

# Authenticating Balinese Craft:

## Innovation and Product Development of SME's Handicraft Product in Malang City for Tourism Market in the Island of Bali

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**Abstract**—Tourism is a sector with a broad multi-player effect and provides opportunities for the industry to flourish through services for tourist's needs. This study discusses the role of handicraft industries in Malang City as souvenir supplier network in the Bali tourism market. In particular, the study was conducted to examine the process of innovation in the development of handicraft products in Malang to supply tourism demand for authentic Balinese handicrafts. The study shows that innovation behavior and product development process is driven by design from intermediaries rather than creation offered by producers. This indicates that intermediaries have more accurate information about market preferences compared to handicraft producers. Thus, the producers of handicraft in Malang tend to position themselves as a "producing farmer" rather than a designer to ensure the continuity their subsistence and do not yet of having adequate knowledge to penetrate directly to the tourist market in the Island of Bali.

**Keywords**—Balinese craft, innovation, SME's handicraft, tourism market

### I. INTRODUCTION

The development of the tourism sector in the last three decades has had an impact on increasing demand for local art products, both tangible and intangible, as souvenirs and memory of experiences for tourists visiting a destination. This increasing demand often brings changes in the economic order of tourist destinations. Not surprisingly as for instance, local cultural products that were previously made to meet the needs of religious purposes, have now been modified and changed its functions as products to serve the tourism market. This seems very clear in tourist destinations such as Bali and other new emerging tourist destinations.

Along with its interaction to the tourism word, local cultural products are developed more secularly with creative innovations to meet the satisfaction of the tourist market. This innovation is needed to match local products with tourists' perceptions about the destination they visit. In the early stages of this development, various resistance from local people will emerge since new products offered to tourists are considered to dilute the local culture. However, with the development of the

economy and technology in a society, innovations in various cultural products and their use in a modern way will be increasingly acceptable in the community.

Not differently from the common product live-cycle that is highly influenced by technological developments, such as the (r)evolution of audio video tapes into CD-DVD until the introduction of blue ray disc at this time, arts and cultural products also develop, grow and die rapidly due to influence technology. As an illustration, up to thirty years ago shadow puppet shows in Bali still used many traditional devices. In the modern world however, it develops using more sophisticated sound system devices. Nowadays contemporary shadow puppet performances have involved many digital technologies and computer applications to produce more spectacular shows. Likewise, tangible cultural products in Bali such as carvings have shifted to the production of simple and mass handicrafts. These handicraft products continuously flourish through shorter life cycles because of the rapid changes in technology.

The above description shows life cycles that occur continuously in product-markets throughout the business world [1]. Continuous innovations furthermore prove that products, markets, and competition change without stopping. This market-product condition will continue, along with at least three basic factors causing it, namely (1) The unlimited nature of human needs encourages the creation of innovative new products through the application of technology. (2) Market structure that has shifted to a customer-driven market compels many companies to adjust the needs and desires of consumers. (3) Competition coming from competing companies for similar products and substitute goods.

### II. THEORETICAL BACKGROUND

#### A. Innovation

In this research context innovation is viewed as the ability of SMEs to adapting with environmental changes particularly tourism market environment within which they operate their business [2]. In tourism industry, we notice two main factors that drive innovation processes. The first is in the category of

internal factor comprises of factors such as human capital, creativity, open mindedness, and entrepreneurship. These factors are dominant in the contemporary business competition landscape because they are able to create new capabilities in a company. The second factor is external factors that exists outside the company's boundary. This can be including global issues in economic, environment, politic, social demography, and technology. These macro factors bring challenges as well as opportunities and become the key success for the innovation process in SMEs beside the micro factors such as change in consumer preferences, industrial rivalries, and government pressures.

Abernathy & Clark suggest four typologies to adapt innovations in SMEs those particularly serve tourism market [3]. These are niche-serving innovation, architectural innovation, revolutionary innovation, and regular innovation.

Innovation categorized within the first typology lead the organization's resources to search and serve niche market that organization is not entered it yet beforehand. An adoption to this type of innovation is generally conducted within a stable market in order to maximize sales growth. In other words, this type of innovation is suitable for companies those willing to expand its market with a low risk consideration.

The second typology of innovation, architectural, is a sort of innovation that employs new technologies in order to create new niches market. Therefore, this type of innovation is higher risk in nature comparing to the first typology. A company that successfully implements such second type of innovation might bring in transformation throughout the industry. Such successful implementation to the new market will usually lead a positive impact into the existing market to accept new innovation such as that in the new market.

