

The Effectiveness of Distributors and Small Medium Enterprises Relation on Sustaining the Economic Activities in Outer Island

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ABSTRACT

The study aims to evaluate the effectiveness of distributors in assisting Small Medium Enterprises (SMEs) in rural or outer island area to ensure business sustainability. The study is motivated by the crucial economic roles of SMEs in outer island, despite their proneness to numerous adversities in attaining ideal business growth and sustainability. Lack of knowledge and resources are among the many major obstacles that may have hindered the SMEs in expanding their business. Moreover, limited access to market may also complicates the effort. Therefore, the roles of distributors are crucial to facilitate the SMEs. However, preliminary study reveals that not every distributor can be incorporated within the SMEs business in outer island. Field study through observation and interview is selected to evaluate the effectiveness of distributors in assisting SMEs in the rural or outer island area to sustain their businesses. Using the case of SMEs in Pari island-North Jakarta, this study reveals that cultural perspective does affect the effectiveness of SMEs-Distributors relationship.

Keywords-distributors, small medium enterprises, remote area, Pari Island

1. INTRODUCTION

Creating a conducive business environment for sustainable growth may require an external party's intervention, including the distributors. A business relationship between distributor and supplier is considered as a collaboration that is heavily focused on the role and the value provided by industrial distributors as middlemen in the channel of distribution (1). In practice, the approach needs a proper way where a set of protocol or routine in place to regulate the relationship as well as to evaluate the effectiveness of the collaboration. Subsequently, failure to establish the standard may lead to an indecisive partnership as identified within the SMEs in Pari Island, North Jakarta area. Remarkable relations developed during this period brought the Pari Island's seaweed industry the luminary; and become its prime during the early 1990s to the late 2000s. However, the prosperous seaweed era does not last for an extensive period. The industry collapsed abruptly despite the resounding involvement of numerous distributors. This study aims to evaluate the effectiveness of distributors in assisting SMEs in rural or outer island areas like Pari island as well as analyze the plausible causes of the, allegedly, ineffective distributor-supplier partnership in rural or outer island like Pari Island to ensure business sustainability.

2. EFFECTIVE DISTRIBUTOR EVALUATION; A BRIEF REVIEW

A proper business partnership can be rationalized by the distributor's effectiveness in performing necessary channel functions that are seen through the add value to distribution channel relationships and enhance performance. Distributor effectiveness has been linked to the degree to which the distributor's performance is deemed to be successful in producing the desired result. In doing so, one of the most practical ways to appraise the effectiveness, as much as the success of the partnership, is by assessing the value-added contributed by the distributor. In this case, distributor effectiveness reflects the extent to which the distributor undertakes key business activities, ensuring the fluidity of product transfer from one institution to another (1). There are four major sectors in which distributors can contribute to value-added in a business partnership; generating revenue and meeting financial objectives, product factors, facilitating factor, and networking (2,3). Profiling the distributor is crucial for the manufacturer to identify if the distributor possessed the experience and the expertise in dealing with the products. Experienced companies take time to inquire about the distributor's standing with current and past customers, suppliers, the local business community, and competitors (2,4). This is because the manufacturer will need to know and verify if the distributor would be able to finance initial sales and subsequent growth (2,3) Likewise, a distributor's ability to provide adequate promotion and

advertising funds is tightly related to the financial stability of the distributor. Hence, the role of the distributor with sufficient financial prowess is not only for logistical purposes but also for creating brand awareness that is in favor of the manufacturer. Additionally, financial leverage may be widely considered as the most critical role upon dealing with SMEs. The primary limitations associated with SMEs are often synonymous with financial difficulty. SMEs often suffer from limited financial resources and the respective capabilities to employ these resources; making them highly vulnerable to costly failures in a foreign market (5–7). Consequently, limited resources and operators are usually more concerned with minimizing costs and maximizing profits. As a result, proper management is often overlooked and effective risk management may be neglected. The case with SMEs, SMEs owners' limitation is in terms of credibility and experience. The access to financial loan from the bank is often restricted; hence, hampering the company's growth. Therefore, in this respect, the effectiveness of a distributor is often evaluated on the performance to improve the partners' financial stability and capability.

