

## **Value Chain Analysis of the Impact of the Leather Raw Material Scarcity on the Leather Shoe Industry in Cibaduyut, West Java**

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### **ABSTRACT**

The research is aimed to study and analyze a value chain model before and after the phenomenon of leather scarcity in a leather shoe industrial center, namely Cibaduyut West Java, in mid-2013. With the potency it contained, the business people in the aforementioned area would have particular hindrances when the scarcity took place and it affected their business progress. The research excised qualitative method that allowed the researchers to deep dive the information through indept interview. The interviewees comprised from 4 leather shoe business owners located at its central in Cibaduyut. The data gathered was analyzed by data source triangulation as well as literature and observation. Research found that production as one of value chain dimensions dropped in the time when leather scarcity occurred. Consequently, it negatively impacted on other value chain forces such as the number of orders and human resources. A conclusion drawn from the study was that there was a profound difference in value chain condition before and after the leather scarcity ensued. Therefore, it could be stated that the insufficiency of leather as raw material widely influenced the continuity of leather shoe business in the Cibaduyut leather shoe industrial centre.

Keywords: Value Chain; Leather Shoes; Leather-shoe Industry; Cibaduyut.

### **1. INTRODUCTION**

Free market movement and the development of globalization undeniably affect and contribute to Indonesia's economy. One of the efforts to encounter those phenomenon is to expand and to rise the industrial sector. It is due to its ability to provide many job opportunities.

Meanwhile the export value of TPT in 2012 reached USD 12,46 Billion, while footwear and tannery industry accounted for USD 3,5 Billion. In the light of employment, the industry was able to employ well under 700 thousand people. Furthermore, compared to previos year, its import value which was USD 387 million

had increased by 8,5 % from USD 357 million. With the evident influence of globalization, it is crucial to improve footwear industry competitiveness and to optimize its existence in global market.

In relation to that issue, West Java is one of region that has high potency in footwear industry. As showed by data in 2010 that there were 88 units large scale industries employing 437 thousand people with installed production capacity as much as 366,4 million. Having a number of IKM as many as 1.477 units, They employed 6000 people with installed capacity accounted for 4,5 million centralized in IKM Cibaduyut and IKM Ciomas. Nonetheless, due to country condition, the bussiness players of footwear industry must survive in a challenging environment.

There are many components affect the industry. The main driver is labor's wage that represents 35 % of total production cost. The other elements such as imported and inavailability of raw material and the increment of Tarif Dasar Listrik ( Electricity Base Tarrif) also lead the nuisance of the business.

Footwear industry located Cibaduyut is the central of footwear industry in Bandung. Numerous tourists either domestic or international visits the place since it provides several hand made shoes with various types and prices. The "made in Indonesia" shoes are comparable to those imported ones.

With respect to the issues above, one of the critical thing in footwear industry is value chain defined as a systematic approach to develop competitive advantage of a firm formulated by Michael E. Porter (2007). It contains a bundle of activities to create and to contract margin value or added value. The competitive advantage mentioned is the use of information to gain the power in market and it also emphasizes that the conceptual resources has equal degree of importance with physical resources. The function of value added chain according to Michael E. Porter was to describe the way to view the business as an activity chain that transform input to be output to create a value for customer (Laudon and Laudon, 2007).

The footwear industry in Cibaduyut which produced leather shoe encounters the problematic challenge to survive. The existance of free market movement and globalization force the Cibaduyut leather shoe to raise its competitiveness and optimaze its presence. However, Cibaduyut footwear industry will have to strunggle to earn its competitive advantage as it can not offer differentiated product with acceptable price to satisfy its market segment. One major concern that threaten the business continuity is insufficiency of neat's leather as a result of beef import policy taken by the government. Subsequently it leads the price of leather to rise sharply. The condition drives the selling price of Cibaduyut footwear to be adjusted. Therefore value chain analysis can be one

of variables to know the impact of the scarcity of leather to footwear industry. By understanding the value chain, it is expected to obtain a comprehensive description of condition of leather shoe industry so that the appropriate and actionable solutions can be summerized to sustain their business continuity.

Based on background above, the researchers formulate the problems as follow : How is the value chain of shoe leather industry as impact of leather raw material scarcity at shoe leather industrial center Cibaduyut, West Java.