In the revolutionary type of innovation, organization introduces new technology to the existing market it has served in order to maintain its existence within the industry competition. By focusing to the existing market, the company expects to transform market preferences in a lower business risk.

The last type of innovation constitutes a form of innovation that relies on technology as well as company's competence to intensify better services to the existing market. Therefore, the main objective of this innovation strategy is to increase consumer satisfaction. This may result in the increasing of customer loyalty and amount of their expenditure toward company's products.

### *B. Creativity and Product Innovation*

There are three important issues in the creativity-innovation discourse, consisting of individual creativity, process creativity and idea creativity [4]. Entities adopt such creativity generation in different ways. Some adopt in a single creativity generation due to limitation of resources. The other ones try to combine and integrate the three in a balance activity.

An entity that focuses on individual creativity tend to maintain individuals those capable to search and create environmental changes in a non-mainstream way. These individuals usually are persons with abilities to deliver excellent ideas in their whole life. However, as not all new ideas are easily and quickly accepted by societies, the role of entrepreneurship, reflected through the innovation in companies become central. In this context companies hold the new ideas and immediately introduce the ideas when the society get ready with offered innovations.

Secondly, innovation is a set of creativity process in order to develop novelty with economic value [5]. Based on this concept then innovation is defined not only in the scope of new products or services creation but also encompasses processes of organizational changes. These are including the implementation of new work method for efficiency goals or encouragement of creativity.

Thirdly, innovation is also involving issues on ideas creativity. An innovation shall demonstrate ideas that emanate from needs or problems exist in a society. Such problem-based innovation often arises as a complex phenomenon and relate to factors such as entrepreneur perceptions or inventors toward economic needs [6]. This also embroils on how innovators will get returns as they spend their time, money and energy to solve problems faced by the society.

### *C. Product Development*

Creative and remarkable ideas need to be expressed in a more concrete design in the form of new product. Product development is an activity carried out by producers to improve products or services that have been produced by adding variety, variant, or the level of product quality in order to cope with consumer desires [7]. In this context, companies have two options for developing their product. The first is they can produce the new product by employing their own resources. Secondly, they may develop new product through an outsourcing scheme by involving third party to realize this goal. However, both options lead to the same objective i.e. serving existing and potential market for new demand [8]. The product development policy becomes a guidelines for determining the class of products to be made or processed, and what kind of characteristic are required. The policy should follow growing trends and fashions in the society in order to provide products that consumer like.

One of the important consideration in product development strategy is a decision on whether self-manufactured or using third party. The earlier requires proper specifications on resources, materials and method of production. Meanwhile, the outsource strategy requires a thoroughly contract process and specification requirement. There are several factors to be considered as a basis for decision making on the issue, among others:

- Total cost for making or buying components
- Specific capacity for machines, technical capability and the breadth of product-source needed for production
- Ability to apply capacity of production
- Time and skills possessed by management
- Confidentiality of design, style, materials and method of production process
- Attractiveness in terms of investment for product development
- Willingness to assume market risks
- Dependency risk on other sources.

These factors must then be in accordance with the manufacturer's criteria for new products. There are a number of guidelines that can be used, among others:

- Conformity of market demand
- Product compatibility on its impact to social and environmental factors
- Compatibility of new product with company's marketing program
- Capability of existing resources and management to produce the new product
- The new product should meet firm's financial objectives
- Compliance with law in terms of issues such as label, brand and patent
- Management's time allocation to produce and sell the product
- Product compatibility with company ideals.

Nowadays the needs of consumers have adequately been fulfilled due to the overwhelm of products in the market. This makes markets shift from sellers to buyers' market. In the circumstance knowledges on the dynamic consumer need, want and fashion is very central for companies. In other word, if a company wants to be successful in the market, there is no other ways but adjusting its products with consumer pretension consistently. Therefore, the development program toward its existed products has an important role for company sustainability.

Addressing the issues there are at least three types of product development program, consisting of initial development, improvement development and new use development [9]. The first type refers to an effort for escalating product benefit. An instance for this type is the utilization of cassava that previously for snack chips, now it is manufactured to produce tapioca flour. The second type, improvement development, is a product plan focuses on product transformation in order to create new characteristic on such

product. The improvement development consists of activities including market analysis to generate information on consumer preferences, objective analysis to determine the benefit of the product, and transform goods based on collected information. The improvement development is usually suitable goods such as female dresses, durable goods such as television and non-durable goods such as canned food. The last type is new use application. This type product development provide consumer with product extension usage since buyers can get more benefit than previously. As for instance, a plastic that previously is used as a wrapper, the function is extended for equipment in the kitchen, carpentry and so on.

