

DEVELOPMENT STRATEGY FOR MICRO, SMALL
AND MEDIUM ENTERPRISES OF PALEMBANG CITY;
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Abstract

Micro, Small, and Medium Enterprises (MSMEs) play a pivotal role in bolstering the economy, particularly in employment, contributing significantly to the stability of both regional and broader financial systems. This research, employing a qualitative approach involving observation, interviews, and documentation studies, seeks to identify and map potential MSME areas in Palembang City. The study's findings encompass the thorough identification and mapping of these enterprises across each sub-district in Palembang City, elucidating 22 strategic issues such as capital, marketing, infrastructure, licensing, and innovation. Furthermore, the research sheds light on the spatial distribution of MSMEs, categorizing them based on zoning and business type. Notable examples include the culinary business center in Bukit Kecil sub-district, the cracker and kemplang business center in Sukarami sub-district, the songket business center in Ilir Barat II sub-district, and the jumputan business center in Kertapati sub-district. This comprehensive analysis contributes valuable insights into the multifaceted dynamics of MSMEs, offering a foundation for informed policy decisions and strategic planning to enhance economic sustainability.

Keywords: Development, Identification, MSMEs, Strategy

1. INTRODUCTION

Local governments need to strive to realize inclusive economic development. The main strategy in the inclusive economic development model is to provide productive employment, especially for people who are unable to work or who lack the benefits of development, public services, and adequate public policy support. The focus is on developing a regional economic development model that examines regional economic potential strategies, especially those based on natural resource utilization. One of these strategies is through the efforts of micro, small, and medium enterprises (MSMEs). As outlined in Law Number 20 of 2008, MSMEs aim to grow and develop their businesses in order to build a national economy based on equitable economic democracy (Hubeis et al., 2015).

The sharp decline in foreign trade has led the government to strive to improve national economic performance in the third quarter, with an expected economic growth in 2020 to be around -0.4% to 1%. To achieve this, the government is implementing the National Economic Recovery (NER) program, which is expected to be effective starting in the third quarter. The NER consists of 3 (three) main policies: increasing domestic consumption (demand), increasing business activity (supply), and maintaining economic stability and monetary expansion (Khairunnisa et al., 2022). This can be a motivation for the Palembang city government. Apart from being the center for marketing UMKM products in South Sumatra, it can also be a motivator for driving MSMEs in other regions.

In principle, strategies can be grouped based on three types of strategies (Rangkuti, 2014). First, management strategies include strategies that can be carried out by management with a macro strategy development orientation. For example, product development strategies, price implementation strategies, acquisition strategies, market development strategies, strategies regarding finance, and so on. Second, investment strategy, where this strategy is an investment-oriented activity. For example, whether the company wants to carry out an aggressive growth strategy or try to hold market penetration, survival strategy, strategy for rebuilding a new division. Third, business strategy is often called functional business strategy because this strategy is oriented towards the functions of management activities. For example, marketing strategy, production or operational strategy, distribution strategy, organizational strategy, and strategies related to finance (David, 2002).

MSMEs are independent productive business units, conducted by individuals or business entities in all economic sectors. In principle, the distinction between Micro Enterprises (MEs), Small Enterprises (SEs), Medium Enterprises (MEs), and Large Enterprises (LEs) is generally based on the value of initial assets (excluding land and buildings), average turnover per year, or the number of permanent workers. However, the definition of MSMEs based on these three measurement tools differs by country. Therefore, it is difficult to compare the importance or role of MSMEs between countries (Tambunan, 2012).

The empowerment of Micro, Small, and Medium Enterprises (MSMEs) is very important and strategic in anticipating the future economy, especially in strengthening the structure of the national economy. The existence of the current national economic crisis has greatly affected national economic and political stability. The impact has affected the activities of large businesses, which are worsening, while MSMEs and cooperatives are relatively able to maintain their business activities (Alfrian & Pitaloka, 2020).

