

The Business Model for SMEs Fishery and Marine Food Industry Modernization in Manado:

Rica Roa Companies Case Study

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Abstract—The purpose of this research is to create a business model for modernization of SMEs in Manado, especially fisheries and marine-based industries. Researchers explore the development of business models for the modernization of SMEs. Researchers created the business model development of SME modernization programs. The research method is a qualitative case study method. The case studies taken were the producers of rica roa "Yuki" and "Amey" located in Manado City. The research was conducted by exploring in depth related to the company that became the case study. The results of the study then provide a new finding in the form of a business model for fisheries-based SME food and marine industry. The results of the study found that there is a business model that can be used as a reference for modernization which are scaling up, updating and upgrading SMEs business scale based on fisheries and marine industries in the Manado city.

Keywords—case study; business model; SMEs; fishery and marine food base industry; modernization; Manado; rica roa company

I. INTRODUCTION

With an area of sea that reaches 70% of the total area of Indonesia, it turns out the contribution of the marine and fisheries sector to gross domestic product is still less than 30% [1]. In fact, the fishing industry is highly expected to be a sector that can increase the country's economic growth after tourism. Therefore, the existence of the Presidential Instruction (Inpres) Number 7 of 2016 concerning the Acceleration of National Fisheries Industry Development became the starting point of the government's efforts to realize the Indonesian maritime and fisheries sector that is independent, advanced, strong, and based on national interests [2]. This policy has 3 (three) fundamental objectives, which are: (a) improving the welfare of fishermen, cultivators, processors and marketers of fishery products; (b) absorb labor; and (c) increasing the country's foreign exchange.

Small and Medium Enterprises (SMEs) activities are one of the business fields that can develop and be consistent in the national economy. SMEs is a good place for productive employment creation. SMEs especially in the informal sector is

a labor-intensive industry, does not require certain requirements such as the level of education, skills (skills) of workers, and relatively little use of business capital and the technology used tends to be simple. SMEs still plays an important role in improving the Indonesian economy, both in terms of the number of businesses, in terms of employment creation, as well as in terms of national economic growth as measured by Gross Domestic Product.

SMEs is the largest group of economic actors in the Indonesian economy and proved to be a safety valve for the national economy in times of crisis, and became a dynamic driver of economic growth after the economic crisis. In addition to being a business sector that contributes the most to national development, SMEs also creates considerable employment opportunities for domestic workers, thus greatly helping efforts to reduce unemployment. Therefore, it is necessary to have our awareness to develop SMIs in Indonesia in order to create community welfare.

Manado as one of the cities in Indonesia has experienced rapid development. The potential of the city of Manado includes tourism, agriculture, service industry and other industries. There is another potential that is lacking or has not been utilized in the city of Manado, among others, innovations in marine and fishery-based products and services.

Even though it has been used as an industry, the problem is still not very advanced, there is only the production of raw materials exported, while the production in the form of semi-finished products or finished products is still less compared to other regions or other countries or in South East Asia region such as the Philippines. In addition, SMEs that produce marine-based products are mostly still in the form of housing or still in the informal sector. For this reason, there needs to be an effort to modernize and promote fisheries-based SMEs in the Manado city. The importance of this modernization of business also received support from the Indonesian government, especially President Jokowi, who requested modernization of all businesses and micro, small and medium industries both in terms of innovation, availability of raw materials, processing, manufacture of finished products,

packaging, marketing, human resources, technology and information Systems [3,4].

This paper aims to explore the business model of small and medium enterprises in order to modernize fishery and marine base food industry particular in Manado context with rica roa products from two SMEs case studies which are: “Yuki” and “Amey” company.

To fulfil the main purpose of the paper, the following research question will be answered:

“What are the business model of modernization fishery and marine food industry for rica roa company in Manado?”

II. THEORETICAL FRAMEWORK

A. Small Business

Academic interest in small business is relatively recent. Whether the previous lack of interest reflected real-world dominance of big business or simply unawareness of small business by researchers could be debated. More important, however, is that scholars now recognize that small businesses are essential for entrepreneurial activity, innovation, job creation and industry dynamics [5].