As industry grows, various products overwhelm the market. This creates competition among products to obtain the best position in the marketplace. As a consequence, unstable market competition take place. On the other hand, the demand and consumer buying power fluctuate overtime. In this fierce competition, the only way companies can do to survive in the industry is to continuously develop their product, system and service to always deal with the consumer preferences. Furthermore, the following are factors need to be considered in the product development decision.

First, the company's unstable position in the competition. In order to compete with competitors who have first made improvement of their product, it is important for the company to be the follower to serve the market with new products that exceed the value of competitors' products. If the company possesses strong resources and strategic position in the market, it is possible to be the first mover in the industry. Secondly, there are more variations in the product usage. This challenges the producers to be more innovative to create product usage extension. As for instant, companies manufacture batik for woman, now they can extent the use of batik not only limited for woman, but also producing batik for male as well as batik as a uniform for schools or offices. Thirdly, The utilization of production capacity. It is common that manufacturers operate not in full capacity. The normal rate of production capacity ranges between 75 to 85 percent, and therefore, the rest of production capacity can be optimized. Fourthly, the rising of competition. When products offered by a company are preferred by consumer and get a big success in the market, this tends to attract competitors soon to enter the market by producing similar products. As a result, product life cycle for the certain product comes to shorter. In order to cope with the situation, competitors should continuously make efforts to flesh out the product as well as find new opportunities from the existing product for a bigger market share.

#### *D. Product Development Program*

A successful product development program requires a clear arrangement. The focus of the development is strategic marketing goals and should reach short term marketing program in order to predict a realistic buying power. As such, product development program is designed to implement marketing strategy for a particular product or product line. Guiltinan & Paul assert four basic product development that

each is aimed to fulfil particular objectives, comprises of product line modification program, product line extension program, complementary product program and diversification program [10].

Product line modification is the most simple approach. A modification of the existing product is selected with the aim to increase sales of the existing product lines. This kind of program may needed to maintain existing customer in a volatile situation such as changing consumer preference, new offers from competitors, or, even just for escalating satisfaction of company's product. This objective can be achieved through redesign or reframe the product to add new benefit or flesh out the quality of the product by improving, one among other, the packaging. By doing so, company wish to reduce competitors' opportunities. This program has advantages since it does not need significant transformation in existed arrangement of facilities and less technological investment. Product modification can also increasing sales by stimulate primary need through the buying escalation. Therefore, product line modification can be viewed as the approach with low risks and defensive in nature.

Extension of product line aims to reach new segment in the market. This means that a company applies this program to attract competitors' customer in segments within which the company does not have products to offer yet. The company can also stimulate new demand among existing customer those not yet consume products in such category. In this circumstance, the company shall create a truly new product showed by characteristics that totally different from other existed products. However, to some extent this product line extension is almost a kind of partial substitution old product in such line as the products in the same line have a nearly similar functions. In order to implement this approach, a company may utilize salesforce, effective promotion and distribution channels.

Complementary product is a product that generally is used together with already exist product. The product can be developed in both for increasing sales in the new market segment as well as stabilize sales growth in the existing market segment. The presence of complementary products is expected to increase sales of existing products until a point where the product adequate enough to increase satisfaction and utilization of the existed old products.

The last is diversification, encompassing a policy to add new products to serve relatively new market too. Diversification program is generally designed to establish new firms in the new market in order to obtain objectives such as growth opportunities. The program need a high cost because it needs new supporting infrastructures including facilities for promoting and distributing such new products.

### *E. The Source of Product Development Ideas*

The process of new product development is started through ideas excavation about what kind of product should the company launch. According to this issue there are several sources for new product ideation. Kotler viewed that the notion

of developing new product may emanate from many sources such as consumers, scientists, competitors, agents, distributors and company top managements [11].

Marketing concept simply said that needs and wants of the consumer are the most reasonable sources in the initial stage of product development ideation. Identification of consumer need can be done through marketing research, projection test, focus group discussion and consumer suggestion and claim. Most of the idea seekers conclude that excellent ideas are more often discovered through arising consumer problem of the product consumption rather than if they are asked about the idea of new product itself.

