	30	20		
2005	35	20	0,17	0,00
2006	34	20	-0,03	0,00
2007	37	20	0,09	0,00
2008	45	22	0,22	0,10
2009	44	22	-0,02	0,00
2010	47	22	0,07	0,00
2011	53	22	0,13	0,00
2012	57	25	0,08	0,14
2013	59	25	0,04	0,00
2014	59	25	0,00	0,00
2015	63	27	0,07	0,08
2016	65	27	0,03	0,00
2017	67	27	0,03	0,00
2018	70	27	0,04	0,00
Average Growth			0,06	0,02

The table above shows that product A's consumption grew by an average of 6%, while supply grew by 2% from 2004-2018. For example, we determine the ten-year time horizon; what is the total potential market for the next ten years? Assuming a growth rate of 6% per year for the consumption of product A and 2% growth for the supply of product A, the total demand, product supply, and market potential can be formulated as follows.

Total Consumption = $70\,(1+0{,}06)^{1} + \ldots + 70\,(1+0{,}06)^{10} = 978$
Total suplply = $27\,(1+0{,}06)^{1} + \ldots \qquad + 27\,(1+0{,}06)^{10} = 301$
Market opportunity (market potential)= 978 – 301 = 677

Of course, measuring market potential with historical data has many variations.
The illustration above is only one example of analysis using historical data.

3) Chain Ratio Method

By using the chain ratio method, market potential can be calculated sequentially. Market demand for a product is the total volume purchased by a particular consumer group in an identified geographic area at a specific time with the identified market environment in a particular marketing program.

We need to do the following steps to calculate market potential with this method.

a) Determine the target market and market segments.
b) Determine the geographical scope of the market.
c) Determine the average selling price.
d) Determine the average annual consumption.
e) Determine market potential.

As an illustration, for example, a manager wants to calculate the total potential for cars in Indonesia using the chain ratio method. The total population of Indonesia is 250 million. One family is assumed to consist of 4 people (father, mother and two children). One family should ideally have one car (assumption). Thus the number of potential vehicles in Indonesia is as follows.

Total population	: 250 million
Number of families	: 62.5 million (250 million/4)
Number of cars	: 62.5 million (one family, one car)

As another illustration, for example, we want to determine the market potential for packaged drinks sold in minimarkets/supermarkets—relevant info as follows. The total population of Indonesia is 250 million. Per capita income is IDR 56 million per year. Consumption for shopping at supermarkets/minimarkets is 20% of total income. Of the whole figure, 20% is spent on beverages. The scope will be national because national companies will produce packaged drinks. What is the potential market for packaged beverages in Indonesia in Rupiah?

Total population : 250 million
Total income/year: 250 million x 56 million = IDR 14
trillion Supermarket spending: 20% x IDR 14 trillion = IDR 2.8
trillion Shopping for packaged drinks: 20% x IDR 2.8 trillion = IDR 560 billion

Thus, the total market potential for packaged drinks is IDR 560 billion annually. As before, managers need to refine the assumptions used to calculate the numbers more accurately.

b. Marketing strategy

A more detailed marketing strategy will be explained in the MSME Management section (Learning Activity 2). In addition to market potential, managers must formulate an effective marketing strategy so that business proposals run as desired.

6. Feasibility Evaluation of Financial Aspects

Evaluation of the feasibility of the financial aspect analyzes whether the proposed new project or business provides the sufficient profit or creates added value.

In general, the steps in evaluating the feasibility of the financial aspect are as follows:

a. identify relevant cash flows;
b. estimate the required profit rate, which will be the discount factor;
c. calculating the feasibility of an investment using several criteria, such as NPV (Net Present Value), IRR (Internal Rate of Return), and others, as well as deciding whether to do it.

a. Identifying cash flows

Cash flow is different from accounting profit. This difference is due to accounting using the accrual approach. Will recognize Transactions if conditions are met, even though no cash is coming in or out. For example, if a company sells products worth IDR 1 billion with credit, the maturity will be one year. Even though we will receive cash next year, can recognize sales and profit in the current year. Next year, when the company gets money, the company will no longer record sales and profit because sales and profit have already been recorded this year. For an investment feasibility analysis, cash is counted, not accounting for profit.

The cash to be included is the cash generated by the proposed business (incremental cash flow). Should exclude money not caused by the new business. For example, it will still pay the Director's salary of IDR 40 million per month whether the company invests in a new business. In this example, the Director's salary is not an incremental cash flow and need not be included in the analysis. Conversely, for example, to run this business, additional workers are needed, with a total cost of IDR 70 million per month. The company will only recruit a new workforce if this business is carried out. The price of IDR 70 million per month is an incremental cash flow and needs to be included in the analysis.

Opportunity costs must be included. For example, suppose a company has a warehouse that can rent out for IDR 100 million per year. However, because the project has just been implemented, it will use the warehouse, so it will not rent out the warehouse. The company thus loses the opportunity to earn IDR 100 million per year. The lost cash becomes an opportunity cost and needs to be included as a cost. Sunk costs do not need to be included. For example, the company conducted a feasibility study that spent IDR 100 million. The feasibility study results show that the proposed new project is feasible. The cash that has gone out is not relevant because it has gone out and does not need to be included in the analysis.

We need to exclude cash from financing decisions in the cash analysis. Only money from investment decisions is considered relevant. For example, a company borrows IDR 100 million at 10% annual interest. The cash analysis will not include Rp. 10 million per year (interest payments) and also exclude Rp. One hundred million (principal payments) because this cash is cash from funding decisions.

For example, an entrepreneur is considering a new business. The investment value to buy fixed assets reaches IDR 100 million, with an economic life of 5 years, and the residual value is IDR 20 million. The depreciation used is a straight line. The remaining value is estimated to be sold for IDR 30 million. Investments in working capital amounted to IDR 10 million, IDR 10 million and IDR 15 million in years 0, 1 and 2. Annual sales and non-depreciation expenses are estimated at IDR 70 million and IDR 20 million per year for five years, starting from year 1. The tax is 30%. The required profit rate is 15%. Is the investment proposal feasible?

First, managers need to identify cash flows and then make a table of cash flow investment proposals. After the cash flow table is formed, the next step is to evaluate the feasibility of the investment proposal with several criteria, such as NPV, IRR, and others. The cash flow table can be seen below.

Table 11.6
Project Proposed Cash Flow

	0	1	2	3	4	5
Cash out						
AT Investment	-100					
Inv. Working capital	-10	-10	-15			
Cash out	-110	-10	-15	0	0	0
Cash in operational		39,8	39,8	39,8	39,8	39,8
Sale of Residual Value						27
Working capital returns						35
Cash In	0	39,8	39,8	39,8	39,8	101,8
Net Cash	-110	29,8	24,8	39,8	39,8	101,8

Operating cash inflows are calculated as follows	
Sale	70
Non-depreciating Expenses	20
Depreciation	16
Profit before tax	34
Tax (30%)	10,2
Profit After Tax	23,8
Cash Flow	39,8

Depreciation is calculated as follows: (100 – 20) / 5 = 16 million per year. Depreciation is a non-cash expense. No cash was issued. Thus, items in the form of money are sales (cash in), non-depreciation costs and taxes (cash out). Therefore net cash = 70 – 20 – 10.2 = 39.8. Another way to calculate some money is by the formula:

Cash Flow = Profit after tax + depreciation = 23,8 + 16 = 39,8

Working capital is assumed to return 100% at the end of the period. It is believed that working capital returns are less than 100%, for example, 70% or something else. It can sell the residual value at 30, but the book value is 20. Thus, there is a profit of 10 (30–20). If the company records a profit, there will be a tax of 30% x 10 = 3. Thus, net cash from the sale of assets is 30 – 3 = 27. The bottom line shows the net cash flow.

b. *Feasibility Evaluation with NPV, IRR, and Payback Period*

After the net cash flow has been calculated, the next task is to evaluate the feasibility of the investment proposal.

The Net Present Value (NPV) method is calculated using the following formula.

NPV = PV Cash in - PV Cash Out

$$NPV = \{29,8/(1+0,15)^1 + 24,8/(1+0,15)^2 + 39,8/(1+0,15)^3 + 39,8/(1+0,15)^4 + 101,8/(1+0,15)^5\} - 110 = +34,2$$

The acceptance criterion for NPV is if NPV > 0, then the investment proposal is accepted. Because the above proposal provides an NPV above 0 (+34.2), the investment proposal is feasible.

IRR (Internal Rate of Return) is the discount rate that equates the present value of cash in with the current value of money out. In other words, the discount rate that makes NPV=0. For the investment above, the IRR can be calculated as follows.

$$110 = \frac{29,8}{(1+IRR)^1} + \frac{24,8}{(1+IRR)^2} - + \frac{39,8}{(1+IRR)^3} - + \frac{39,8}{(1+IRR)^4} + \frac{101,8}{(1+IRR)^5}$$

For the above cash flows, IRR can be found, namely 0.25 or 25%. Thus, the investment proposal provides a rate of return of 25% per year for five years. The acceptance criteria for the IRR are as follows. If the IRR > the required profit level, then the investment proposal is feasible, and vice versa. Because IRR = 25% > required profit rate (15%), the investment proposal is viable.

Can calculate the payback period to see how quickly capital can return. Note that the investment issued was 110 at the beginning of the year. The first year's cash flow, amounting to 29.8, has yet to be able to cover the initial capital. The following table shows the calculation of the payback period.

Table 11.7
Calculation of Payback Period

Year	0	1	2	3	4	5
Cash Flow	-110	29,8	24,8	39,8	39,8	101,8
Remainder		-80,2	-55,4	-15,6	24,2	126

From Table 11.7 above, in the 4th year, the balance has shown a positive number, indicating that the investment has returned in the 4th year. To calculate more accurately, in what month the capital return, the manager can calculate the remainder with cash flow in the 4th year, as follows: (24.2 / 39.8 = 0.6). Thus, the capital will return within 3.6 years or about three and six months. To determine whether this time is sufficient, managers can compare it with the standard payback period for the same business. For example, the payback period is usually around 15 years for an aircraft manufacturing industry such as Boeing. The payback period is usually about three months for martabak businesses on the side of the road or in front of minimarkets.