## **2. RESEARCH METHODOLOGY**

The research method used was qualitative method. It emphasized on reality built, the relationship between researchers and the object of study as well as the situational limitation formed of the research (Thoha, 2007). In qualitative mehod, there are two kind of informants; key informants ( experts) and ordinary ones. For this research, four leather shoe producers located in Cibaduyut either they manufactured for their own brand or for other brands acted as expert informants. Most of them had run their business for last 3 to 5 years and had starved for leather raw material in mids of last 2013.

Researchers gathered both of primary and secondary data. The primary data is taken from in-depth interview with expert informants. It is performed to probe more acurate information about value chain. While secodary data is collected from comparison with related documents and literature of footwear industry of Cibaduyut and also from relevant information on papers or journals to support the value chain analysis as impact of leather scarcity in leather shoe industrial center of Cibaduyut.

## **3. FINDINGS AND DISCUSSION**

Value chain concept is first modelled by Michael Porter from Harvard as a means to identify the way to create more customer's value. According to this model, every firms are sythesized from all activities enforced to design, to produce, to marketing, to deliver and to support their products. Value chain recognizes nine strategic relevant activities- five of them role as primary activities and the rest four act as supporting activities- that create value and specific business cost.

Based on Porter's value chain, the primary activities consist of (1)in- bound logistics or putting the material in to business; (2) operation or transforming the material to be finished goods; (3) Out-bound logistics or delivering the finished goods; (4) sales and marketing and (5) giving product service. While, supporting activities encompasses (1) procurement; (2) technological development; (3) human resources management; and

(4) firms infrastructure-handled by specific department. Each variable will be explained in the following section.

### 3.1 Value chain analysis of Cibaduyut's footwear industry

#### 3.1.1 Primary Activities

##### 3.1.1.1 Inbound logistics

Inbound Logistics relates to activities to acquire, store and distribute the raw material of existing product. Here will be elaborated every single aspects of Inbound Logistics.

##### I. Raw material

Most of the footwear industry in Cibaduyut acquires its leather raw material from Cibaduyut. It is because there are numerous sellers of both genuine leather and the imitation ones. Some of them purchase leather from Cibadak or directly order to the supplier in Garut due to limited number or unavailability of required leather to maintain the production efficiency as it provides more both in numbers and variations.

There are several ways that the producers do to procure the raw material, such as directly shop from the leather fabric, preorder or being provided by their consumer so the producers only do the manufacturing process.

##### II. Average number of supplier

To meet their raw material requirement, the business owners engage with 1 to 3 suppliers on average who may come from Cibaduyut or out of area such as Garut. The number required leather varies among the producers based on orders and their each consumer. Each month, the producer's demand for the leather is in range of 2-6 rolls on average.

##### III. Leather supply during the dearth

The leather scarcity phenomenon that took place in the mid of 2013 caused the termination of leather shoe production for 1-2 months in all business owners. The business clogged up because of higher price and unaffordable access of the leather. It encumbered the producers to meet the consumer's demand as it set the old price prior to the increasing of leather price.

On the other hand, consumers hardly adjust their price as it occurs abruptly. Prior to scarcity the price per feet is around Rp. 17.000,00, now it arises to be in range of Rp. 20.000 –Rp. 25.000 per feet depending on the kind of leather. Indisputably it impedes the business owner to produce shoe leather as the selling price remains constant, while the production cost gradually increases. Consequently, they terminate the production process and hold back the consumer's order.

It is expected that by waiting the quantity and price of leather's supply to be back to

its equilibrium point, the business owner can adjust their selling price to the customers. But, with the termination of production, the producers have less cash to pay its operational expenses such as labor's wage, rent, telephone and electrical cost. As a result, they only survive by counting on remain raw material from previous order.

Another step taken by producer is to tone down the shoe quality by using cheaper kind of leather. Nonetheless, not all consumers are willing to accept the degradation of quality. Therefore, the negotiation between producers and consumers is compulsory to find the win win solution. Indeed, it will not happen in short period so it drives the production process to delay in longer time.

#### IV. Material procurement

The other factor contributing to termination of production is the unavailability of leather stock in producer's warehouse. It comes to pass because the orientation of production is make to order. It implies that the order for leather raw material is done once the producer receive a fix order from consumer. Generally, the leather will arrive at producer's ware house from supplier roughly for 20 days from the day of order.

In the time of raw material was scarce, the business owners were hardly to start manufacturing as their supplier can not fulfill their order due to inavailability of product ordered.