Besides the financial aspect and expertise, an effective distributor monitors and guarantees the flow of products from the supplier to the end customers. Distributors report periodically on the product sales and performance in the market; as much as it suggests potential changes that could happen within the market (4). The role of the distributor, in this case, is influential for a manufacturer that is trying to penetrate the global market. The role of a distributor should facilitate product transfer and eliminate both scope and geographical limitations of the manufacturer company in the foreign market. For example, distributors may make product enhancements or adaptations to meet local customer needs (8); identify trends and opportunities and develop strategies to increase sales or save costs, and/or upgrade products to increase their value to customers. Depending on the initial agreement, a successful product penetration to a foreign market can be considered as the key point of effective distribution channels.

Despite a stable financial condition, a fine distributor should be able to identify the technical aspects of the goods, including the extent of durability as well as the cost incurred for insuring and transporting. Instead of the capability of identifying the technical aspect of goods, the distributor's ability to take legal action against any violators of the manufacturer's intellectual property is just equally substantial (2). Different regions may have different regulations on business conduct, hinting at the importance of adequate knowledge of international business. An effective distributor can be evaluated on its role in minimizing dispute and communicating trade policies- restriction and other discrepancies. Therefore, the best distributors are those who are dealing in the same product, reach the same market, and who have the technical expertise in serving the customer as the manufacturer's (2). The best distributors are those who share the same vision, mission, and values as the manufacturer. Establishing a relationship with a distributor with a good understanding and expertise in the manufacturer's product is the finest.

Apart from the dimensions captured on the previous factors, manufacturers will also need to consider the facilitating factors possessed by the distributor. An ideal distributor should host various elements that enhance the smoothness of a business transaction. At a very fundamental level, facilitating strategies are closely associated with networking. Connection with influential people is a game-changing strategy in business (2). While networking plays a crucial role in business, it raises some skepticism critiques regarding an unethical practice. The common grown about networking is that both parties should experience the benefits and none shall suffer. In spite of the argument of ethical practice regarding "connection" in business, healthy networking does exist and has been repeatedly proven to be the pathway to success (9). The nature of networking theorized as an investment with the value leaning toward building communication and collaboration. Ethical behavior is subjective to the value proposed throughout the business transaction and business decision making (9). As a result, good and positive networking will promote opportunities for both manufacturers and distributors to expand their business in foreign territory. Networking can be valued as a fundamental trait because different regions may implement different policies and trade regulations. Therefore, networking will allow a distributor to establish links with other distributor companies: creating a more effective distribution mechanism with better value added, especially concerning financial stability and time efficiency.

Despite the distributor roles in enhance the market, anticipating the risk is another crucial factor that SMEs have to deal with. Anticipating risk which mainly aimed to reduce the potential damage on business requires several steps to be followed. identifying the cause, magnitude, and nature of the impact for the business is the first step in managing or anticipating the risk (10). Recognizing the cause of the threat is critical in determining the focus and the type of response to be produced. Meanwhile, the cause of risk can be classified into three categories: intentional, natural, and accidental. Upon dealing with the intentional and accidental risk, the emphasizing of the response should be focused on quality control and meticulous scanning on the business environment and the business personnel to mitigate any sabotage and treacherous act. In contrast, the intentional risk is not always premeditated exclusively to impair particular business instances nor does it possess any negative intention. This is because intentional risk can also be premeditated by external sources, including a change in government regulations (11). In this situation, the risk is applicable on a bigger scale in which collaborative efforts among numerous business instances are required to mitigate a potentially negative repercussion. In the case of natural related emergency, the focus should be shifted on the recovery effort to avoid any future problems (1). Hence, a business entity will need to be able to cope with risks that are initiated by natural cause.