7. Evaluation of Operational, Social, Legal, Environmental and Other Feasibility

Marketing and financial aspects are essential aspects of the feasibility study. However, other aspects also need attention. The operational aspect evaluates whether the proposed investment is operationally feasible: is the supply of raw materials sufficient, is the technology possible, are there human resources, and so on—for example, investment in sophisticated satellites in the city of Yogyakarta. From a marketing and financial standpoint, the proposal is likely feasible. There is sufficient demand for the satellite. From an economic perspective, the proposal appears to have a good return. However, this proposal will likely be constrained by human resources and factory construction. It isn't easy to find satellite experts in Indonesia. May deny the development of a sophisticated factory in Indonesia.

The social aspect includes the local community's acceptance of investment advice. For example, people usually object to livestock farming because of the smell and other impurities. Must place animal livestock business in a specific location far from settlements. The legal aspect ensures that no regulations are violated. For example, a medicine pill manufacturing business would be profitable. However, the company violates existing laws. Environmental elements also need to be considered. For example, a product manufacturing business involving chemicals/chemical waste must be able to ensure that it can control these chemicals appropriately. Must guarantee chemical waste does not pollute the environment. The proposal for making a large mall must analyze the potential for increased congestion on the nearest road and explore the solution.

After all, aspects have been evaluated and declared feasible; the investment proposal is viable. However, managers still have to pay attention to all the things that could hinder the success of investment proposals. Sometimes the little things that should consider can fail an investment proposal. For example, a beer company will launch a new product and conduct a market test. Consumers are asked to taste the new beer. Almost everyone says it's delicious. When found it, it turned out that the product needed to sell better. Why? Is something wrong with the test market? It turns out that the company needed to interpret Indonesian culture. It's hard for Indonesians to be honest, especially in front of the surveyors who have given them free drinks. A mall building was established in the university environment. Once erected, they can only operate the facility after some time. Broke many rules. The land use permit was not for the establishment of a mall. The building stands on the edge of the provincial road, where the requirement is that the building is located at least 10 meters from the roadside. The building violated these provisions, which resulted in the formation being unable to operate.

Exercise

To understanding of the material above, please complete the following exercise!

An entrepreneur will set up retail in Yogya City. The target market is the local population—the city's total population: is 1 million people. The targeted area has a population of around 50,000 people. The average income of DIY residents is IDR 10 million per year per head. Consumption is estimated at 50% of revenue. It is estimated that around 60% of the total spending is needed for consumer goods. The surrounding area is more affluent than the DIY average, about 110% more affluent. There are customers from outside the area who shop in the area, with an amount of around 10%.

Key Ideas for Exercise Answer

Use the chain ratio method to calculate the potential market.

Summary

This learning activity discusses MSME management. The discussion covers two things: the MSME environment and initial decisions that focus on business feasibility studies. For the MSME environment, the definition of MSME is discussed, such as the characteristics of MSME, the role of MSME in the economy, and the legal entities that MSME can use.

The following section discusses business feasibility studies. The discussion begins with the identification of new business ideas. There are many sources of new business ideas, ranging from internal companies, consumers, competitors, distributors, trade shows and others. MSMEs can also take advantage of partnerships with large businesses through partnership patterns, such as nucleus plasma, franchisees, agents, and others. MSMEs can also take advantage of CSR from large and medium companies

After the business idea appears, the next task is to evaluate the feasibility of the new business idea by conducting a business feasibility study. Feasibility studies are necessary because new product failure rates are relatively high. The failure of new products will bring huge losses. The feasibility study is expected to prevent such significant losses. The feasibility study begins with an evaluation of the feasibility of the marketing aspect. Assessment of the feasibility of marketing aspects focuses on evaluating the target market and marketing strategy. The target market tries to measure the potential market. The ideal potential market is many consumers and has excellent purchasing power. There are several techniques for measuring potential markets. After the potential market is calculated, the next task is to formulate a marketing strategy. The marketing strategy is discussed further in Learning Activity 2.

After the marketing aspect, the following aspect that needs to be evaluated is the financial aspect. The financial aspect discusses the evaluation of business feasibility from a financial standpoint: is it profitable or not? The feasibility of financial aspects is assessed by identifying relevant cash flows (incremental cash flows) and summarizing cash flows into a cash flow table format to analyze cash flows quickly. After identifying cash flows, the next task is evaluating feasibility using standard methods, namely Net Present Value, Internal Rate of Return and payback period. If the NPV > 0, the investment proposal is feasible. If IRR > the required profit level, the proposed investment is possible. For the payback period, the smaller the number, the better. However, the payback period has yet to provide a definite limit. Managers need to compare the payback period of a proposed investment with the payback period of similar products or sectors.

After the marketing and financial aspects are feasible, the next stage is to evaluate the feasibility of other elements, such as operational, social, legal (regulatory) and environmental aspects. However, managers must always pay attention to other things that seem small but can cause the failure of a project.

Formative Test 1

Choose the correct answer!

1) According to Law no. 20 of 2008, Micro Enterprises are ....
   A. maximum net worth of IDR 50,000,000.00
   B. the most annual sales results Rp600.000.000,00
   C. Maximum employees 500 people
   D. legal form of Trading Business

2) Using one brand for several products is an example of ….
   A. *economies of scale*
   B. *economies of scope*
   C. *dis-economies of scale*
   D. *dis-economies of scope*

3) A business entity that has no official legislation is ....
   A. cooperative
   B. firm
   C. limited company
   D. trade business

4) Farmers provide land for planting sugarcane. Sugar cane seeds and medicines are purchased from sugar companies. The sugarcane is then sold to sugarcane companies at market prices. This partnership is an example ....
   A. franchise
   B. agency
   C. inti-plasma
   D. sub-contract

5) Calculating the market potential in a sequential way is called ....
   A. suppy chain method
   B. chain ratio
   C. multi-chain analysis
   D. sprilalling

6) The following is an example of irrelevant cash flow (not incremental cash flow) in the financial feasibility evaluation analysis, namely ....
   A. opportunity cost
   B. direct labor cost
   C. sunk cost
   D. product sales

7) The method that equates the present value of cash in with the current value of money out is called ....
   A. NPV
   B. payback period
   C. Profitability Index
   D. IRR

8) The investment proposal is accepted if ....
   A. NPV > IRR
   B. IRR > required profit level
   C. IRR > 0
   D. NPV = IRR

Use key answers for Formative Test 1 which is located at the end of this module to determine the correctness of your answer. To make sure your mastery of the learning materials use the following formula.

$$\text{Level of mastery} \quad \frac{\text{Number of correct answers}}{\text{Number of test item}} \times 100$$

Level of master is as follows

<70%	70% - 79%	80% - 89%	90% - 100%
lower than expected	adequate	good	very good

When you attain level of mastery 80% or more, very good, you may continue to Learning Activity 2. Otherwise you have to review the material of Learning Activity 1. Pay attention to parts which you don't master yet.

Learning Activity 2

MSME Management

After MSMEs run, the next step is managing the MSME business. Learning Activity 2 discusses MSME management. The management principles discussed in this module generally apply, including for MSMEs. However, because MSMEs have specific characteristics, management principles need to be adapted to be used to MSMEs.

Learning Activity 2 discusses some critical management functions. The first part discusses accounting, followed by financial management. Then, marketing management is concerned. The last section discusses human resource management and operations management.

A. ACCOUNTING

Accounting is measuring, processing and communicating financial and non-financial information about economic entities such as companies or businesses. For example, some sales transactions occur in a company. The transaction is identified (recognized as a sale), measured (how much in Rupiah), and then communicated to other parties (e.g. financial reports submitted to external parties). The information conveyed is expected to be the basis for decision-making. As it is known today, accounting uses the double entry concept for recording transactions.

The accounting cycle records a cycle that starts with recording transactions and then summarizes them in financial reports. These financial statements become the basis for the next period's accounting cycle. Namely, transactions are recorded, translated, and financial information is prepared for the next period. As an illustration, Pak Joko opened a trading business. He deposited IDR 100 million in cash. The cash-bought a pick-up car for IDR 50 million, five years old, with straight-line depreciation and no salvage value. Inventory purchased for $30 million, cash. Sold 2/3 of the list for money at Rp.40 million. Purchased the stock for Rp. 30 million coins in the second year. 2/3 of the inventory sold for IDR 40 million. End of the second year, the business is liquidated.

Pak Joko rents a building worth IDR 5 million per year. Keep accounting journal entries and prepare financial reports, including balance sheets, income statements, and cash flow statements.

The accounting journal for recording transactions can be seen below. Accounting uses a double-entry system, where each transaction is recorded twice in the debit and credit sections.

Table 11.8
Accounting Journal

Debit	Credit
Cash IDR 100 Million	Capital stock IDR 100 Million
Mod IDR 50 Million	Cash IDR 50 Million
Supply IDR 30 Million	Cash IDR 30 Million
COGS IDR 20 Million	Supply IDR 20 Million
Cash IDR 40 Million	Sale IDR 40 Million
Rent IDR 5 Million	Cash IDR 5 Million
Depreciation IDR 10 Million	Accumulated Depreciation Profit IDR 10 Million
Sale IDR 40 Million	COGS IDR 20 Million Rent IDR 5 Million Depreciation IDR 10 Million Profit IDR 5 Million
Profit IDR 5 Million	Capital stock IDR 5 Million

After the accounting journal is made, the next step is to enter the above transactions into the company's account. It will then document these accounting accounts into the income statement and balance sheet items. The following accounting items (reports) summarize the above transactions.