#### 3.1.1.2 Operations

Operations constitutes the activities relating to transform inputs to be outputs. Here will be discussed every aspects of operations.

##### I. Production activity process

Leather shoe production process involves some stages to pass. First is to design the model of shoe in accordance with consumer's order. The business owner calls the process as "digurat". In this stage, the leather designer will check the flaws of leather and maximize the use of leather for shoe fabrication. Second stage is the process of the making of shoe front or upper in which the modeled material cut will be sewn by the shoe tailors. Next processes are to settle the tailored upper part into shoe sole, then it is glued, tugged, nailed, and put into oven to toughen the shoe with the sole. After being released from the oven, next stage is the pressing process to make the gluing to be more solid and tidier.

Having pressed, the material is then drained for 1 day before being finished. The process of drainage can be streamlined to be 10 minutes if the business owners have drying machine. In finishing stage, the activities to do consist of cleaning the glue,

eliminating residual pattern of sketch on leather if it is, setting up the inner sole and stamping the brand. Hereinafter the shoes are ready to pack in a box.

## II. Quality control

The quality control is conducted as many as two times from whole production process; on upper making stage and sole setting up process. What to do on the stage of upper making are to check its sewing tidiness and leather defect and also to dispose overly thread. While, on the stage of sole setting up, the quality controlled is to evaluate the result of sole installation, the way of sole withdrawal as well as glue leanness.

The quality control on production process plays critical rule since it can reduce the number of purchase return from consumers.

In regard to hand made production activity which relies on human's typical skills and high precision in making shoes, standard of expected quality is not solely determined by business owner. The consumer will also evaluate the product mainly on tidiness and convinence of shoe.

### 3.1.1.3. Outbound Logistics

Outbound logistis deals with the activity to assemble, to store and to distribute of owned products.

#### I. Distribution pathway toward the costumer

The business owners have various way to distribute the product so that it can reach consumer's hand. Some of them have their own stores, while the others only possess the fabric. For first group the finished goods are directly sent to the stores in which the consumer can opt and buy.

While for they who only have the fabric, the finishied goods are delivered to consumer's warehouse. The kind of consumer of this group is largely business consumer. Normally, the delivery utilizes box car for in city order and cargo vehicle for outside city order.

#### II. Number of shops

The number of stores possessed by business owners vary from 1 to 4 stores located in along the way of Cibaduyut, Yogya Dept. Store, Cimahi, Tasik Malaya, Cirebon, Bogor until Pasar baru Jakarta, Medan and Pekanbaru. The business owners who target business consumers serve 2 to 4 business consumers which come from many brands such as Rumah Mode, Triset, Scorpion, Donatelo, Grand, Mels and Elizabeth.

#### III. Inter-local demands

Having explained in previous section, the business owner of Cibaduyut leather shoe have supplied demand from outside Bandung such as Tasik Malaya, Cirebon,

Jakarta, Medan and Pekanbaru. However, the demand is not continue as demand from Bandung. Despite its demand only several times in a year, but it significantly contributes to total earning. Moreover, one informant of research has initiated to cooperate with Arab's entrepreneur who believes that indonesia's leather is halal. It is important for them as they intent to accentuate the halal image in the product. Nonetheless, due the scarcity of leather, the cooperation is reconsidered and wait until the supply for leather become stable. From these facts, it can be said that Cibaduyut leather shoe has high potency to be promoted and to be developed both in domestic and international market.

#### 3.1.1.4 Marketing and sales

Marketing and Sales are the activities that concern on sold goods to buyers and delivered service to customers. Here will be discussed the aspects of Marketing and Sales activities.

##### I. Promotion technique and media

There are some marketing methods enforced by Cibaduyut leather shoe business owner. For they who target end consumer, they do not only develop word of mouth, but also build a cooperation with tour leaders to bring the tourists specifically domestic ones to visit their retailers by paying fee. This method is considered to be effective and profitable.

For they who target business consumer, besides promotion through word of mouth and partnering, They also provide catalogue and product sample. Moreover, they employ Sales Promotion Girls (SPGs) wich the owners act as the suppliers. The SPGs will earn commision if they are able to recommend their brand to consumers who visit the stores. This method is claimed to be effective because the consumers habitually seek for a good brand or if the model and size of their desired brand is not available, SPG will recommend some shoe brands to the customers.