In the current era of industry 4.0 digitalization, business actors are required to be able to adapt to utilizing existing digital tools to expand markets and increase sales. The use of digital-based marketing tools will help business survival. The marketing strategy carried out by MSMEs is indeed appropriate in the current era, especially in pandemic conditions where people reduce outdoor activities. Marketing using digital tools is carried out to get consumers, build their preferences, promote merchandise, retain consumers, and increase sales, ultimately increasing profits (Purwana et al., 2017). Marketing strategies carried out on internet media are the solution. Fortunately, currently, it has been facilitated by various online media that can be used to sell production. Like various marketplaces available with a variety of services available. These marketplaces such as Shopee and or Tokopedia are the most popular in Indonesian society.

The problem that occurs is the COVID-19 pandemic. This pandemic affects the economy, especially on the selling and buying sides. On the seller's side, companies reduce inventory of production materials and unfavorable workers and supply networks that encounter problems. From the buyer's factor, decreased demand and buyer confidence in a product (Laura Hardilawati, 2020).

Social media has an equally high influence on business growth in Indonesia, especially online-based businesses. User-generated content in attracting the attention of the public to become new consumers (user-generated content) is becoming increasingly important in today's digital era. This content accounts for 65% of media usage time for the average consumer globally. In addition, consumer reviews of purchased products are

the second most important thing that can affect the marketing process of a product (Suhardi et al., 2021).

Given the importance of overcoming the problem of income inequality and the importance of developing economic sectors that have comparative and competitive advantages, the efforts made by the government, especially the regions, are to strive for the development of MSMEs in their superior sectors by identifying problems that occur and then formulating appropriate development strategies. MSMEs that are created can be used as a way to empower communities with social problems such as poverty and unemployment (Sarfiah et al., 2019). Micro-enterprises are expected to create new jobs so that their management utilizes the local community. With the many jobs that arise from the development of micro-enterprises, it is possible that the unemployment rate can be resolved. MSMEs can really absorb many workers who are still unemployed. Not only that, they also use a variety of potential natural resources in an area that is still underutilized for profit (Kurniawan & Fauziah, 2014).

This study aims to explore and understand the importance of local governments striving for inclusive economic development, particularly through strategies that provide employment opportunities, especially for those facing challenges in the job market. Focusing on the role of micro, small, and medium enterprises (MSMEs), the research investigates how these businesses contribute to national economic growth and stability, in line with relevant legislation. The study assesses the effectiveness of government initiatives, such as the National Economic Recovery (NER) program, and categorizes various strategic approaches in management, investment, and business. Additionally, it examines the impact of digitalization on business practices, emphasizing the suitability of digital marketing for MSMEs, especially during the COVID-19 pandemic. The research also delves into the challenges faced by businesses and consumers during the pandemic, highlighting the multifaceted role of social media in business growth. Ultimately, the study aims to contribute insights into the development of MSMEs, their resilience during economic crises, and their role in addressing social issues like unemployment and poverty.

2. RESEARCH METHODS

Conducted from May to July 2022, this research employed a mixed-method approach to comprehensively examine the formulation of Micro, Small, and Medium Enterprises (MSMEs) development strategies. Primary data were collected through interviews and focus group discussions (FGD), while secondary data were sourced from reports provided by the South Sumatra Provincial Cooperatives and SMEs Office, as well as the work plan of the Palembang City Cooperative and SME Office. The formulation of MSME development strategies followed the strategic stages proposed by David (2010), encompassing input, matching, and decision stages. The data collection process involved the use of questionnaires and FGD with participatory methods. During the FGD sessions, a participatory method was employed, involving the gathering of relevant stakeholders in coordination meetings to elicit inputs and formulate strategies collaboratively. The intricate process of identifying strategic issues is visually represented in Figure 1 below:

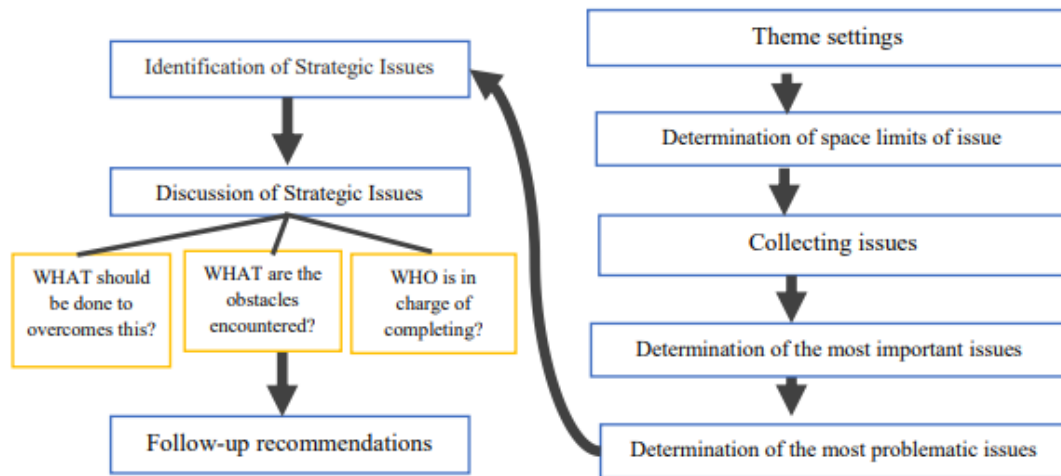


Figure 1. Identification Process of Strategic Issues
Source: Tambuh et al. (2020)

3. RESULTS AND DISCUSSION

3.1. Result

**Table 1. Data on the Development of Small and Micro Enterprises
in South Sumatra Province in 2021**

No	District/ City	Amount
1	Palembang	220.301
2	Lubuk Linggau	26.988
3	Oku Timur	123.107
4	Musi Banyuasin	39.563
5	Lahat	53.725
6	Pagar Alam	14.841
7	Muara Enim	36.344
8	Empat Lawang	51.257
9	Banyuasin	60.319
10	Musi Rawas	26.445
11	Ogan Ilir	93.461
12	Pali	26.143
13	Oku	43.077
14	Oki	32.488
15	Okus	69.813
16	Musi Rawas Utara	6.328
17	Prabumulih	19.142
Total		943.342

Based on table 1, the data on the development of Small and Micro Enterprises (SMEs) in South Sumatra Province in 2021, Palembang City with the highest number of SME levels of 220,301.

Table 2. Criteria for MSMEs based on Assets and Turnover

No	Business Size	Criteria Before The Employment Copyright Law		Criteria After The Employment Copyright Law	
		Assets	Turnover	Assets	Turnover
1	Micro Enterprises	Maximum IDR 50 million	Maximum IDR 300 million	Maximum 1 Billion	Maximum IDR 2 billion
2	Small Enterprises	> Rp50 million - Rp500 million	>Rp300 million -Rp2.5 billion	> IDR 1 - IDR 5 Billion	> IDR 2 - IDR 15 Billion
3	Medium Enterprises	>Rp500 million - Rp10 billion	>Rp2.5 billion- Rp50 billion	> IDR 5 - IDR 10 Billion	> IDR 15 billion - IDR 50 billion
4	Large Enterprises	>Rp10 billion	>Rp50 billion	>Rp10 billion	>Rp50 billion

Based on table 2, GR 7/2021 also regulates other criteria that can be used. According to Article 36 paragraph (1) of GR 7/2021, for certain purposes, ministries/institutions can use the criteria of turnover, net worth, investment value, number of workers, incentives and disincentives, local content, and/or the use of environmentally friendly technology in accordance with the criteria of each business sector.