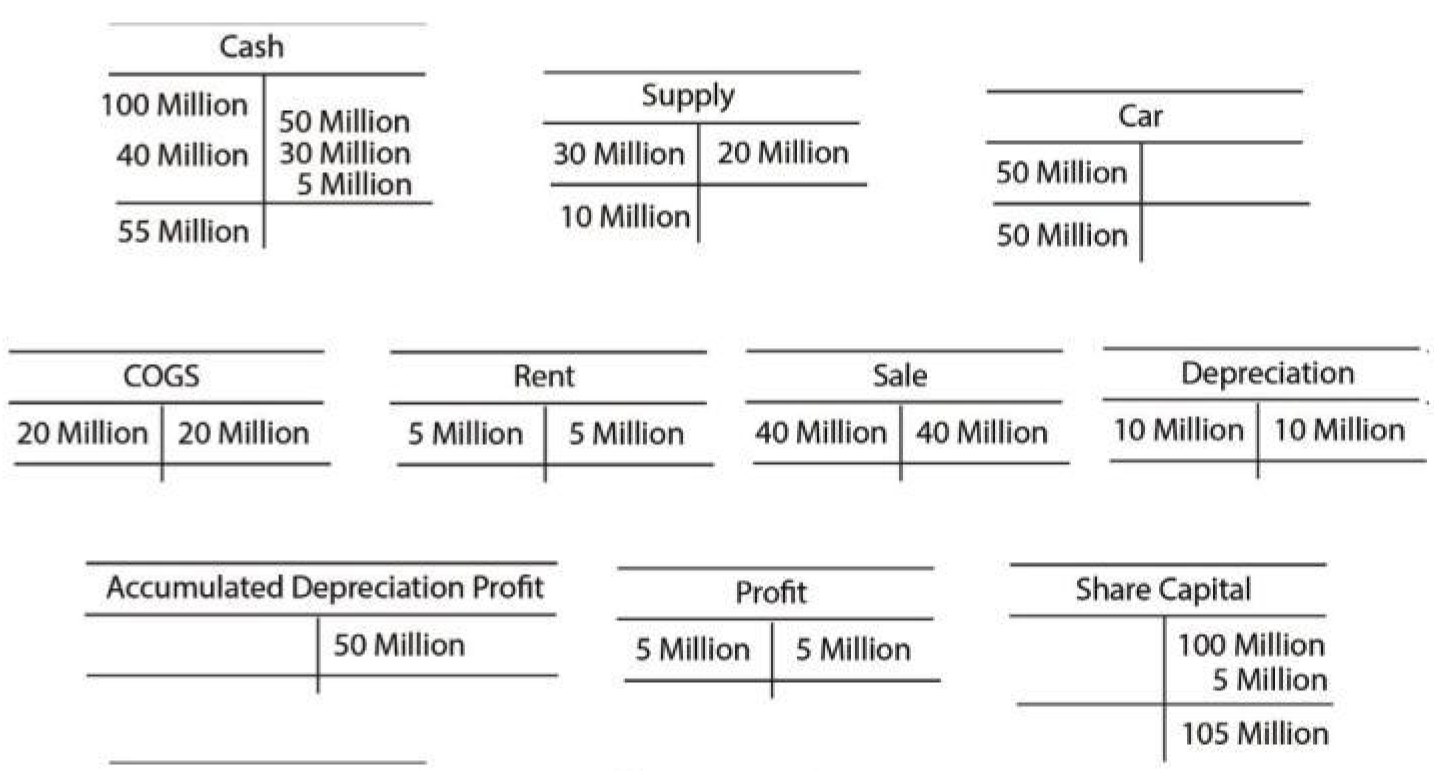


FIgure 11.1
Accounting Journal

After the accounting post is resolved, the next step is to make financial reports. The financial statements summarize the results obtained by the company during a specific period by presenting information in Rupiah (currency). Figure 11.2 below shows three types of financial reports: balance sheets, income statements, and cash flow statements. The balance sheet presents information about the assets owned by the company as of a specific date (left side) and the sources of funding to acquire these assets (right side). The income statement presents the results obtained by the company during a specific period. The cash flow statement presents information on cash inflows and outflows during a particular period.

Assets	
Cash	IDR 55 Million
Supply	IDR 10 Million
Mod	IDR 50 Million
Accum Dep	(IDR 10 Million)
Total assets	(IDR 105 Million)
Passive	
Capital stock	IDR 105 Million
Total liability	IDR 105 Million

Income Statement	
Sale	IDR 40 Million
COGS	IDR 20 Million
Depreciation	IDR 10 Million
Rent	IDR 5 Million
Total cost	IDR 35 Million
Profit	IDR 5 Million

Cash Flow Statement	
Cash Beginning of the period	IDR 100 Million
Operating Cash	+ IDR 5 Million
Investment Cash	- IDR 50 Million
Cash Funding	0
Net Cash	+ IDR 45 Million
End of Period Cash	IDR 55 Million

Figure 11.2
Assets, Profit and Loss Statements, and Statements of Cash Flows

Figure 11.2 above shows that Pak Joko has assets of IDR 105 million consisting of cash, inventories and cars. Sources of funding to acquire these assets are all shares. During this period, Pak Joko made a profit of IDR 5 million. Mr Joko's company cash flow report shows that Rp. Forty-five million was used during this period, resulting in a cash decrease from Rp. 100 million to Rp. 55 million.

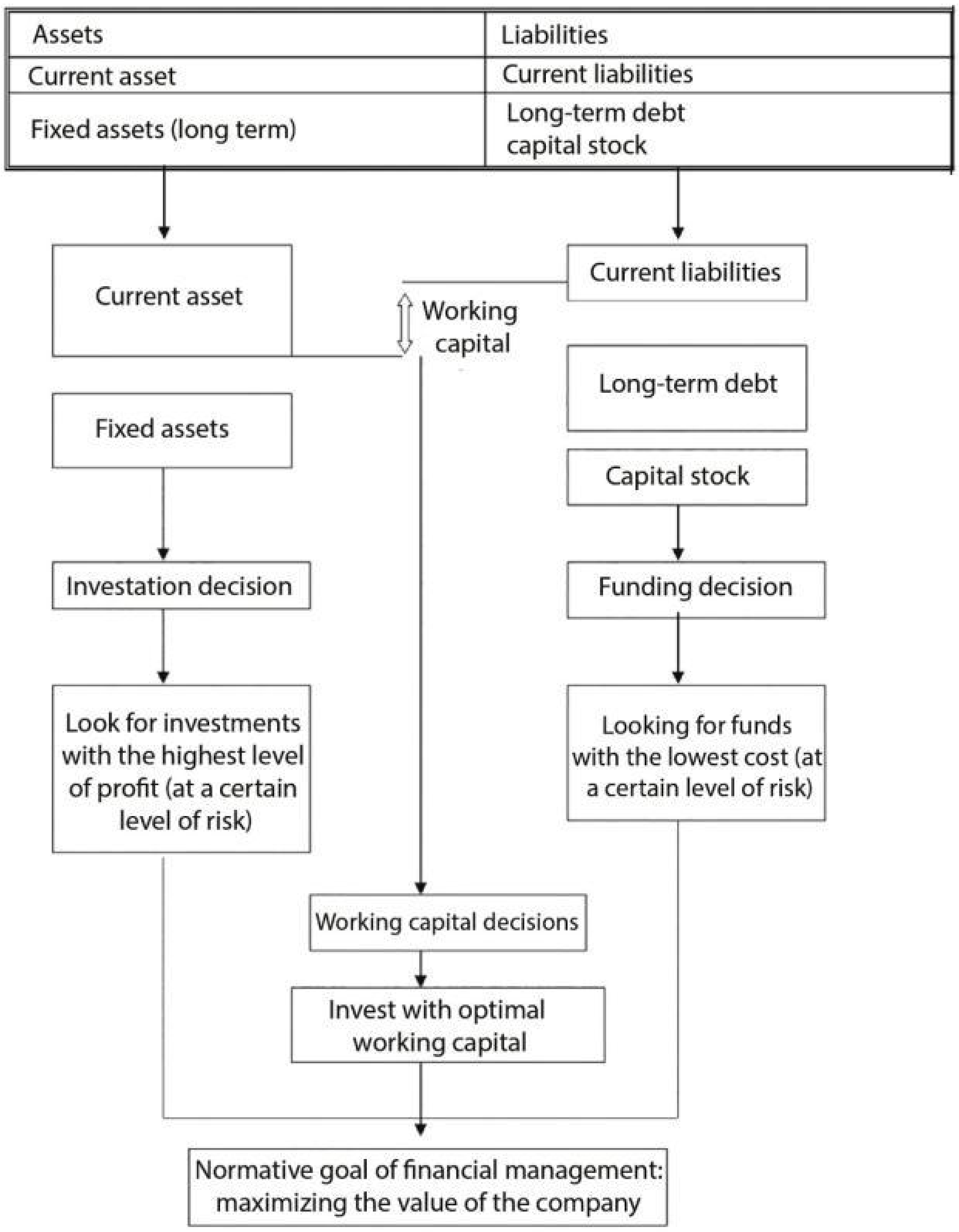
Financial reports are expected to provide the information needed for decision-making for internal and external stakeholders. After reading the financial statements above, Mr Joko might decide to expand, for example, by increasing merchandise inventory. Then Pak Joko began to think about sources of funds for the expansion, whether to raise his capital or take on debt. So far, the company has not used debt. The government will classify these businesses as Small Businesses because they have assets between IDR 50 million – IDR 509 million. The Tax Service will use a tax rate of 0.5% of turnover for tax determination (based on PP 23 of 2018).