In term of business, the first preventive measure can be manifested through the introduction of sets of activities which may produce operating leverage which significantly affect the performance and investment (12). Establishing and maintaining performance standards is critical for SMEs

particularly since performance standard sets the common ground to achieve the objectives as well as to avoid the unethical and treacherous practices. The second preventive measure can be reflected by implementing sustainable innovation. Innovations are a necessity for business instances because they are dealing with clients whose preference and propensity are continuously changing. The change of preferences requires the business to accommodate it, for instance by implementing sustainable innovation. Innovation allows one to create a business ecosystem flourish or for it to request the surrounding business environment to adapt to change fundamentally, for instances, significantly change the business model (12). In practice, innovation is not an easy task. It requires an innovative and creative mind. Not only a creative mind, creating innovation and mitigating risk will also require clear and fluid communication. Arguably, networking and communication are equally as important as other elements. Proper communication allows business instances to exchange information, conducting negotiation, and adapting to any changes. This factor is pivotal to mitigate risk and disaster, and mainly to keep business conduct to remain effective at both ends.

3. METHODS

This study is qualitative study focusing on single case. Qualitative study is employed since the data are rich with the stories where the detail and complexity are crucial and the main focus of this study (13,14). Field research is done in Pari Island, North Jakarta in May 2019. The data collected through intensive interview with several SMEs key players as well as the observation. Interview and observation are selected in order to explore detail and rich data and information (15) regarding the roles of distributors and the relations with producers within Pari Island.

4. FINDING AND ANALYSIS

The establishment of relations between distributors and farmers or SMEs owners was begun through the roles of seaweed collectors, Mr. AB, Mr CD, Mr EF and Mrs. KL who attributed to the success of seaweed industry in Pari Island. In addition to these collectors, there are two prominent distributors in Pari Island, Mr. OP and Mr QR who roles mainly provided the leverage for economic activities in Pari Island during the golden seaweed times. The nature of practical business by the local farmers in Pari Island is simple as it was primarily driven by money. Lack of financial support causes the SMEs owners highly dependent on the distributors' financial support. The financial support is not limited to financing the production, it is the amount needed to sustain the locals' daily expenses. The information from Mr. CD and Mr. EF stated:

"All that matter is that we have the cash to pay the farmer. They do the hard part; whereas, our tasks are simpler. Yet the important part is the money, we need them to finance the farmers; so far, we are always dependent on either Mr. OP.

He will provide the cash injection, but we also have the obligation to sell our products to him"

The statement clearly presents the dependency of farmers or SMEs owners on the distributors' financial support. This budget may or may not be used directly for production purposes, some may use for non-production purposes such as paid tuition or buy groceries. Hence, should the distributor failed to provide the cash in advance, most likely, the farmers may be either unable to proceed with the production stage or they may proceed with half-hearted effort and prompting for poor yield. Despite the agreement for providing the initial cash, the distributor is provided with almost no guarantee in return. The agreement was verbally done and less binding. Certainly, there is the actual agreement in place on how much of yield will need to be made available per cycle for each farmer. However, factoring in the Pari Island SMEs' limitation and problems, including business knowledge illiteracy, unprofessional-money oriented motive for business, and the local socio economic condition, the agreement is often undervalued.

The high dependence on the financial support from the distributor did not apply to all farmers or SMEs owners. Several SMEs owners and farmers like Mr. AB is less dependent on the distributor due to his financial prowess. Consequently, Mr. AB possesses the freedom to sell his produce to any buyer who provides better pricing. This is clearly found through the claim from Mr. AB:

"As of for me, I do not have any pre-arranged, binding, agreement with my clients. If the clients who come to the Island managed to offer a good price, I will be happy to sell the yield to them. On the other hand, if they offer a lower price than the clients in Jakarta or Tangerang, I will get my fleet ready, to take and to sell the harvest to these inland buyers."

In practice, it is imperative to understand that the amount produced by the local farmers was rather limited; especially when locals are still fond of the traditional farming approach. For this case, buyers, including the distributors, will have to compete in price. The distributor will have to constantly engage in a price war to get the produce. This practice is essentially unpractical for the distributors. Hence, they will have to allocate an unplanned, unscheduled, amount of cash to procure the weeds. In other words, the distributors will have to provide a hefty amount of resources only to achieve uncertainty. Throughout the 12 years, this practice prevalently occurred in Pari Island. The amount that the distributors have to invest was inflating by year.

Despite some difficulty for distributors, this method is considered the most effective way to sustain the seaweed business in Pari Island. The method is for a relative short team business as it relies on the financial capability of Mr OP and Mr Qr. The strategy is seemed to be inefficient as the competition was getting stiffer as the local produced was declining. As the amount produced decreased and the priced increased, the distributors have stopped procuring the seaweeds from Pari Island. This is in particularly since

providing financial support was considered as an inefficient strategy.