In addition, based on the aspect of commodities produced, MSMEs also have their own characteristics, among others (LIPI and BI, 2015; 15):

- The quality is not standardized. Because most MSMEs do not have adequate technological capabilities. The products produced are usually handmade, so the quality standards vary.
- The product design is limited. This is triggered by limited knowledge and experience regarding products. The majority of MSMEs work based on orders, not many have the courage to try to create new designs.
- The types of products are limited. Usually, MSMEs only produce several types of products. If there is a demand for a new model, it is difficult for MSMEs to fulfill it. Even if they accept, it takes a long time.
- Limited product capacity and price list. The difficulty in determining product capacity and prices makes it difficult for consumers.
- Raw materials are less standardized. Because the raw materials are obtained from a variety of different sources.
- Product continuity is not guaranteed and less than perfect. Because production is not yet organized, the products are usually produced as they are.

3.1.1. Identification of Micro, Small, Medium, and Enterprises (MSME) Strategic Issues in Palembang City

Researchers refer to Republic of Indonesia Minister of Home Affairs Regulation No. 72 of 2013 concerning integrated regional development guidelines. The tools used in

this study were derived from the S-PWT (Integrated Regional Development Scenario) by LEKAD, serving both as a method and a tool to identify the needs of appropriate and urgent Integrated Development (PWT) activities. This process involved a systematic participative mechanism between actors (local governments) and related stakeholders. This method was chosen as an appropriate means for strategic planning, collective planning, awareness-building, networking, and alignment with the research goals. The data input circuit in this scenario followed several steps; Determine the scope, Gather important issues, Select the most crucial issues through the Pareto mechanism, Choose the uncertainty/problematic issues, Identify strategic issues, Agree on (draft) visionary slogans, Analyze and study Priority Areas, Set target achievement for each period of MSME Development, Discuss Supporting Materials, Scenario Brief Summary, and Rapid Move.

From the aforementioned stages, this research covered stages 1-7 and 11, while stages 8-10 were not discussed as they require involvement from policymakers and other relevant elements of local government agencies to determine the timing of the follow-up workshop. The results of identifying the strategic issues of MSMEs in Palembang City revealed 22 strategic issues, with the top 20 percent of the most important and problematic issues being selected—amounting to four strategic issues. The outcomes of these strategic issues are presented in Figure 2 below:

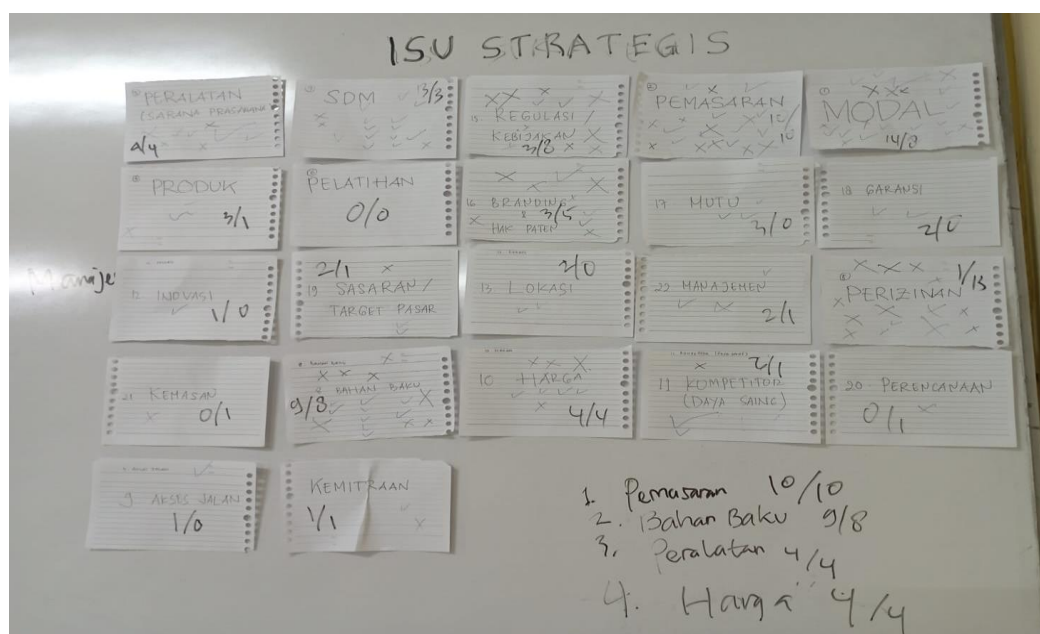


Figure 2. Strategic Issue of MSMe Palembang City
Source: Collected from FGD, 13 Juli 2022