B. FINANCIAL MANAGEMENT

1. Finance Manager Duties

Financial managers will make three types of decisions, namely investment decisions, funding decisions, and working capital decisions, to maximize shareholder wealth. They can use the balance sheet approach to illustrate this situation (see Image 11.3 below). The balance sheet is divided into the left (assets) and right (liabilities). Aids describe the wealth owned by the company, while disadvantages describe the company's funding source. Net working capital can be defined as Current Assets minus Current Liabilities. Examples of investment decisions: will the manager buy new assets? Will the manager build a new factory? Example of a funding decision: will the manager add a new source of funding, and in what form? Will the manager add new debt or add new shares? An example of a working capital decision is whether the manager will increase merchandise inventory. What about the source of funding for the list, whether paying in cash or using credit? If the manager uses money, then it will reduce the cash. Conversely, if the manager uses accounts payable, cash will not decrease, but accounts payable will increase.

The goal of financial management is to maximize shareholder wealth. The prosperity of shareholders can be seen from the market price of shares. If the stock market price continues to increase, managers can say that shareholder wealth has increased. If the company has gone public (sold shares to the public), the market price will be easier to see. For a company that goes public, the stock market price will appear practically every day. The stock market is liquid, and buying and selling shares is easy. The share value cannot be directly observed if the company does not go public. In this situation, the manager can use indirect methods, for example, by looking at the selling price (the current price of the company or business when it is sold). If the selling price shows an increase, the manager succeeds in increasing shareholder wealth. Another way is to look at the company's fundamentals, as reflected in financial ratios. There is a positive relationship between stock prices and company fundamentals. If the company's profit rate (as seen from ROE or ROA) shows a steady increase, the share value will likely increase.



Source: Hanafi, 2016

Figure 11.3
Balance Sheet

Increasing share value can be achieved by constantly increasing added value. A business or company must be able to create added value, which is appreciated by consumers and is better than its competitors. In summary, added value will be seen from business/company profits. However, the company's profit is the result of successfully added value. Added value is generated from effective and efficient business processes.

If a business can offer added value that consumers like, the company will generate cash—the bigger the cash, the better. However, the ideal cash flow dimension includes much more than the cash scale. The cash dimension consists of three things.

a. Magnitude.
b. timings
c. Risk.

The bigger the cash, the better. The reason is, of course, apparent. Can use significant money for more purposes. However, more than substantial cash is needed. Pay attention to the timing of cash flows. The earlier money is received, the better if we are offered IDR 1 million today with IDR 1 million one year in the future. Which one to choose? A rational manager would choose the currently received Rp. 1 million. The concept of money received at this time being better than that received one year to come is called the Time Value of Money. There are several reasons, such as purchasing power, risk, and opportunity cost. Purchasing power: IDR 1 million received now can be used to buy more goods than the IDR 1 million received one year later. Inflation or rising prices will undermine the value of our money. The concept of risk: if we receive Rp. 1 million at this time, the business is done. However, if we are promised to be paid Rp. 1 million a year in the future, there is still uncertainty. The giver can break the promise or move to another city. This uncertainty raises risks. The concept of the time value of money is further formalized by the ideas of future value and present value.

2. Investment, Funding and Working Capital Decisions for MSMEs

Investment and funding decisions are strategic decisions. These decisions are not taken every day, and the frequency of decision-making is not made every day; it could be once a year or more. However, this decision has a significant impact on the company's performance. Working capital decisions are decisions that managers more often take. These decisions are often referred to as daily decisions. Of the three types of decisions, MSMEs will have more to do with working capital decisions. Also discussed investment decisions in the previous section regarding financial feasibility analysis. The following sections discuss working capital management.

a. Working capital management

Net working capital can be defined as current assets minus current liabilities. Present asset compo de cash, accounts receivable, and inventories. At the same time, the features of current liabilities include trade payables, accrued payables, and other short-term debts. The cash conversion cycle can summarize the net working capital position as stated.

Working capital generally has a lower profit than fixed assets. For example, in a more extreme case: cash on fixed assets. Money of IDR 1 million is placed in a drawer. A year later, the cash value has not changed; it remains the same, namely IDR 1 million. If the manager does business with Rp. 1 million, one year later, the Rp. 1 million can be more than Rp. 1 million. The next question is, "Why does the company have working capital, even though the profit level is smaller?" The answer is the degree of uncertainty. This world contains many uncertainties. Working capital is needed to help manage this uncertainty. For example, suppose the manager owns a shop. If the manager knows with certainty that they will sell 50 products tomorrow, the manager will order 50 items today. It will sell tomorrow 50 of this merchandise. The manager can order merchandise according to the demand for the item. However, the amount of merchandise requested could be more than expected. For example, 80 people came the next day. The manager loses an opportunity to sell 30 more merchandise. To anticipate things like this, managers need to hold inventory. Thus managers need to keep working capital.

b. Cash cycle

The cash cycle (cash conversion cycle) measures the working capital position. The cash cycle is the journey of cash starting from cash out (to buy raw materials). It is produced into finished goods and becomes finished goods inventory, then sold on credit to become trade receivables. Trade receivables are paid off into cash again; Image 11.4 below illustrates this cycle.

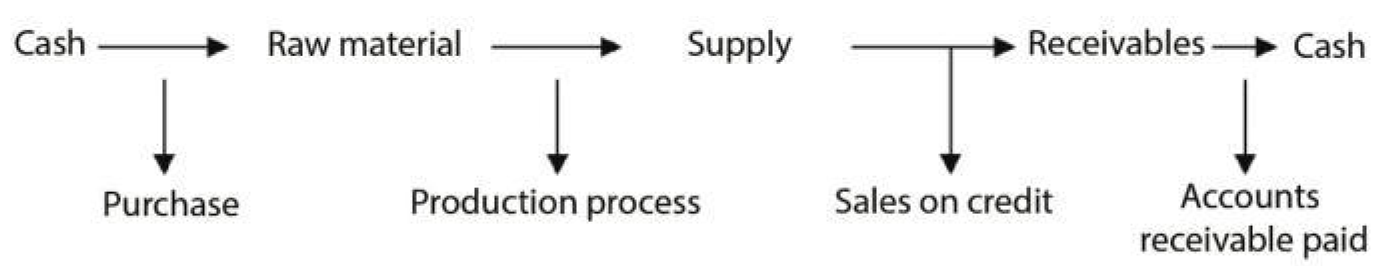


Figure 11.4
Cash Journey (Cash Out to Cash In)

The shorter the cash cycle, the better. The faster the cash cycle, the fewer funds are embedded in working capital, so the business will be more efficient. Therefore, managers must monitor the working capital by tracking the cash cycle.

Shortening the cash cycle can do two things: (1) by slowing cash out and (2) by accelerating cash in. Slower cash out will shift cash out to the right, while faster cash in will shift cash to the left. The result is a shorter cash cycle.

1) Slowing Cash Out

There are several ways to slow cash out, such as (1) purchases using debt (not cash), (2) centralizing payments, (3) setting billing dates, and (4) others.

a) Purchase Using Debt

Accounts payable is a common mechanism in business. If the business relationship with the supplier is good and has been going on for a long time, then the manager can take the goods first and pay later. In this way, managers effectively use accounts payable. Suppliers provide sources of funding to managers. In terms of the cash cycle, this method will shorten the cash cycle. For example, a company has an average inventory period of 30. The collection period for receivables is 20 days. Short-term debt period of 20 days. The following figure describes the three periods.

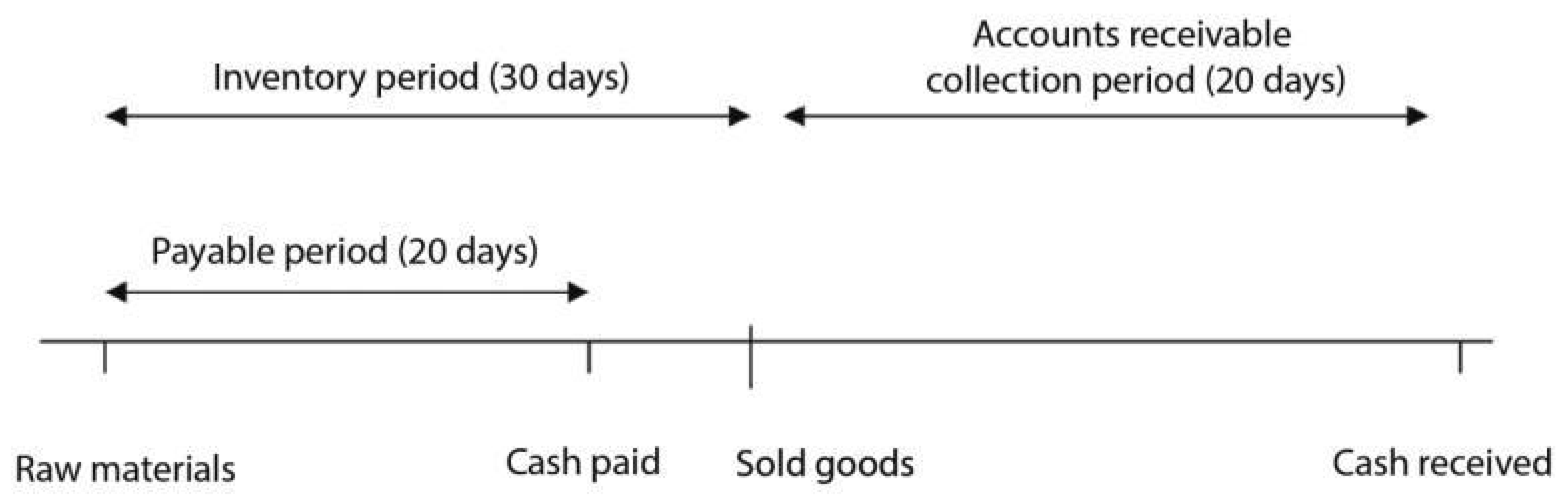


Figure 11.5
Cash Cycle with Accounts Payable

To simplify the illustration, Figure 11.5 above assumes the inventory period includes raw and finished goods inventories. In the example above, the inventory period is 30 days, which means that the goods sit in the company warehouse before being sold for an average of 30 days. Because sales are made on credit, the company does not receive cash immediately. In the example above, the collection period for receivables is 20 days, which means that the average receivable has a maturity of 20 days before the customer finally pays it. By adding the two periods, we get a total of 50 days. In other words, the company's cash is embedded for 50 days before the money returns to the company (and can be used for working capital investment again).