The other sources in the product development ideation process are university and research institutions. Many companies try to find the idea of new product through scientists by giving them sponsorship for research in particular field related to company business. Companies can also generate ideas to develop new product by monitoring competitors' products and its movement. The company may acquire information from distributors, suppliers and their sales agents. The information include who are the buyer of competitor products and what kind of motivation drive them to buy the products. Agents and distributors perhaps are the most effective source in for generating ideas of new product. These parties are the first group that accommodate customer complaint and dissatisfaction. Furthermore, they are also the first party who find out the progress of market competition.

### III. METHODOLOGY

This research examines factors that drive and inhibit the development of new product in small businesses producing handicraft and souvenir in Malang to serve tourist market Bali. Preliminary survey shows that innovation in such small business are driven by market particularly intermediaries market. In this sense, these small businesses only act as part of production [1], which design has been appointed by intermediaries who connect the product with tourist market in the island of Bali. Furthermore, it is also showing that this product development system inhibits the development of company's creativity and business systems. Therefore, this research takes a closer look to the innovation process in the small businesses in the Malang city producing souvenir and handicraft for tourist market in Bali.

This research is qualitative in nature and is conducted through a non-participant observation to the research subject. The initial stage carried out to this research is to build access to small business [12] in the city of Malang that produce souvenir and handicraft to fulfil demand in the tourist market in Bali. Access was developed through a connection with the Indonesian Chamber of Commerce and Industry chapter Malang City as an association of Indonesia business organization in Malang City area. By doing this approach, it is expected that members of the chamber i.e. small businesses producing souvenir and handicraft for tourist market in Bali, would confidently provide information needed for this

research. A set of visit, interaction, and closer observation was hereafter conducted to examine the innovation process in product development effort.

#### *A. Data Collection and Analysis*

Data in this research were collected through a set of observation and interview. In-depth and semi-structured interviews were conducted to the owners of small business and also to the intermediaries. Interview with intermediaries aims to get more perspective in the innovation process within SMEs new product development. Furthermore, interviews were also conducted to parties that not directly related to the production process such as staff in the commerce chamber and industrial bureau.

According to observation process, researcher has a role as observer through non-participant direct observation. This process covers observation on how innovative ideas are generated, analysed, organized, and finally, executed. This also observes to what extent the role of intermediaries take place in the process. By adopting non-participant observation, this research take benefit from the examination of innovation process in the observed small enterprises. In addition, interaction with parties outside the SMEs structure would give description from the outsider perspective that has a consideration to develop SMEs in terms of how innovation process should take place.

Interviews were conducted in open-ended and semi-structured techniques. The open-ended interview assures that respondents would deliver information from their perspectives without any obstacles. Meanwhile semi-structure was applied to drive respondents expressing their perspectives in the assigned research corridor.

Since this research is using qualitative approach, stages of the research denote parts of phase of analyses against collected data. Analysis to the collected data was also conducted in the preliminary observation [13]. Overall primary data collected in this research are data in the form of notes from observation, interview, and text transcription from recorded interview using digital equipment. Simultaneously, data analysis was conducted together with analysis toward relevant literatures. As such, data were compiled and reconstructed in order to generate meaning and develop theories in association with object studied.

### **IV. RESULTS AND DISCUSSION**

#### *A. Rattan Craft in the Tourism Context*

Indonesia is a country that geographically located in the tropical area that has the potential to produce agriculture, fisheries and forestry products. One of the common forestry products in Indonesia is rattan products. The population of rattan in Indonesia forms 70% of the overall rattan in the world. Aside from being a renewable natural resource, rattan is an environmental friendly product and its use does not have a major impact on global warming. This is because rattan has

different characteristic to the other forestry products as a result of reforestation, which this commodity is easily vegetate in Indonesia. In addition, an adequate water management is needed as the requirement for the commodity to quick and well vegetated.

Only recently the government of Indonesia has declared industrial down-streaming program. In this program raw commodity is not allowed or very least to sell. In this context, the Indonesian government makes a serious effort to boost creativity in the industry so that manufacturer in the industry produce finish good, or at least semi-finished good. Rattan is however, a commodity with high opportunity to grow particularly in the tourist market since Indonesian has skill and long history experience to produce handicraft products including those made from rattan.