Evidence from a range of countries shows that since the 1970s, economic activity has moved away from large firms to small firms and at present the majority of new jobs are created by small firms. As a consequence, over the past 38 years, researchers in several academic fields have increasingly become interested in various issues related to small business [5].

There have been many efforts to define the term *small business*, (micro, small, medium business) using such criteria as number of employees, sales volume, and value of assets. There is no generally accepted or universally agreed-on definition [6]. Size standards are basically arbitrary, adopted to serve a particular purpose. For example, legislators sometimes exclude firms with fewer than 10 or 15 employees from certain regulations, so as to avoid imposing a financial burden on the owner of a very small business. Criteria small business according to Longenecker [6]: (a) Financing for the business is supplied by one individual or only a few individuals. (b) Except for its marketing function, the business’s operations are geographically localized. (c) Compared to the biggest firms in the industry, the business is small. (d) The number of employees in the business is fewer than 100.

There are two different ways of defining small firms. The first type of definition could be labeled theoretical. Criteria for defining a small firm would typically include small market share, personalized management, vulnerability to environmental conditions and non-economic objectives of the manager. These types of definitions are theoretical in the sense that they, based on previous research, presume that small firms are fundamentally different from large firms concerning these dimensions. These fundamental differences provide the rationale for studying small firms as a separate group. The second type of definition could be labeled as quantitative. In this case, size itself is the criterion for smallness, and quantitative size data regarding sales, employees or equity are

usually used when classifying firms as large or small. The European Union has proposed a quantitative definition based on employment (and some additional requirements concerning sales). The term used is: ‘small and medium enterprise’ (SME). The SME sector is disaggregated into three components: (a) Very small enterprises (sometimes referred to as micro-enterprises) (0 to 9 employees); (b) Small enterprises (10 to 49 employees and annual sales of not more than ECU 7 million); (c) Medium-sized enterprises (50 to 249 employees and annual sales of not more than ECU 27 million) [5].

B. Business Model

Business model innovation is an iterative and potentially circular process [7]. A business model describes the rationale of how an organization creates, delivers, and captures value, [8] in economic, social, cultural or other contexts. The process of business model construction and modification is also called business model innovation and forms a part of business strategy [8].

One of the most cited definition is the one given by Timmers [9]. He defines business models as an architecture for the product, service and information flows, including a description of the various business actors and their roles; and a description of the potential benefits for the various business actors; and a description of the sources of revenues. In contrast to such a concrete and textual definition, there are many rather abstract forms describing business models based on their constitutive components. Take, for instance, Alt and Zimmermann [10] who define business models based on six generic components: Mission (describes the overall vision and value proposition), Structure (defines the addressed industry, customers and products), Processes (a more detailed view on mission and structure focusing on the elements of the value creation process), Revenues (describes the sources of revenues), Legal issues (has to be considered in each component) and Technology (can also influence all other components due to emerging technologies).

In theory and practice, the term business model is used for a broad range of informal and formal descriptions to represent core aspects of a business, including purpose, business process, target customers, offerings, strategies, infrastructure, organizational structures, sourcing, trading practices, and operational processes and policies including culture.

The business model concept is often considered from a component-based perspective. This means the concept is described and defined based on several components, of which a wide variety is discussed and introduced in literature. There are 42 different components just within twelve business model definitions. Thus, to cover such a vast variety, the attributes of this criterion do not represent single components, but rather six groups containing them. These groups are based on the distinction done [11]: (a) Offering factors: describe how the company creates value for its stakeholders (b) Market factors: express for whom the company creates values (c) Internal capability factors: deal with the internal activities and competences of the company (d) Competitive strategy factors: address issues of the competitive position of the company (e) Economic factors: bundle all economic-related aspects of the

company (f) Personal/investor factors: point out which time, scope and size ambitions the company has.