Figure 2 illustrates the spectrum of observed problematic issues. Based on the results of participatory data collection, the eight most important and problematic issues were identified as follows: (1) Marketing, scored 10/10, (2) Equipment (balanced infrastructure), scored 4/4, (3) Price, scored 4/4, (4) Partnership, scored 1/1. Additionally, one issue deserving consideration is raw materials, with a score of 9/8. It is crucial to note that the availability of raw materials significantly impacts the production and marketing processes of thermos products.

**Table 3. Mapping of Potential MSME Areas
in Palembang City 2022**

No	Variables	MSME A	MSME B	MSME C	MSME D
		Pempek Village Kel.26 Bukit Kecil District	Jumputan Center, Kel. Ulu 1, Kertapati	Songket Center, Kel 30 West Ilir II	Cracker Kemplang Center, Sukabangun, Sukarami
1.	Accessibility (25%)	4 (4x25%=1)	3 (3x25%=0,75)	2 (2x25%=0,5)	2 (2x25%=0,5)
2.	Facilities and infrastructure (25%)	3 (3x25%=0,75)	3 (3x25%=0,75)	2 (2x25%=0,5)	4 (4x25%=1)
3.	Generate Income (25%)	4 (4x25%=1)	3 (3x25%=0,75)	3 (3x25%=0,75)	4 (4x25%=1)
4.	Planning and Human Resources (25%)	3 (3x25%=0,75)	3 (3x25%=0,75)	3 (3x25%=0,75)	3 (3x25%=0,75)
	Total (100%)	3,5	3	2,75	3,25

Based on Table 3, it can be observed that the mapping of potential MSME areas in Palembang can be organized or ranked as follows:

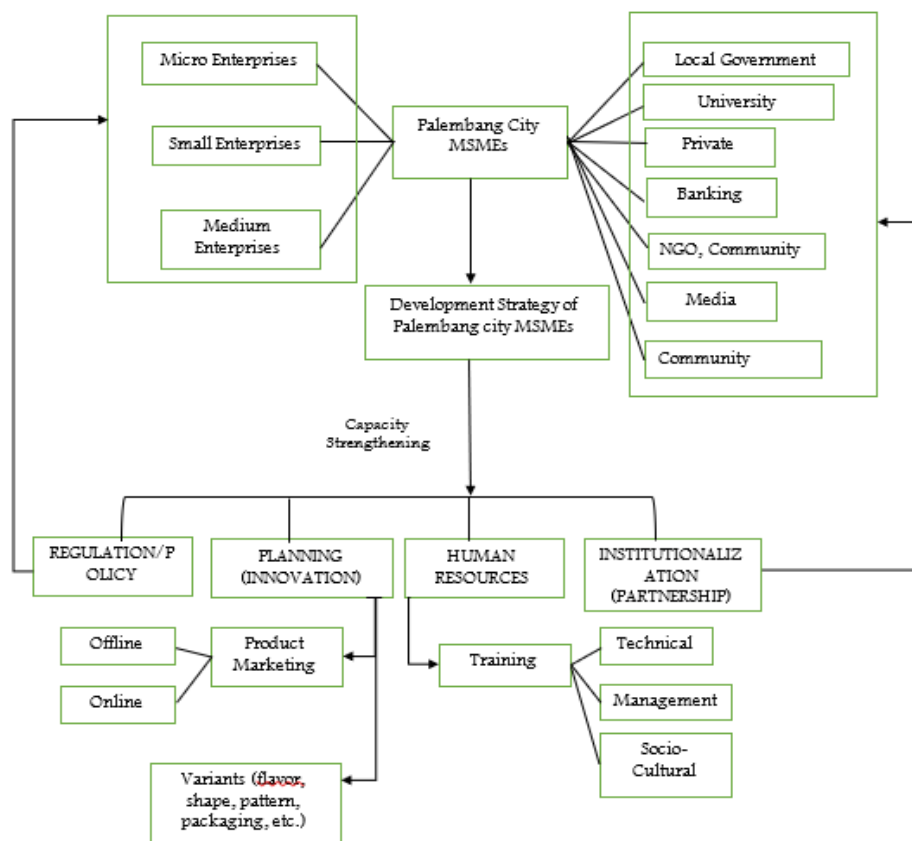
- Area A has a total weight of 3.5, specifically Pempek Village located in the Bukit Kecil district.
- Area D has a total weight of 3.25, identified as the kemplang cracker center situated in Sukarami district.
- Area B has a total weight of 3, denoting the jumputan center located in Kertapati district.
- Area C has a total weight of 2.75, recognized as the central songket located in the West Ilir District II.