In addition to resources, market is another important aspect in a business process. A more globalized market provides opportunity for a product to be widely consumed. Likewise, handicraft products such as those made from rattan have opportunity to be widely marketed in the international market. One of the channels to distribute products is tourism sector.

Tourism is an industry with the biggest capitalization comparing to other industries. As a comparison, international tourism receipt in 2007 generates USD 2,118 billion, the highest receipt among other industries such as automotive industry with a USD 1,183 billion in the same year. Apart of the big economic value, tourism industry have proved as the high growth industry with optimism to continue growing in the rate of 4% averagely until year 2020. By this economic potential, it is natural that many countries try to encourage economic growth through tourism industry.

In Indonesia, Bali become one of the main hubs for tourism development in the country. With the theme of Bali as a cultural tourism destination, it has positive implications and makes it a potential market for the handicraft industry, including rattan handicrafts. Currently Bali has become the main display for Indonesia's rattan handicraft in international market. In the first quarterly in the year 2014 as for instance, Bali exports rattan handicraft worth USD 2.71 million, a value that increase about 700% compare to the same period in the year of 2013, worth USD 335,000. In the past, these handicraft products were originally produced by Balinese craftsmen. As the demand from tourist market increase, the rattan handicraft products have currently been imported from other regions particularly East Java, Middle Java and Sulawesi Island. As such, in the international tourism market Bali is now turn into a brand for art and handicraft products, while its fabrication is run by other places including Malang City that has reputation as producer of handicraft and furniture made from rattan.

#### *B. Rattan Handicraft in the City of Malang*

In the 90s the City of Malang is famous as the region producing handicraft made from rattan with Balearjosari sub district as one of its centres. The people of Balearjosari has presumably started to produce bamboo handicraft and furniture

since the Dutch rule in Indonesia, or even perhaps long before. In the 60s, crafters community in the village switched from bamboo to rattan handicrafts. The development of the rattan handicraft grew very fast in 1990s where the industry absorbed a large number of worker, made the village as the exporter of rattan handicraft and furniture particularly to the countries in Europe and Middle East regions.

However, the economic crises in 1997 has resulted in a significant impact to the rattan industry in Balarjosari. The wave of the crisis has shut a lot of SMEs producing rattan handicraft. Recently, there are only 23 SMEs remaining and registered in the association under the supervision of the government. The rest are micro business run by household amounting about 50 businesses. This total amount drastically decreases considering that before the crises, the village has more than 300 SMEs producing rattan handicraft and furniture. The export capacity has also in turn decreased sharply as the crises was not only impacting on the financial problems but also affected to the pattern of consumer demand and preference in consuming rattan handicraft and furniture. The loan interest was also soaring and made SMEs fail to pay on loans. The realization of raw material for producing rattan handicraft and furniture as well as the weak of buying power have eventually become the main and crucial problem in the development of rattan-base industry in the Balarjosari sub district.

On the other side, the economic crises that decreased Indonesian currency has otherwise brought a positive impact for tourism industry including that in the Island of Bali. As an international reputable destination, the exchange rate depreciation provided opportunities for tourists to get lower price package for travelling to Bali. The increase of international tourists visit in the Island of Bali has not only made the island as tourist market, but also become a big market for art and handicraft products including fashion from all over Indonesia using "Bali" as a brand name. Tourist who visit the island will proud to buy "made in Bali" products as they believe about the expertise of Balinese people in art and craftsmanship business.

The business orientation in SMEs producing rattan handicraft in Balarjosari is still limited on production orientation. This means that craftsmen in the village have routinely produced rattan handicrafts based on particular large order. When there are over of capacity production, they usually display their product in the showroom in order to offer to the prospective buyer who visit their handicraft store. Aside from the store owned by the producer, there are also store owned by intermediaries. Therefore, the most orientation in running business is perform production efficiency with the aim to increase their profit.

Implementing the orientation, the most possible innovation adopted by the SMEs is in the area of production and is limited on the raw material and human resource efficiency. Even though they have used machinery and electrical technology, a limit of this type of production innovation will in turn have an impact on the difficulties of business to grow [14]. In this

context, SMEs rationally will not increasing their production capacity if there are no enough escalation of market absorption. The production efficiency obtained will only increase profit without increasing of sales. As such, the production innovation that a company can do should cover technical efficiency, that is optimizing production capacity of existing factors of production, and allocative efficiency through adjustment consumer prices against marginal cost of production.