C. Business Modernization

Business modernization using modernization theory is used to explain the process of modernization within societies. Modernization refers to a model of a progressive transition from a 'pre-modern' or 'traditional' to a 'modern' society. Modernization theory originated from the ideas of German sociologist Max Weber (1864–1920), which provided the basis for the modernization paradigm developed by Harvard sociologist Talcott Parsons (1902–1979). The theory looks at the internal factors of a country while assuming that with assistance, "traditional" countries can be brought to development in the same manner more developed countries have been. Modernization theory was a dominant paradigm in the social sciences in the 1950s and 1960s, then went into a deep eclipse. It made a comeback after 1990 but remains a controversial model [12].

III. METHOD

A. Sample and Procedure

The research for this paper adopts a case study approach, which can be applied and suitable methods for exploratory research from complex situations involving several factors. Three types of data were used for this study: (1) primary and secondary documentary data. (2) In-depth interviews. (3) Direct observation.

The investigation took place through several stages. We first collected company focal information and government policy documents related to the fisheries and marine food industry. Sources include technical reports and available policies, scientific publications, and external information about the company. We then developed a semi-structured interview protocol for everyone we planned to interview. Forms of face-to-face observation and interviews. To triangulate responses, we ask the respondent similar types of questions. Additional policy documents, such as guidelines for developing and modernizing business models for national and provincial fisheries and marine food-based food industries, were collected during field work. To encourage interview participation and authenticity, interviewees were able to review the research report before we published the results. Telephone follow-up and email communication is done for whatever clarification is needed.

To answer our research question, we utilize the comparative case study with Yin method [13] according to the following six steps: (1) Select two SMEs marine and fishery food base industries in Manado. (2) Determine the key issues and challenges the companies have faced for modernization and to create new business model. (3) Compile a set of qualitative and quantitative for business model modernization dimensions for the companies. (4) Present and compare the strategic responses of the two companies to the key challenges. (5) Compare the similarities and differences in the responses of the two companies with the similarities and differences in the business model and business modernization dimensions of the

two SME companies. (6) Draw conclusions based on the above analysis.

The time span for collecting these data was from April, 2018 to July, 2018. Case study with two SMEs company which are: "Yuki" and "Amey" who produce rica roa products that become best selling products for food merchandise in Manado from Indonesian tourists also international tourists. This products main source is processed raw fish from marine products.

IV. RESULTS AND DISCUSSION

A. Measurement Procedures and Results

1) *Case studies SMEs "Yuki" and Amey*: Case Study on small businesses "Yuki" and "Amey" as Rica Roa producers for local, national and international tourists. Yuki's company was established a decade ago, while Amey was established in 2010. Both of these companies are SMEs that produce processed marine fish-based food products in the form of abon and Rica Roa sambal which is one of the mainstay culinary products from Manado City.

Yuki's SMEs is owned by a housewife who initially sells this product only to meet family and household needs. But over time and perseverance from business owners, this product was later known by the public. Meanwhile Amey SMEs are managed by husband and wife who run this business initially part-time but over time the owner then tries to manage this business more professionally.

Based on the number of employees, Yuki's SME has only 1 employee while Amey SME have 3 employees. The production of SME Yuki is mostly only done by the owner and also 1 employee. While production, marketing and administration are carried out by the owner and employees.

Both Yuki and Amey products have obtained permission from the government in the form of food standards, namely PIRT and already have official halal standards issued by the Indonesian Ulema Council. In addition, products from Yuki and Amey have also been popular. This is indicated by the products sold always run out in a very fast period, often products that are finished are directly purchased by consumers or souvenir shops in the Manado region and beyond.

Both of these products have also received marketing via online social media because online photos of these company's products have been sold or taken abroad. This is very encouraging for entrepreneurs or business owners.

This case study from SMEs "Yuki" and "Amey" was then analyzed using Strength, Weakness, Opportunity and Threat (SWOT) analysis which was then summarized below:

a) *Strength*: There are several advantages of these two SMEs, among others: Having an official business license, the product brand is already known by consumers, the product already has official standard product certificates such as PIRT and also halal certificates from the Indonesian Ulema Council, has secret recipes and experience in producing products fish and sea-based foods, have the determination to develop and

innovate personally, get full support from the government of the SME Service from North Sulawesi Province and from the City of Manado, have a production place separate from the house but close to the residence, have support from the family to develop a business, have a healthy cash flow, have a consumer base, have a fixed raw material supplier.

b) Weakness: There are several weaknesses encountered by researchers faced both consciously and unconsciously from these small business entrepreneurs, among others from the sectors: management, operations/production, human resources, technology, marketing, information systems, financial administration, and entrepreneurial spirit and innovation.