In a bid to fight the local pursuance toward the traditional approach, the distributor has attempted two distinctive, innovative, ways. First, the distributors have invited several experts to educate the locals for better farming techniques. Second, the distributors have also proposed a way to procure machinery and other cutting edges devices to speed up the production process. However, the impact of these approaches is little or no avail. Mr. AB and Mr. CD shares:

"We come up with the procedures and the steps on how to cultivate seaweeds or to breed grouper. We were laughing when these potential buyers were trying to re-educate and to tell us what to do. We provide the information for the textbook and now the same textbook was being used to lecture us."

The local farmers and breeders are getting irritated, annoyed, and unwelcoming towards any insights proposed by the external party. The locals have shut the door for any enrichment as they felt far superior due to their vast personal experience. Perhaps, the local defiance toward external educator is not much of a surprise. The locals argue that they came rather uninvited with the least hospitality. Mr. AB argues:

"They show up out of nowhere; they were simply asking for our ID. They did invite us into an eight hours-long meeting, and yet, they provided us with nothing; not even a cigarette or meal; where is the manner? We would have appreciated their effort should they come in such modesty, sharing, at least, cigarettes or meal, just like what Mr. OP and Mr. QR did for us. Moreover, they also proposed equipment implementation on the island. It is silly, we do not need that, neither do we have the capacity to run the tools nor do we have the money to maintain them."

Mr. AB hints at how the external parties were considered to be rather unfriendly demanding. The locals may have gotten the wrong idea that the same materials were being used to reeducate them; whereas there may have been some improvement or addition that can be used to nourish the locals. Hence, regardless of how thoughtful or useful the idea was, it will not be accepted should the approach was considered to be hostile. Therefore, the implementation of innovative ideas may not be as effective for the case of the SMEs in Pari Island.

Minimum understanding of the concept of investment contributes to declining of seaweed industry. Implementation of infrastructure may have incurred additional expenses, yet the return could be much rewarding. Furthermore, the most unsettling issue is the fact that the locals refused to learn or, at least, to open up their minds. Subsequently, this ignorance may have led to a declining in production due to knowledge upgrade deficiency and the decaying rate of production. Ultimately, to keep up with the production demand and minimum quote fulfillment, the distributor will have to invest heftier in the form of cash and effort. This practice may have been applicable as long as the distributor

possessed a steady stream of cash generated from other instances. However, the amount produced by the locals will have to be directly proportional to the investment by the distributors. For this reason, the local farmers will have to do anything and giving their all to keep the investment well rewarded. In practice, the local farmers were not working as hard nor did they produce more crops to be marketed. The locals are taking advantage of the distributors' decency. This practice is not sustainable in the long run.

Another problematic production process was extended to environmental and cultural issues; prominently due to land degradation. Land reclamation is considered to have significant impacts on the farming climate in Pari Island. Mr. AB and Mr. CD explained that the natural occurrence is less likely to be able to control by a human. Mr. AB, Mr. CD, Mr. EF and Mr. GH postulates:

"It was because of the land reclamation has caused diseases, waste, and debris to pollute the ocean. The water quality was declining and carries tons of germs and fungus. Usually, we can do a minimum of ten cycles (replanting) from one fleet of seaweed seedlings. But nowadays, a single fleet of seaweed seedlings can only last for three or, a maximum of, four cycles. Well, there is nothing much we can do, it was a divine fate by Allah (God) for everything to come to an end. The diminishing crop harvest is detrimental local business activities and stability where the buyers will procure and accommodate the yield only down to a minimum of 40 tons of harvest per 45 days' cycle. If the harvest was significantly less than 40 tons, the buyers will look away. As a consequence, the locals will not be able to sell their products to their regulars. Yet, this statement is equally problematic; especially judging from the fact that there is another way that could at least minimize the harm. Mr. EF, another seaweed collector in Pari Island during the golden time postulates:

"Supposedly, there is a way to get around the polluted water. We can move our farmland from one territory to another; even to our neighboring island territorial water. This way, we allow the polluted territorial water to naturally recover by setting it idle for 3 months or so. Once the conditions are getting better, we can move back our farm back to its original spot. Yet, lately, nobody wants to take this approach anymore. Moving the farmland from one spot to another is considered, for many, to be too tedious to be done".