The outcomes of the mapping exercise led to the conclusion that potential MSME areas in Palembang city can be developed through integrated approaches, emphasizing the need to enhance institutional capacity via commitment and collaboration among MSME actors and other stakeholders. Despite similar sectors among MSME actors in each sub-district, such as education and distinct tourism sectors, a centralized development approach is crucial.

3.1.2. Visit to Destination Areas

The MSME sector stands as a pillar of the national economy, playing a strategic role in supporting the people's economy by contributing to income equality, employment, and socio-economic forums within the community. However, the development of the MSME sector faces various obstacles, including classic challenges such as limited access to capital, marketing, and technology. Additionally, issues related to policies that may not favor the MSME sector pose further challenges. The weak competitiveness of MSME products against foreign counterparts is a significant hurdle in the global era.

Recognizing this reality, there is a pressing need for collective efforts from various stakeholders to foster the independence and empowerment of the MSME sector. The involvement of diverse entities, including the government, private sector, banking institutions, universities, and various business associations, is essential to drive the empowerment of the MSME sector. Universities, in particular, play a vital role as business incubation institutions capable of promoting technological innovation products and offering assistance to MSME players. The role of technopreneur-ship in the development of MSMEs is anticipated to be effectively fulfilled by universities.



Source: Wulandari, et al (2022) Study Results

Figure 3. MSME Development Strategy Model Palembang City

Based on figure 3. The strategy model for the development of MSMEs in Palembang City can be described as follows:

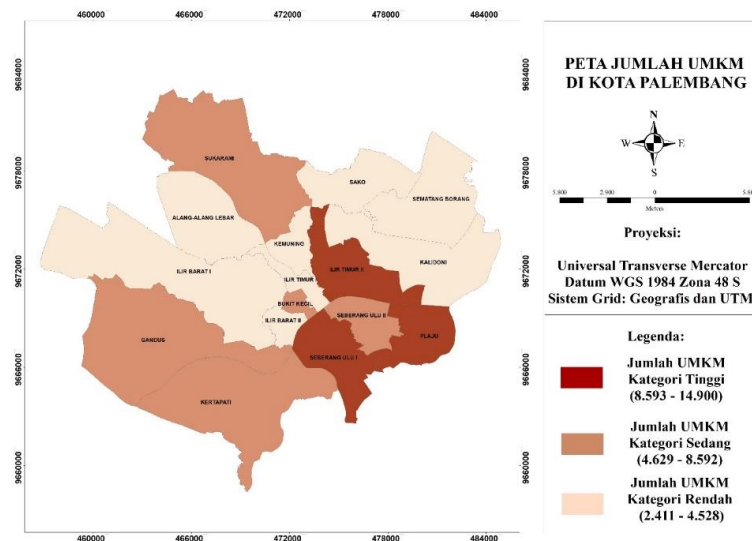


Figure 4. Map of the Number of MSMEs in Palembang City

Source: Wulandari et al. (2022) Study Results

Based on Figure 4, the team conducted data analysis and created a map illustrating the distribution of MSMEs at the sub-district level in Palembang City. The data was categorized into three groups: High category, encompassing a total of 8,593 – 14,900 MSMEs; Medium category, totaling 4,629 – 8,592 MSMEs; and Low category, comprising a total of 2,411 – 4,528 MSMEs. Notably, areas falling into the High category include the districts of Seberang Ulu II, Plaju, and Ilir Timur II. The Medium category encompasses MSMEs situated in the districts of Gandus, Kertapati, Ulu I, Bukit Kecil, and Sukarami. The remaining areas fall into the Low category.

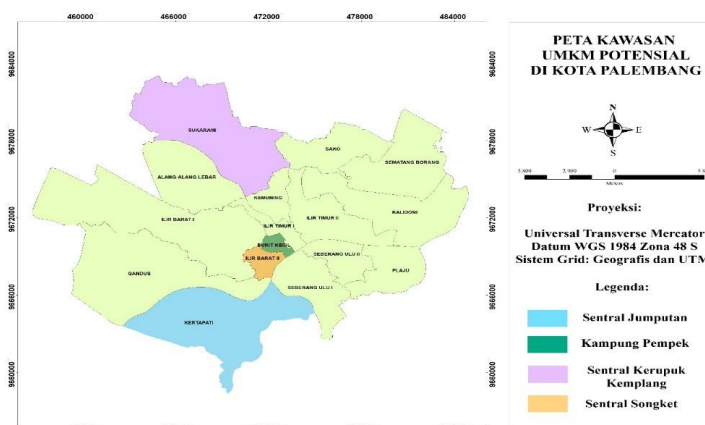


Figure 4. Map of Potential MSME Area in Palembang City

Source: Wulandari et al. (2022) Study Results

Based on the findings from the analysis of 21 teams, data was examined and maps were created highlighting potential MSME areas in the city of Palembang. These areas include the Jumputan Center located in Kertapati district, the Songket Center in West Ilir II district, the central or Pempek Village in Bukit Kecil district, and the Kemlang Cracker Center in Sukarami district.

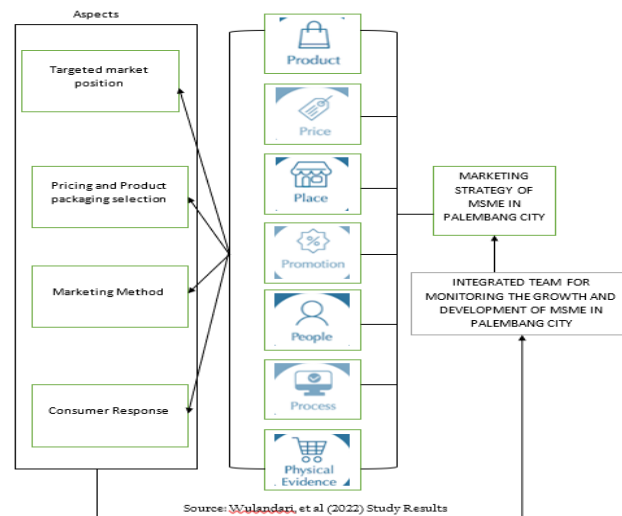


Figure 6. Marketing Model of MSMEs in Palembang City
Source: Wulandari et al. (2022) Study Results

Based on Figure 6, the Palembang City MSME Marketing Model represents an endeavor for MSME actors, supported by an integrated team comprising relevant stakeholders. This collaborative effort utilizes the 7P marketing strategies incorporating four essential marketing aspects, all of which require careful consideration and implementation by the integrated team. The detailed strategy description of the 7P model is provided in the following figure:

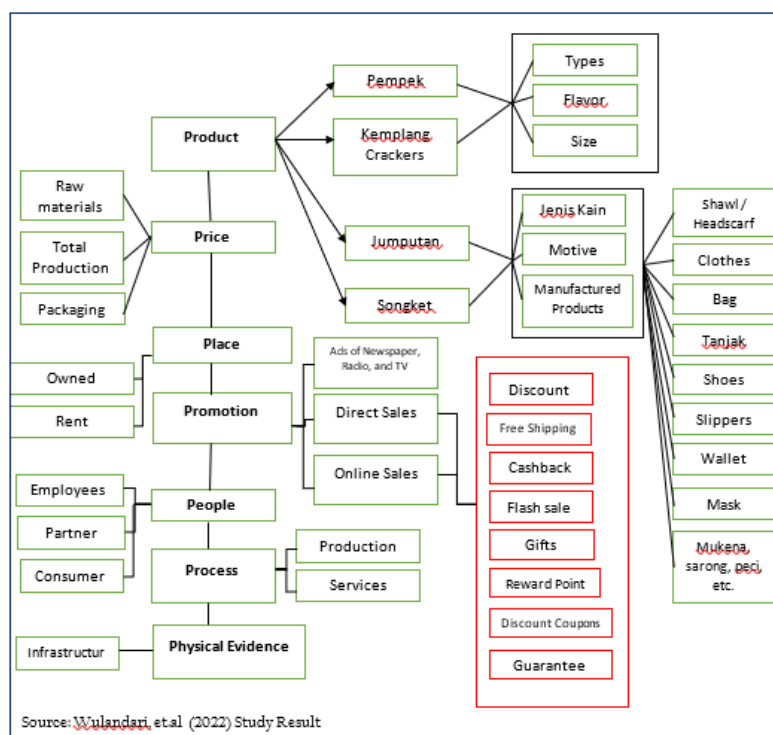


Figure 7. Marketing mix Model 7P MSMEs Palembang City
Source: Wulandari et al. (2022) Study Results

The marketing strategy for MSMEs in Palembang, derived from 7P marketing mix model as indicated in Figure 7, involves a comprehensive approach. This strategy encompasses product focus on potential MSME products like pempek and crackers, attention to pricing based on production factors, strategic decisions on place encompassing ownership and location considerations, diverse promotional avenues including advertising and special promotions, managing human resources aligned with production needs and establishing partnerships, emphasizing the production process and service quality, and ensuring robust physical evidence such as infrastructure and equipment. Successful integration of these elements is vital for the effective implementation of the marketing strategy.

4. CONCLUSION

To propel the advancement of Micro, Small, and Medium Enterprises (MSMEs) in Palembang City, a crucial prerequisite involves the amalgamation of data into a unified repository, housed within data centers situated in cooperatives and MSME offices. This consolidation encompasses micro-enterprises, small businesses, and medium enterprises strategically dispersed across 107 urban villages and 18 sub-districts in Palembang City. Comprehensively strategizing for the development of MSMEs in Palembang City necessitates the establishment of a meticulous Monitoring Team for Growth and Development, integrating pertinent stakeholders such as the local government, notably the Palembang city government through its associated agencies, universities (both private and public), private entities, banks, NGOs, communities, media outlets, and the general public.

In crafting the Palembang City MSME Development Strategy, paramount attention is directed towards fortifying key dimensions. This includes the reinforcement of regulatory and policy capacities pertinent to MSMEs in Palembang, a heightened focus on planning capacities with innovation-centric marketing strategies spanning both online and offline domains, and diversification of product variants to align with market dynamics. A concurrent emphasis is placed on enhancing human resource capacities through targeted training programs designed for MSME entrepreneurs and their workforce, encompassing technical, managerial, and socio-cultural competencies. Institutional resilience is underscored through the cultivation of strategic partnerships and collaborations, delineating clear roles and responsibilities among stakeholders in this concerted effort towards fostering MSME development in Palembang City.

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