If the company uses debt to buy raw materials, the company can delay payments, which means cash out can be delayed. For example, the payable period is 20 days, which means that, on average, the company only issues money 20 days after the raw materials arrive. The embedded cash decreases to 30 days (50 – 20 days). The following image summarizes the calculations.

The cash cycle can be calculated as follows. Cycle= Collection period + Period – Payment period Cash Receivables Payable inventory and accrual accounts Cash Cycle= 30 + 20 – 20 = 30 days

The shorter the cash cycle, the better because it will embed less cash. For example, the money invested for working capital daily is IDR 1 million. If the cash cycle is 30 days, the funds embedded in working capital are 30 x

IDR 1 million = IDR 30 million. For example, a company can shorten the cash cycle to 20 days, so the invested funds are 20 x IDR 1 million = IDR 20 million. It can see that the short cash cycle makes the working capital investment smaller.

b) Payment Centralization
In this way, each bill is processed centrally, namely by the central office. Bills from the company's branch will be submitted to the centre for authorization. After the centre gives permission, it is handed over to the unit, which can pay for. In this way, payments can be delayed. Bills taken to the centre and returned will take time. Another benefit of such a method is better financial control, so suppliers are expected to understand such procedures better.

c) Payments Processed on Specific Dates
The company has a policy that invoices that arrive before a specific date each month, for example, the 15th, will be processed in the same month. Bills that come after that date will be processed in the following month.

d) Other Ways
There are many other ways to delay payments. For example, a company pays bills by check. Checks are usually only sometimes sought. Check to cash also takes time. As long as it has not been disbursed, the funds are still available for the company.

2) Accelerate Cash Inflow
There are several ways to speed up cash inflows, such as (1) cash sales, (2) cash deductions, and (3) others.

a) Cash Sales
This method is, of course, the most direct way. With cash sales, without receivables, the finance manager will get cash. Receivables or credit will only delay cash receipts. But accounts receivable or credit sales are sometimes necessary to increase sales, which means expanding a company’s profits. If the company’s competitors offer credit sales, the company that offers only cash sales will be at a competitive disadvantage. Thus credit sales are necessary, but there must be ways to speed up the cash inflow from these credit sales.

b) *Cash Discount*
A cash discount is intended to accelerate the payment of receivables by the company’s buyers/customers. The term or cash discount requirement is usually 1/10-n/30. You can read such an offer: “The company offers a discount (discount) of 1% if the customer is willing to pay within ten days. If the customer wants to avoid taking advantage of the offer, the customer

must pay off the debt within 30 days. Payment within 11 to 30 days will not get a discount."

If within 30 days, the receivables have yet to be paid, the company can convert these trade receivables into notes receivable. Notes receivable are written promises by the customer to pay a certain amount of money, together with interest, within a certain period. Notes receivable have higher legal power than trade receivables which usually only arise from business customs (without sufficient written evidence). If the customer intends to take advantage of the cash discount, he will pay on the tenth day instead of the first. Why? Because customers can still postpone cash disbursements. If the customer intends to avoid taking advantage of the cash discount, the customer should pay on the thirtieth day for the same reason.

c) Other Ways

There are still other ways to speed up cash inflow. For example, for large companies, a decentralized Payment Acceptance Center. For example, customers are spread geographically, and customers habitually use postal money orders as payment or personal checks in developed countries. The payment centre is in Jakarta. Postal money orders from customers in Banyuwangi (the eastern tip of Java Island) may take around seven days to arrive in Jakarta. If the money circulating (outstanding) every day is IDR 1 billion, then there is IDR 7 billion (7 days x Rp. 1 billion) of money cannot be used because it is still in transit. To speed up the passage of money, companies can deploy receiving centres. For example, a company opens a payee account at a bank in three cities, Surabaya, Semarang and Jakarta. Now customers in Banyuwangi do not need to send their money orders to Jakarta but only to Surabaya. For example, the delivery period (from Banyuwangi to Surabaya) only takes two days. This means the company can save five days. The money companies can use IDR 1 billion x 5 days or IDR 5 billion. To determine whether this alternative is good, saving money (or the benefits of saving money) must still be compared with the cost of implementing concentration banking.

Another variation of a cash sale is to require a down payment. Buyers are asked to provide a certain amount of down payment when placing an order for goods. With the down payment, some cash has gone into the company today.

c. Using a balance sheet to calculate the cash cycle

If the business grows, the company has to make financial reports such as balance sheets and income statements. Can use financial information to calculate and monitor the cash cycle. For example, we as analysts need complete data about the company's production process (how long the inventory period is) and how long the receivables period, such as assets and current liabilities in the company's balance sheet. The sales rate is 500,000. Cost of Goods Sold (COGS) is 80% of sales.

	Assets		Passive
Cash	10.000	Accounts payable	10.000
Accounts Receivable	75.000	Salary debt	10.000
Supply	100.000	Tax payable	10.000

What is the company's cash cycle? First, we will calculate the turnover for each component of working capital (current assets and liabilities). Accounts receivable and inventory turnover will be calculated for existing assets, while for current liabilities, everything will be calculated.

Flow of Receivable turnover	= Sales / Receivables	= 500.000/ 75.000 = 6,7×
Inventory Turnover	= COGS / Supplies	= 400.000/100.000 = 4×
Accounts payable turnover	= COGS / accounts payable	= 400.000/10.000 = 40×
Salary payable turnover	= COGS / salary debt	= 400.000/10.000 = 40×
Tax debt turnover	= COGS / tax payable	= 400.000/10.000 = 40×

Asset/debt turnover shows how often an asset/debt rotates for a period (a year in this case). For example, if inventory turns four times a year, there are four inventory cycles (inventory periods) in a year. If we know the turnover of an asset/debt, we can calculate the cycle period. The cycle period can be calculated as follows.

Accounts receivable collection period	= 360/6,7	= 60 days
Inventory period	= 360/4	= 90 days
Accounts payable period	= 360/40	= 9 days
Salary payable period	= 360/40	= 9 days
Tax debt period	= 360/40	= 9 days

After the cash embedded period for each asset/debt can be calculated, the next step is to calculate the cash cycle as follows.

Cash cycle = 60 days + 90 days – [9 dyas + 9 days + 9 days] = 123 days

C. MARKETING MANAGEMENT

The principles of marketing management are generally applicable, including to small businesses. However, for small businesses, there are characteristics of small businesses that require marketing management adjustments. According to the American Marketing Association, marketing management is the process of planning and implementing the conceptualization, pricing, promotion, and distribution of ideas, goods, and services, to create exchanges that satisfy individual and organizational goals. Running a business requires good planning and execution. Marketing strategy can be interpreted as an effort to fulfil needs and wants through an exchange process. It can also interpret marketing management as identifying, anticipating, and satisfying profitable consumer demands. Marketing seeks to meet consumer needs better than its competitors. The competition map needs to be considered because many parties (competitors) want to satisfy consumer needs.

Managers need to distinguish between the concepts of needs, wants, and demands. Need is something fundamental (demand). Wants are more specific needs. Requests are wants backed by purchasing power. For example, humans need to eat. However, the way of fulfilment can be different. Americans fulfil their food needs by wanting to eat burgers, and Indonesians meet their food needs by wanting to eat fried rice. Requests are desires backed by purchasing power. People who desire to eat fried rice and have the money to buy fried rice are a demand for fried rice. Marketing is often referred to as playing in the realm of desire. Marketing does not encourage consumerism because needs are essential to humans.

Marketing Management has several key concepts as follows.

Marketing Objective: to meet consumer needs/desires Process: profitable exchange (consumer buys goods from the company). Consumers get goods; companies get money.

How to achieve practical marketing goals? How to make an effective exchange process? A marketing strategy is needed to gain valuable marketing goals. The marketing strategy includes two important concepts, namely (1) STP (Segmentation, Targeting, and Positioning) and (2) 4P (Product, Price, Place, and Promotion).

1. Segmentation, Targeting, and Positioning

Mass marketing strategy (mass marketing) targets everyone. The weakness of this strategy is the company's limited resources. These limited resources do not allow companies to serve all consumers effectively. Companies can implement an STP strategy to overcome the weakness of a mass marketing strategy.

STP begins by identifying market segments (consumers). Segmentation aims to group consumers into more homogeneous groups so that companies can serve them better. There are many bases for segmenting: geographic, demographic, psychographic and behavioural. The following table describes the segmentation basis further.

Table 11.9
Segmentation Base

Geographical	
Region	Java, Outside Java
Country	Domestic, Overseas
City and Village	City, Village
Demographic	
Gender	Male Female
Age	Toddler, Young, Adult
Income	Low, Mid, High
Work	Civil Servants, Private, Entrepreneurs
Psychographic	
Social class	Lower class, middle class, upper class
Lifestyle	Achievers, believers, strivers
Personality	Ambitious, compulsive, conservative
Behavior	
Purchase time	Regular, special
Benefit	Quality, service, economy
User state	Regular users, non-users, ex-users, potential users
Readiness stage	Unaware, aware, informed, intending to buy

The demographic basis is the most popular and frequently used. For example, clothes are made based on gender, namely men's and women's clothes. Clothing is also marketed by age: children, youth and adults. Other, more abstract base segments can also be selected. For example, the lifestyle basis can divide consumers into busy and non-busy lifestyles. Instant packaging products can be aimed at consumers who have active lifestyles. These consumers only have a little time to cook. With packaged products, consumers only need to heat the food, and it's ready to serve.