Moving the farmland from one spot to another was considered not only tedious but also unworthy. For this reason, the farmer have shifted for other business such as tourism. They are not excreting as much effort into seaweed plantation as much anymore. Consequently, there is nothing much that the distributors can do. It is a vicious cycle where the seaweed industry is getting more demanding. On the other hand, the majority of the locals have chosen to abandon the business as opposed to finding a way to get around it. Concurrently, the distributor was getting hesitant to encourage the locals to stick into the business and improve, as it was no longer a lucrative strategy. The locals' attitude has failed the effectiveness of the distributors in Pari Island. Moreover, the complication is not only derived from a shift of preference but also the locals' ignorance toward

risk management. The fact that the locals were refusing to undertake such a recovery mechanism has shown a lack of determination as well as ignorance towards risk mitigation effort. Therefore, these attitudes have been, allegedly, considered as the underlying justification for the unsustainable seaweed industry in Pari Island.

The locals' attitude for business after switching from seaweed into tourism is very much similar. The local inn owners were showing a lack of professionalism in running their business. Mr. TM and Mr. XS, two prominent figures in the tourism industry in Pari Island agrees:

“More so, there is another reason for us to favor the guests introduced by our relatives. Indeed, the travel agents may provide more visitors; hence, it is enticing financially. However, with all of the promises come more issues. They (the travel agents) requested the impossible. They want us to upgrade the service to entertain the guests. On the other hand, the guests introduced by our relatives, typically, will generate slightly less revenue. Yet, we are positive that these guests are our relatives' acquaintances who will not cause any harm to us.

The statement above has illustrated how unprofessional the locals were in running their business. It is becoming apparent that they have created a bias towards one particular group of clients. On the contrary, professionalism is highly required to create an effective, efficient, and systematic working environment (16). For the case of the tourism industry in Pari Island, the implementation of systematic and efficient working conduct will be hard to achieve as personal preference and bias will override professionalism and agreement in place. Alternatively, the travel agents (distributors), could have lowered their demand for facility upgrades while maintaining the incentive paid to the local business owners. This practice may have threatened the business credibility and sustainability as they are not providing the best products and services available to the clients. Therefore, for the travel agent to partner up with the local tourism business owners may have been a huge dilemma.

5. CONCLUSION AND RECOMMENDATION

To establish a proper mutual partnership in a remote area will require more than just contractual agreement or hefty investment. The challenges are more demanding as the distributor will also have to look into another dimension of local culture and attitude. Understanding the local culture and preference may have been the decisive way to devise an effective strategy in establishing a profitable partnership. Specifically, the local SME owners in Pari Island require not only financial investment but also a personal-intimate approach. This way the locals will feel that they are doing business with their fellow compatriots. However, even a successful and effective partnership establishment is not directly translated into efficient cooperation. With a

powerful financial prowess to generate constant investment, distributors may have overlooked the arbitrary demand and attitude of the locals. Yet, just like any other resource, money is scarce and has its limitations. Establishing an effective-only-partnership may have led to success, while this success may not be sustainable as it was missing a very important component: efficiency. It is imperative to incorporate efficiency in any business conduct as it is a way to achieve maximum productivity with minimum waste of effort or expense. At the end, it was profitability that every business institution after. Hence, managing the available resources and mitigating risks both effectively and efficiently are key to a sustainable successful business partnership between distributors and SMEs in remote area. This study shows that the managing available resources and mitigating risks are two crucial factors for successful business partnership between distributors and SMEs in remote area. It is recommended for the distributors to scrutinize the financial aspect of the deal as well as to intensify a more intimate, personalized, approach with the locals. Forasmuch as personalized contact may be more effective in establishing an impending partnership with the SMEs in remote areas. Meanwhile, this study still leaves a gap of knowledge regarding the ulterior motive behind the dismissal for business innovation in terms of idea and infrastructure, which recommended for the further study. Moreover, a research on the locals' attempt in managing risk can be organized for further consideration.

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