From the business management sector managed by the two SMEs, it is still traditional, where management is private or family. Where the role of the family dominates the decision to run a business. The vision and mission of the business is limited to the wishes and needs of the family. This causes the business to be difficult to develop and develop fully.

From the operational/production sector, the equipment used is still simple and uses more human resource skills in processing or production. In addition, market control is only from the production sector, while the upstream and downstream sectors are not controlled by entrepreneurs, where upstream the production process depends on the supply of raw materials from the business of roa fish and kitchen spices entrepreneurs such as rica which often experience rapid and very high price fluctuations. Whereas for the downstream market, the merchant sellers are controlled so that prices are difficult to increase.

From the human resources sector where owners and employees rely solely on training and skills development through training held by the government through the SME Office.

From the technology sector, the machinery and equipment used are labor intensive technology and do not rely on the latest technology for production.

From the marketing sector these two SMEs only rely on traditional marketing such as word of mouth marketing and marketing of displays in the gift shop.

For the SME information system sector, it is only simple to do manual recording while information is limited to social media in the form of Whatsapp and Facebook only.

For financial administration of financial records manually and only limited to financial administration in a simple and not on modern accounting records.

From the sector of entrepreneurial spirit and innovation where these SMEs the motivation of entrepreneurs and innovation from entrepreneurs is still not too high this is due to various factors, but this is possible because entrepreneurs from these businesses are not too high educated and business innovation still depends on the innovation shared by the government through the SMEs Departement.

c) Threat: There are various threat faced by these two SMEs in the future, among others: recruiting skilled employees, getting business capital, getting customers,

business strategies, cash flow management, obtaining raw materials, global and regional competition.

Recruiting skilled employees for small businesses is the biggest challenge. On the one hand you feel a lack of resources, but on the other hand hiring new employees can also cause other problems, such as complex processes and also a substantial cost.

Get business capital. Many business people have experienced a lack of capital, but it is difficult to get a loan. As a result, small businesses will find it difficult to develop their businesses and it is difficult to compete with other businesses. Not having a business financial report is one of the things that makes it difficult for small businesses to get capital loans from banks or other creditors.

Getting consumers is one of the most difficult challenges that will be faced. Not only large companies that need strategies in developing their business. Even small businesses must begin to think about what strategies to do so that the products sold can develop.

Cash flow management is very important because more than 80% of businesses fail because of lack of cash flow management. Where cash flow is one of the biggest challenges in business.

Obtaining raw materials is a challenge in the future from SMEs, this is because the raw materials, especially in the form of rica roa in the future, will be more difficult and more expensive. this product will also cause production prices to increase and reduce profits.

Regional and global competition is important, especially the threat from more innovative and established competitors and changes in consumer tastes must also be anticipated. Regional competitors, for example from Java, are usually more aggressive compared to existing SMEs in the Manado region. Whereas for global competitors usually in the form of brands that are more established or have been highly accepted by consumers internationally.

d) Opportunity: There are various opportunities that these SMEs can take in modernizing their businesses related to updating, upgrading, and upscaling of these researched SMEs both in terms of business scale, management, product brands, marketing, production processes, technology used, sources human power, financial administration and innovation and creativity.

V. CONCLUSION

Based on the results of case study with qualitative methods found that: modernization of marine and fishery Products-Based SMEs in the city of Manado, among others, through updating, upgrading and upscaling or scaling up of these businesses. The main focus in the modernization of SMEs is in the areas of: increasing business scale, modern management, improving brand performance, online-based marketing, modern production processes, using latest technology, skilled human resources, modern accounting-based financial administration, and innovation and creativity of entrepreneurs.

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