### *C. Innovation and Product Development in Handicraft Products*

Before a strategy in product development is defined, it is important to first examine the characteristic of product offered to the market. Handicraft product is categorized as durable manufactured product with repeat, large and intensive usage. However, the type of products including those made from rattan is highly influenced by trend and fashion and therefore, the design for this type of product is dynamically developed. In other word, a design of handicraft or furniture product will soon become obsolete when a new model comes into the market.

Based on characteristics of handicraft product, the product development can be applied through two strategies. Firstly, product development can be done through an improvement existing product due to the dynamic factor of consumer preference. Consumers of handicraft product are very dynamic and follow fashion trend of design and architecture [15]. As for instance, only recently rattan furniture products are produced based on minimalist design, following architecture design of housing that tend to minimalist style. Secondly, product development can be done by develop variety of product that is different from current products. However, a problem arises since handicraft product produced in the Balarjosari subdistrict are mostly based on order from intermediaries.

In order to take decision about which product development strategy should be taken by SMEs producing rattan handicraft, some of the following considerations are crucial. First of all the cost to make or buy component for product development. New product that is fit with demand and market preference sometime is not fit with company resources. Therefore, it is important for the companies to analyse before deciding whether produce the new product by themselves or take an outsourcing alternative. Secondly It is also important to consider about the company's ability to maximize its production capacity. Thirdly, time and management skills in handling new product development to meet market needs and wants. Including to this regard is the capability to manage financial resource. The fourth is consideration related to confidentiality of designs, materials and production processes. Rattan base product is a sort of tangible product that is easy for competitor to imitate. Therefore, the company needs to take time consideration related to the ability of competitors to duplicate company's new product or innovation. The fifth consideration concerns the willingness of the company to bear the risk of product failure in the market.

#### *D. The Source of Handicraft Product Development Ideas*

Based on the observation conducted in rattan handicraft centre in Balearjosari sub district, each SMEs produce a relatively similar design. This shows that the customer who buy their product, i.e. intermediaries, tries to resell the product in the particular market in order to obtain time and cost efficiency. In this type of business process, products from the manufacturers are sold without brand names. Instead the intermediaries will put a brand name that is more marketable in the target market it is aiming for. The brand name labelling strategy is commonly applied by exporter or trader of rattan handicraft from Bali. These intermediaries use to get supply from craftsmen in local price and further resell in international price standard, which is up to ten times, in the tourist market using Bali label as a trademark. Thus, the source of idea in the product development design is dominated by the intermediaries who apprehend needs and wants of the market for rattan handicraft and furniture products.

Meanwhile, design that is available from craftsman is a hereditary in nature, and serve local market. The expertise to weave rattan in Balearjosari village can be said as part of local culture since it has been seen, learned and practiced in early young with the guidance of parents for generations. In turn, young artisans will have a tendency to maintain designs that they have learned from generation to generation as a form of appreciation for cultural preservation. In this circumstance the idea for product development constitutes mainly ideas about product improvement through creative efforts for efficiency, and more sophisticated techniques for producing at a lower cost.

With innovations for product development carried out in this pattern, although the rattan furniture and handicraft business in Balearjosari is not yet revived as it was in 1990s, it is believed that the rattan business in this region will continue to flourish gradually. There are two main things that will make this condition work. First, buyers especially intermediaries from Bali who sell rattan products to the export market, have convinced the villager's expertise and creativity in manufacturing rattan products efficiently. The second is the villager's enthusiasm to inherit and preserve the rattan weaving tradition as part of their cultural and livelihood systems, in addition to optimism that this industry will be able to develop and become a capital for sustain their culture.

#### *E. Product Development Process in Handicraft Industry*

The product development process in the rattan wicker craft centre of Balearjosari can be divided into two main processes. The first process is a development performed by craftsmen that have expertise to produce rattan handicraft. Since this skill is continuously honed through a work routine, the craftsmen learn to create better products both in quality aspect and its price competitiveness. The second process is executed through parties without expertise in wickerwork but rich of ideas in the handicraft designs and technology to make the cost of production more efficient, higher quality and more competitive. This usually involve newcomers who have ideas to serve

market in a better way. These parties is usually flexible and more dynamic in the product development process.