After the manager performs segmentation, the next step is targeting. Targeting is selecting the segment to be addressed. The target segment can be based on more than one segmentation variable. For example, managers may choose the male part, with middle income, living in cities, and having an active lifestyle

There are several segmentation variables used. In general, an attractive target is a target that is large in number and has significant purchasing power, and the company has better competitiveness than its competitors.

After the segment is selected, the next step is positioning. Positioning is the act of placing a product in the minds of consumers. If product positioning is effective, consumers will remember the product quickly if consumers want to fulfil their needs. Positioning can be done using many variables, such as product, price, distribution, promotion, human resources, location, etc. The 4P strategy discussed below can also be a tool for positioning.

2. The Four P's Strategy (*Product*, *Price*, *Place*, dan *Promotion*)

After the STP has been completed, the next step is to offer the product and communicate the offer to consumers.

a. Product

A product can be offered to a market for display, acquisition, use or consumption that might satisfy a need or want. Product has a broad meaning, not only physical goods. There are five product levels: core benefits, essential products, expected products, augmented products, and potential products.

1) Core Benefit: main benefit. For example, people go to hotels to find a place to sleep and rest.
2) Basic Product: essential product. For example, the primary products offered by a hotel are rooms, beds, and bathrooms.
3) Expected Product: a set of attributes consumers expect when buying a product. For example, for hotels, consumers expect clean rooms and clean towels.
4) Augmented Products. Extended product. Usually, the company has been able to offer the expected outcome. Because of this, companies try to provide more than the minimum requirements. For example, hotels offer additional attributes, such as cable TV, express check-in and check-out, and a shuttle to and from the airport. Competition usually occurs at the augmented product level. For example, a hotel provides additional services to make hotel users comfortable. However, adding these services will increase costs, so prices must be increased. Other hotels cut back on extra services and then compete by lowering prices.
5) Potential Products. Potential products are products that are further developed. Currently, the possible product may still need to appear. Hotels of the future will involve creativity and changing environments and technologies.

b. Pricing

Managers in determining prices must consider many things, such as targeted consumers, price elasticity of targeted consumers, existing competition, production costs, consumer perceptions, economic conditions, and others. Here are some ways to determine prices.

1) Cost-plus pricing - this method is done by calculating production costs and adding a certain margin as the desired profit.
2) Target return pricing – Prices are determined to achieve the target return on investment.
3) Value-based pricing – Prices are determined based on practical value perceived by consumers relative to its competitors. Companies, in this case, try to set prices that consumers consider to provide the most significant benefit compared to the price. For example, Chinese car Wuling charges a lower fee than Japanese cars for the same car category (providing the same facilities). The Chinese vehicle tries to give the best price (high benefit/cost ratio) for consumers,

4) Psychological pricing – Prices are determined based on signal factors for product quality, a certain number that provides a psychological basis, and the value consumers perceive as reasonable. Some products set prices with impressive numbers, for example, IDR 199,000 (not converted to IDR 200,000). The number 199,000 is sometimes perceived as around IDR 100,000, not IDR 200,000, so the price will seem cheaper. A product is often deliberately sold at high prices. With such high prices, products sell faster. Consumers feel that the high price reflects the better product quality.

c. Place

Place relates to how to distribute the company's products to consumers. The marketing channel is the path by which a product can be spread from producers to consumers. Marketing channels can be interpreted as a group of interdependent organizations involved in the process of making a product or service so that it is ready for use or consumption.

Marketing channels are needed for several reasons: (1) many producers lack of financial resources to carry out direct marketing, (2) direct marketing will require many producers to become intermediaries to complement products from other producers to achieve economic mass distribution, (3) manufacturers who can set up their channels can earn significant revenues by increasing their investment in their primary business, (4) companies can quickly and flexibly test new products and ideas, (5) the use of marketing channels can drive efficiency in making products readily available and easily accessible to consumers who are the target market.

Some models of marketing channels for consumer products can be seen below.

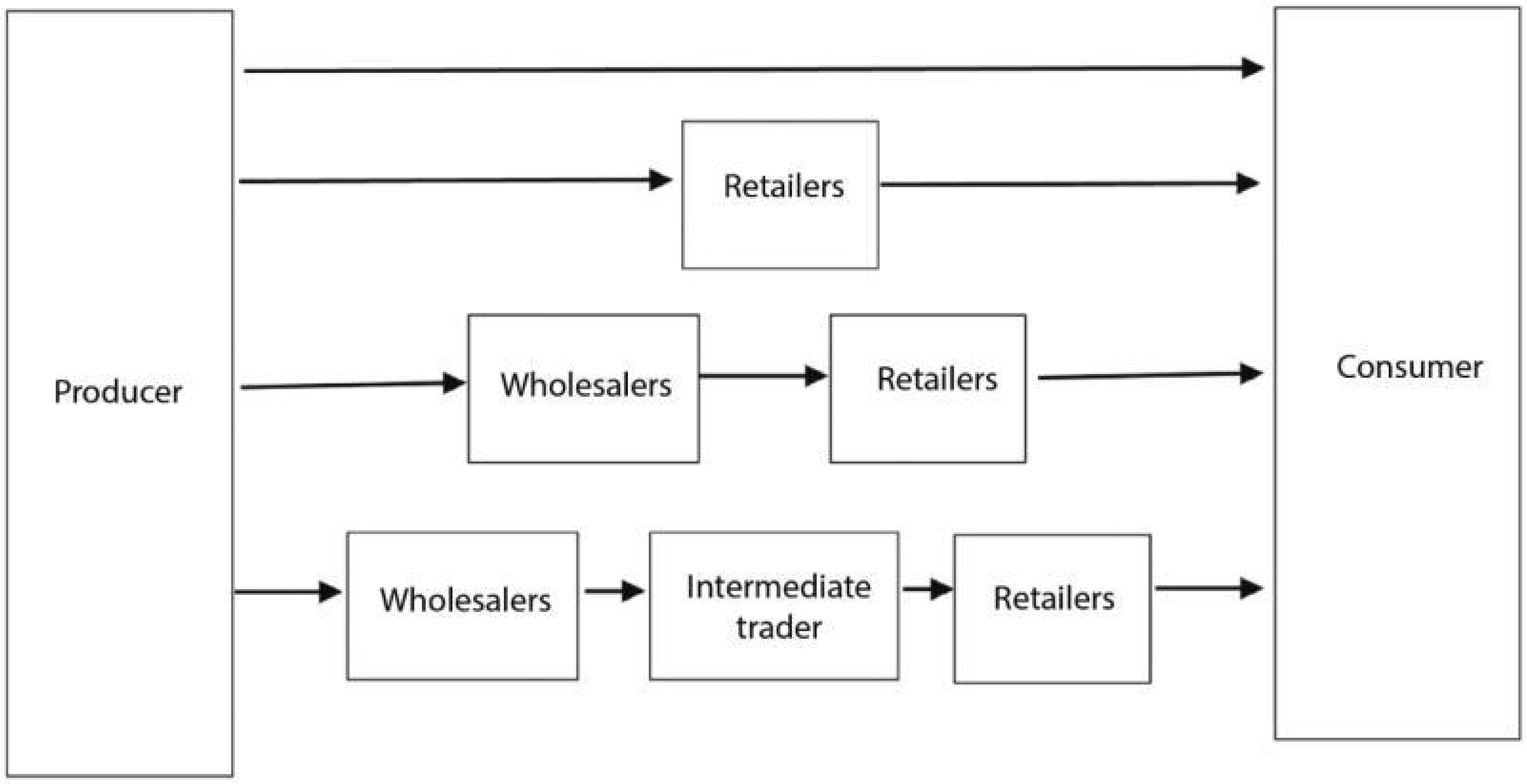


Figure 11.6
Consumer Goods Marketing Channel Model

From Image 11.6 above, we can see that consumer goods marketing channels consist of several variations, namely direct-to-consumer channels, channels through retailers, channels through wholesalers and retailers, and channels through wholesalers, medium-sized traders and retailers.

d. Promotion

Managers need to communicate their products to consumers through promotions. Promotion includes five main tools, namely (1) advertising, (2) sales promotion, (3) public relations, (4) personal selling, and (5) direct marketing. Managers can use the promotion component mix. Table 11.10 below shows further examples of each promotion mix.

Advertising can be used to build a long-term image or to drive quick sales. A final example is an ad announcing a deal at the end of the week. Advertising can reach geographically dispersed consumers more efficiently. Advertising costs vary from small to very large.

Sales promotions vary, ranging from coupon contests, and others. These methods can encourage short-term effects.

Sales promotions can be used to drive short-term results, such as to promote sales to reach year-end targets.

Public relations have high credibility because news and writing will appear more neutral (compared to advertisements because the impression of promotion for advertisements is high). Some consumers may prefer to avoid reading advertisements or avoid salesmen. Public relations can reach people like that.

Personal selling has advantages because it allows for personal interaction between companies and consumers. Direct interaction can be beneficial because meeting face-to-face can lighten the mood more, and questions can be clarified immediately. Direct marketing has characteristics, namely non-public (messages are addressed directly to certain people), and can be customized according to the features of the intended person.

Table 11.10
Promotion Mix

Advertising: print-outs (newspapers, magazines), online advertisements, packaging, moving images, brochures, and booklets. Billboards, posters, displays, audiovisual materials, logos and symbols, and videos. Websites, banners. Sales Promotion: contests, games, lotteries, giveaways, trade shows, coupons, low-interest funding, redemption Public Relations: press releases (news), videos, speeches, seminars, annual reports, donations, sponsorships, publications, community relations, and special events. Personal Selling: sales presentations, meetings, incentive programs, and trade shows. Direct Marketing: catalogues, mail, telemarketing, TV-shopping, e-mail, fax, electronic shopping.

3. **Marketing Research**

Managers need to understand the characteristics and behaviour of consumers better so that managers can serve consumers better. Marketing research aims to understand the features and behaviour of consumers. Marketing research can be defined as the systematic design, collection, analysis, and reporting of data and findings relevant to the specific marketing situation faced by a company.

The steps in marketing research are (1) determining marketing research objectives, (2) developing a research plan, (3) gathering information, (4) analyzing information, and (5) presenting the findings. As an illustration, for example, the manager sees that his new product needs to sell better. The manager wants to find the cause. Managers determine marketing research objectives, namely why new products are not selling well. Several questions can be asked, such as "are consumers not socialized enough, are the prices too high?" Then the manager can start designing a research plan, including the research method, the sample to be interviewed, the location, etc. After the plan is finalized, the next task is to execute the plan. First, gather information. Information collection can be done in several ways, for example, by collecting secondary data, conducting interviews or FGD (focus group discussion), and observation. For example, managers work FGDs and comments. Then FGD and observation were carried out. Data is collected and analyzed. From the FGD activities and observations, specific patterns emerge; for example, the way indicates that consumers need to be better socialized about the new product and its benefits. Then, these results can be presented to those who need them, for example, top managers.

The following shows a consumer behavior study conducted by a company. These studies reveal complex behaviors that even consumers themselves may not be aware of.

> The company has conducted many studies on consumer behavior. Even consumers themselves are not aware of the behavior that companies research. By knowing consumer behavior, the company hopes to provide offers that suit the needs and desires of consumers. The following are some examples of consumer behavior that companies have analyzed. Coca-Cola knows that we put an average of 3.2 pieces of ice in a glass, sees 69 TV commercials per year, and prefer cans over drinks in vending machines, where the temperature is 35 degrees Fahrenheit. Americans spend \$20 per year on interest. When wearing pants, 51% of men are tucked in the left. 65% of women tucked in the right first. If a couple is shopping, there is a 90% chance that they are holding different brands. Fifty-two million take aspirin annually. Americans eat 156 burgers annually, 95 hot dogs, 283 eggs, and 5 pounds of yogurt. Coffee consumption in 1962: 3.12 cups; in the 1990s: 1.76 cups. Consumption of soft drinks for breakfast: up 9% from 10 years ago (12% of total consumption).

Source: Kotler dan Keller 2016

D. OTHER MANAGEMENT FUNCTIONS

Accounting, finance, and marketing functions have already been discussed. MSMEs still need to carry out other company functions, such as operations, human resources, etc. These functions need to be adapted to the characteristics of SMEs.

1. Human Resource Management

Entrepreneurs need to be assisted by others, especially if the MSME business grows more prominent. Therefore entrepreneurs need to recruit employees to help their businesses. Employees are an essential asset of the company.

A bad employee, however, can drive up costs or destroy a company. To manage employees, entrepreneurs need to take steps starting from recruitment, development, and supervision.

a. Recruitment

New workers tend to have high turnover. A study shows that 36% of new hires will fail in the first 18 months, and 40% of senior managers recruited from outside the company will fail in the first 18 months. The cost of recruits can be up to a third of their annual salary. What keeps the workforce afloat? A survey shows several reasons why the crew is surviving or not surviving. Table 11.11 below shows the reasons.

Table 11.11
Reasons to Survive Working in an Institution

1.	Can do the best.
2.	Better work-life balance and better personal life.
3.	Better working safety and stability.
4.	Significant increase in income.
5.	Opportunity to work in a company that has a good reputation.

The table shows that money is not the primary motivation for choosing a job. Income ranks fourth. MSMEs can take advantage of this finding because if they compete based on the salary offered, MSMEs will find it difficult to compete with large businesses to get quality human resources.

Which recruitment should be selected? Practitioners or companies that recruit will usually mention soft skills as the main factor seen from prospective employees. After that, only the hard-skill factor is mentioned. Soft skills include communicating and working together, being willing to learn continuously, articulating goals, and having passion. Hard-skill skills include mastery of knowledge. With an alternative lens, the desired employee candidates are those who have three things: (1) knowledge, (2) skills, and (3) attitude. Knowledge indicates that the candidate has already studied to some degree. For S1 graduates, students must have studied and mastered specific knowledge.

Skills are related to skills. For example, to perform calculations, the skill of using spreadsheet software is beneficial. Lastly is a good attitude. A good attitude includes communicating, working together, and having passion.

People who have good power will work beyond the work contract. Prospective employees who meet the stated criteria can be expected to contribute significantly to the organization.

b. Managing Human Resources

After being recruited, the task of MSME entrepreneurs is to maintain, motivate, develop, and monitor their performance. Human resources are expected to make the best contribution to the organization. Entrepreneurs can boost HR so they can make the best contribution. Motivation can be done through (1) monetary motivation (money or income) and (2) monetary motivation. An example of non-monetary motivation is praise, an opportunity to actualize oneself. According to Maslow, humans are motivated to meet multilevel needs: (1) physiological needs (eating, drinking), (2) security needs (safe environment, safe work), (3) social (interacting with others), (4) recognition (appreciated, status), and (5) self-actualization (want to achieve their targets). Entrepreneurs can use Maslow's theory to motivate HR better.

2. Operations Management

Operations management deals with company operations. Operations management has evolved from a narrow perspective, namely production management (producing goods), to a broader perspective, which includes services. The operations management model can be described as follows.

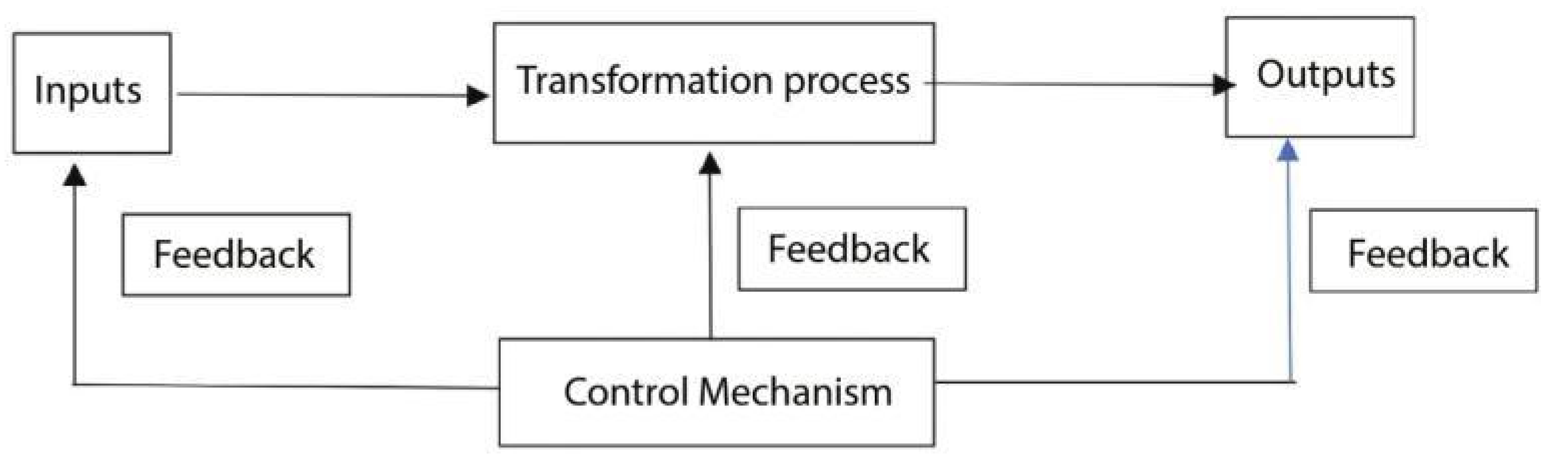


Figure 11.7
Operations Management Model

The operations management model shows the presence of inputs that change through the transformation process into outputs. A control mechanism monitors the information, transformation process, and production. Then there is feedback in the process. The operations management process will produce work efficiently or productively. Can measure productivity by comparing output and input (Output/Input). The greater the comparison number, the more effective a company is. Can exercise control mechanisms through three types of controls:

a. Feed Forward: more aggressive control to prevent damage. For example, companies can monitor inputs before they enter the production process to avoid defective products.
b. Concurrent: control is carried out simultaneously with the production process. The company oversees the production process to prevent defective products.
c. Feedback: control is carried out after the output comes out. For example, after the production process is complete, the company can monitor defective products. If the defective product exceeds the maximum limit, the manager will re-evaluate the production process that has occurred so far, incoming input, and other related matters. Then, repairs are carried out to prevent the same damage in the future.

Managers can use control mechanisms, such as PERT, linear programming, and Gantt charts, to plan activities. PERT and linear programming have been discussed in previous modules. The Gantt picture can be seen below. For example, the manager is planning the manufacture of a new product. The new product is scheduled for completion in six months.