It is interesting to note that in the case of entrepreneurship in Balearjosari, the second group is more successful to develop their business, although they do not have skill in wickerwork [16]. This is relevant to theorize that the key of success in developing rattan handicraft and furniture businesses is not rely on the expertise in wickerwork and innovativeness in production process for efficiency, but it is more on the creativity in creating designs and ideas that is desirable in the market [17]. In other word, it is not enough to have understanding in the market research, but it needs a deeper understanding in marketing research. In the instance case in Balearjosari village, however, the ability to conduct marketing research even acquire not particularly through formal education in marketing but it is obtained through learning by doing. The entrepreneurs get it naturally from accuracy in searching market opportunity, abilities to seek information on trend of design and architectural, and willingness to innovate and develop products with all possibilities of its risks. However, if these entrepreneurs successfully penetrate the market with their own designs, they often get easier to pursue market trend and create new design quickly. Therefore, this will lead them to be the first mover in the industry.

The process of product development through which a self-ideas generated will in turn be able to create production process innovation [18]. In the case of rattan craftsmanship in the village of Balearjosari, one of the respondents in this study who does not have expertise in rattan weaving, attempts to generate innovation in the production field by combining rattan with cheaper non-rattan material such as water hyacinth or mendong (*fimbristylis umbellaris*) in order to encounter raw materials scarcity. To some extent a more expensive synthetic material is applied since the synthetic one is plenty available. Therefore, the value of design is more important from the customer sense rather than the originality of the material, i.e. rattan.

#### *F. Establishment of Product Development Policy*

Based on data analysis from the field observation, this study draws some points according to the establishment of company's policy in product development particularly for rattan wicker crafts in the village of Balearjosari as follows:

- Implementing product management. This refers to the implementation of product management effectively particularly to the existing products since such products experience a decrease on its sale. As a result, the company expects to lengthen product life cycle and further contributes to increasing sales. In other word, managing existing products is important due to the high cost and risk for product development programs.
- Reducing cost of production. The implementation of cost reduction strategy leads to the price reduction and therefore, increase company's competitiveness.

- Implementing soft sales policy. A soft sales policy provides a flexible method of payment particularly terms of credit payment for intermediaries in export and tourism markets. The soft sales policy eventually serves the intermediaries with a flexible financial decision in running their business and market the new products.
- Executing effective promotion. An effective promotion can be done through various media more particularly internet, which is less popular in rattan wicker crafts company in Balarjosari sub district. Internet based promotion is urgent since new products are often less well known in the consumer world.
- Expanding marketing area. Developing distribution channel is one of the strategies to expand marketing area. In the case of handicrafts products in the village of Balarjosari, the expansion can be done through developing new marketing areas out of Bali as the main market such as Yogyakarta, Jakarta, Batang and other developing tourist destinations.
- Establish positioning. Defining product positioning clearly is important in a competitive industrial market. A company may consider the authenticity of its product in order to distinct it with other products [19]. Although the company's market segment has been defined, positioning is still necessary for each product so that target market become more clearly for each of Handicraft produced.

## V. CONCLUSION AND IMPLICATION

### A. Conclusion

Based on the previous sections, conclusions can be drawn as follows:

- Innovation in the product development process in the Balarjosari rattan handicraft industry emanates from three main actors, among them: (1) entrepreneurs that have skills in rattan wickerwork and hereditarily transmit the skills through daily learning process, (2) entrepreneurs that have creativity in product design, and (3) intermediaries that sell the products to the particular markets such as tourist or export markets.
- Rattan wickerwork and handicrafts industry in the village of Balarjosari is believe continuing to survive and will develop along with the credence of customer on the quality of the product from the region. On the other hand, craftsmen in the region have a high motivation to maintain their rattan wickerwork tradition as such activities provide sufficient income for the society.
- The success in developing rattan handcraft business in more possible to be done through a creativity in designing new product rather than innovate production process to gain efficiency.

### B. Implication for Practice

The result of this study provide the following recommendation for practice:

- The development of creativity for craftsmen is indispensable through trainings in both technical and managerial
- An intensive promotion needs to be done with an emphasis of such effort as an investment, not merely as a cost.
- Market expansion might be implemented since in the past rattan-base products from Balarjosari village have widely known in both domestic and foreign market.

### C. Implication for the Next Research

This research is conducted in the form of case study toward the behaviour of craftsmen producing rattan handicrafts and wickerwork products. Hence, the research has a limitation in examining market behaviour on how they accept and consume such rattan products. The next research is suggested to be done by examining consumer and intermediary behaviour in order to get a more comprehensive depiction about rattan handicrafts and wickerwork industry.

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