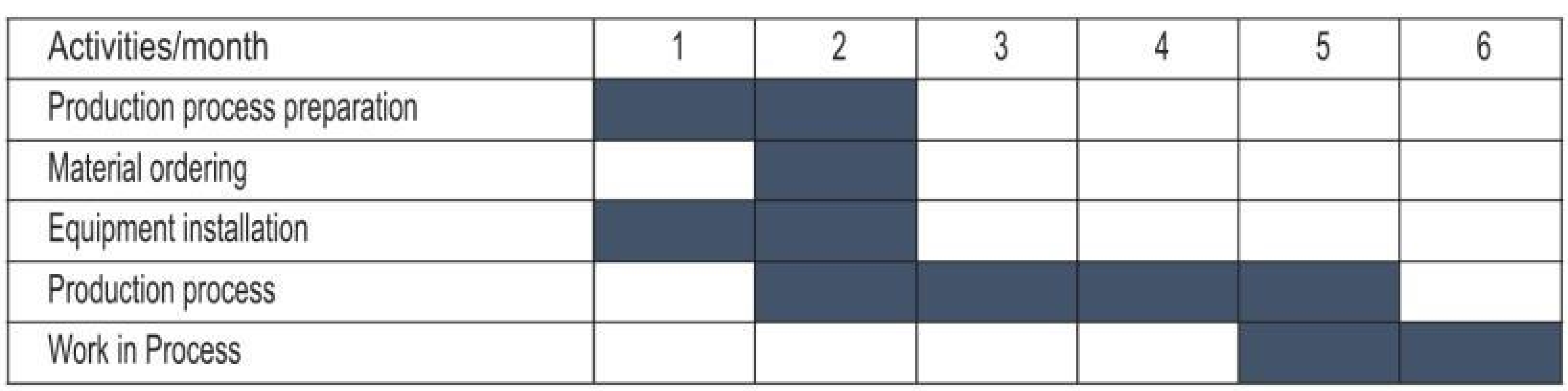


Figure 11.8
Gantt Images for New Products

There are five activities identified, namely (1) preparation of the production process, (2) ordering of materials, (3) installation of equipment, (4) production process, and (3) finishing of finished products. For each activity, the manager can formulate a schedule. Preparation for the production process is carried out for two months, namely months 1 and 2. The production process is scheduled to take four months. In the 5th month, the production process is completed. Product finishing requires two months, namely the 5th and 6th months. In the 6th month, the new product will be ready.

Exercise

To understanding of the material above, please complete the following exercise!

If you have ever seen or owned a business included in MSME, how do you achieve practical marketing goals that are by the circumstances of your business?

Key Ideas for Exercise Answer

Use the STP and 4P strategy concepts.

Summary

This learning activity discusses MSME management. Several management functions are discussed in this learning activity, namely accounting, financial management, marketing management, human resource management, and operations management. Even though the management principles are generally applicable to all situations, there are adjustments to be used for MSMEs to suit the characteristics of MSMEs.

Accounting is the process of recording transactions carried out by entities, which are then processed into information about the entity that is useful to stakeholders. Information about the entity's condition is summarized in three reports: the balance sheet, income statement, and cash flow statement. Financial management manages the economic function of a commodity for a company. Financial management aims to maximize shareholder prosperity. Financial managers have three types of tasks, namely making investment decisions, funding decisions, and working capital decisions. Making working capital decisions is the most relevant decision for MSMEs. Can monitor working capital through the cash cycle. Can use balance sheets and financial statements to calculate the cash cycle.

Marketing management aims to create exchanges between consumers and companies, satisfy consumer needs, and provide benefits for the company. Marketing management uses two strategies: STP (Segmentation, Targeting, and Positioning) and 4P (Product, Price, Place, and Promotion). Segmentation is the act of grouping consumers into more homogeneous groups so that companies can provide better service. Targeting is selecting the segment to be addressed. Positioning is the act of placing a product in the minds of consumers. The 4P strategy is carried out by designing products, setting prices, determining marketing channels, and promoting products to reach consumers or targeted segments effectively.

Human resource management is necessary because entrepreneurs cannot do all the work alone. Employees can help entrepreneurs or managers run businesses and achieve the desired goals. Good employees will be an essential asset for the organization. On the other hand, bad employees can be a burden to the organization. Operations management is related to the operations of the company/organization. Operations management has a broad understanding of not only the production process but also the operational process, which includes service activities. The basic operations management model is input →transformation process → output. Managers can use operations management techniques to assist operations management, such as Gantt Drawings.

SOME TERMS

4p	Value added
Accounting	Time value of money
Gantt	Operation
Input	Output
Prosperity	Marketing
Finance	transformation process
Cash flow statement	Recruitment
Income statement	Risk
Working capital	HR
Motivation	Cash cycle
balance sheet	Tax collection letter

Formative Test 2

Choose the correct answer!

1) Financial statements that show the company's assets and the sources of funds used to obtain these assets are called ....
   A. balance sheet
   B. income statement
   C. cash flow statement
   D. account

2) The company sells merchandise on credit, due in the next year. Using accrual-based accounting is ....
   A. has not been recognized as a sale because there has been no incoming cash
   B. have been recognized as sales, but profits have not been recognized
   C. already recognized as sales, profit can also be recognized that year
   D. can be recognized, but in part, the maximum is 50% of the sales value

3) The goal of financial management is to maximize ....
   A. profit
   B. shareholder prosperity
   C. cash
   D. employee welfare

4) Cash cycle is ....
   A. inventory age + receivable age
   B. aging of inventories + aging of accounts receivable – aging of accounts payable and accruals
   C. current assets - current liabilities
   D. current assets

5) Money received now is more valuable than received in the future. The concept is called ….
   A. risk and return
   B. market efficiency
   C. profitability
   D. time value of money

6) The basis of segmentation based on personality (ambitious, conservative) is called ....
   A. demographic
   B. psychographics
   C. geographical
   D. gender

7) Coupons and contests constitute a promotional mix called ....
   A. sales promotion
   B. advertising
   C. direct marketing
   D. public relations

8) To plan and control production activities, drawings that can be used are ….
   A. balance sheet
   B. cash budget
   C. Gantt
   D. *input-transform-output*

Use key answers for Formative Test 2 which is located at the end of this module to determine the correctness of your answer. To make sure your mastery of the learning materials use the following formula.

$$\text{Level of mastery} \quad \frac{\text{Number of correct answers}}{\text{Number of test item}} \times 100$$

Level of master is as follows

<70%	70% - 79%	80% - 89%	90% - 100%
lower than expected	adequate	good	very good

When you attain level of mastery 80% or more, very good, you may continue to the next module. Otherwise you have to review the material of Learning Activity 2. Pay attention to parts which you don't master yet.

Case
Martabak Business Feasibility

Agus is a student at the State University, Faculty of Economics and Business. His father wanted to open a martabak business. Previously, his father had worked at a martabak counter in front of the mini market. The martabak where his father worked made the typical Tegal martabak, usually caused by the people of Lebaksiu, Tegal. The martabak consists of salty martabak and sweet martabak. His father wanted to quit his job and start running his own business. His father was able to make this typical Tegal martabak. Agus tries to find more information about the martabak business.

Carts and cooking utensils can be obtained for around IDR 15 million. Daily turnover varies. Martabak prices vary from IDR 20,000 per portion to IDR 35,000 per portion. Information obtained informally indicates that a turnover of IDR 500,000 per day may be received. Production costs and cost of production are more difficult to estimate. However, Agus uses the rule-of-thumb regarding the cooking business margin, around 50%, so that a net profit can be obtained of around IDR 250,000 per day. Initial working capital is required around IDR 5 million. Thus, with a total investment of IDR 20 million, the martabak business can be run. Carts have a long economic life. However, Agus wants to evaluate the five-year time horizon to evaluate the proposal.

Because Agus studied at FEB, Agus wanted to apply his economics knowledge to evaluate the feasibility of the business. Agus intends to calculate the proposal's Present Net Value, IRR, and payback period. If using NPV or IRR, Agus needs to calculate the applicable discount rate. How to calculate the discount rate or minimum profit level? Agus remembers the concept of opportunity cost. The idea essentially says that the father's funds and labor have an opportunity cost. What alternative funds will Agus's father use to invest in martabak? Agus sees the interest rate on deposits coupled with a premium for the risks and labor of Agus's father. Current deposit rates can be seen in the following table (as of 17 December 2019).

Bank Name	1 Mnth (%)	3 Mnth (%)	6 Mnth (%)	1 yr (%)
CITIBANK	3.8	4.8	4.8	5.1
DEUTSCHE BANK AG	2.5	2.7	2.8	3
STANDARD CHARTERED BANK	3.8	4.6	4.9	4.8
BANK HSBC INDONESIA	5.2	5.5	5.6	6
BANK ANZ INDONESIA	2.8	2.9	3	3.2
BANK BUKOPIN	6	6	6.3	6.3
BANK CENTRAL ASIA TBK	4.5	4.5	4.5	4.6
BANK CIMB NIAGA	5.7	6.1	6.3	6.3
BANK COMMONWEALTH	5.1	5.9	6	5
BANK DANAMOM INDONESIA	5.6	5.6	5.6	5.6
BANK ICBC INDONESIA	6	6.1	6.3	6.8

Bank Name	1 Mnth (%)	3 Mnth (%)	6 Mnth (%)	1 yr (%)
BANK MANDIRI	4.6	6.1	5	5.5
BANK MAYBANK INDONESIA	5.4	5.4	5.5	6.4
BANK MAYORA	6.3	6.6	6.1	6.1
BANK MEGA	5.9	6	5.8	4.6
BANK NEGARA INDONESIA	5.1	5.8	5.5	5.3
BANK OCBC NISP TBK	4.3	6	5.8	6.1
BANK PANIN INDONESIA	5.4	5.6	5.8	5.6
BANK PERMATA TBK	5.8	5.6	5.4	5.4
BANK RAKYAT INDONESIA	5.5	5.8	5.8	5.8
BANK TABUNGAN NEGARA	6.3	6.3	6	5.9
BANK UOB INDONESIA	5.1	5.4	6	5.1
KESELURUHAN	5.7	5.9	5.8	5.8

How much are the additional risk premium and father Agus's labor? The premium amount will depend on the risk. However, quantifying the concept takes work. For example, the tip is 6%, while the deposit interest is 6%, and the discount rate is 6+6 = 12%. However, Agus needs to figure out these calculations.

Discussion Questions

1. Make a cash schedule for feasibility analysis from the financial side!
2. Evaluation of the discount rate calculation. Do you agree with Agus's measures?
3. Evaluate the feasibility of the martabak business proposal with the concept of NPV, IRR, and payback period. Is it interesting?
4. Overall evaluation of the investment proposal? What's your recommendation?

Answer Key to Formative Test

Formative Test 1

1) A
2) B
3) D
4) C
5) B
6) C
7) D
8) B

Formative Test 2

1) A
2) C
3) B
4) B
5) D
6) B
7) A
8) C

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