##### II. Website/Internet

The business owners of Cibaduyut leather shoe are not yet harnessed the technology of information such as internet, websites and social media. It is caused not only by the limited knowledge and insight but also by old habits which nearly in all business functions organized in manual and traditional way.

##### III. Facilities offered

a) Parking spot; The business owner also serve the end consumer with huge parking area which accommodates not only motorcycle and private cars but also tour

bus. The space is provided by urban planning authority to support the creation of consumer's convenient shopping experience in Cibaduyut leather shoe industrial center.

b) Method of payment; The business owner set different payment methods based on the consumer served. For the end consumer, the payment can be done by cash or through debt card of certain banks. While, for business consumer, the owner varying the payment methods to be 3 days cash after checking the goods at consumer's warehouse, transfer or with check for the period of 1-2 months. In addition, the companies also impose a down payment system to business consumer for 20-30 % of the total purchase.

c) Store's operational hour; Normally, stores in Cibaduyut leather shoe industrial center operate from 08.30-21.00 WIB. In general, the number of shoppers culminate on Saturday and Sunday or in typical seasons such as summer school, national holiday and school holiday. Fabric operational hour lasts from 08.00-16.30 and one hour break from 12.00-13.00 WIB. However, when the order is peak and the company has to meet the due date, the operational hour is lengthened to 21.00 WIB in which the employees are paid for the overtime.

d) Return policy if a product is unsatisfactory; To maintain consumer's satisfaction either business or end consumer, the business owners facilitate them with purchases return in which the consumers may return the defective products after being purchased or posted. The period of return is between 3 days up to 1 week. Prior to exchange or fix the broken product, the sellers will inspect the cause of damage. If the breakage is caused by consumer's negligence, the purchase return facility cannot be exercised and vice versa

e)

### 3.1.2. Supported Activities

Supporting activities constitute the activities to sustain the primary activities through providing purchase input, technology, human resource and general functions of a firms.

#### 3.1.2.1 Procurement (source for supporting materials)

In process of leather shoe fabrication, the input need is not limited to the leather but also other components such as glue, sole, thread and accessories. Mostly the business owners acquire the sole from the area of Cibaduyut and Cibolerang. While, the glue are purchased from stores and distributor around Cibaduyut, Kopo, and Padalarang. But, some of them order the glue from outside the city that is from Surabaya which offers higher quality with lower price. Similarly, the accessories are obtained from

around Cibaduyut and jalan kembar emas. Leather scarcity also causes price of some of components to increase in slight manner. Concurrently, It pushes the production cost to escalate.

### 3.1.2.2. Human resource

#### I. Recruitment

The business owners conduct recruitment process by using family system based. They hire the family of their trusted employees to take part of their business. The kind of system is claimed to be more effective and efficient because the recruited employee will last, besides They are also controllable and pliable in terms of behavior and characteristics.

#### II. Compensation for employees

For the store staffs who's work as Sales Promotion Girls, the compensation disbursed in form of salary in monthly basis. Nevertheless, They will earn bonus if They can achieve expected sales target. For the fabric workers, the compensation distributed is in form of wage which its amount is determined based on jointly discussion between the owners and the labors. The consideration of wage paid is the complexity of product and the quantity of production. The more complicated the shoe designed and the more quantity manufactured, the wage paid per unit will be higher. The wage is paid in weekly basis. It is done because the turnover ratio of every business owners of Cibaduyut leather shoe is low. It is also the reason why the companies do not compensate their employees with insurance plan and other kind of compensations.

#### III. Trainings for employees

For the employees working in the store, direction and SOP of consumer service are the only training. They receive from the business owners. Likewise, the business owners of Cibaduyut leather shoe do not conduct a specific training for the employee in the plan section as most of them have been equipped with required skills. The only socialization delivered is about quality standard of product demanded by business owners.

### 3.1.2.3 Technological development

#### I. Technologies utilized

Generally, business owners of Cibaduyut leather shoe still utilize an unsophisticated technology because the product they fabricate dominantly exploiting hand skill. The number of machine used is still limited to oven, sewing machine and press tools.

#### II. Computerized system

Being indifferent with internet technology and web network, the computerization system is not yet applied by most of business owner of Cibaduyut leather shoe. Instead they operate their business function manually. The functions of marketing, production, Human Resources and finance are not yet computerized.

#### 3.1.2.4 Infrastructure

##### I. Management information system

The business owners of Cibaduyut shoe leather do not recognize and harness management information system. As explained previously, firm's information management is still manual and traditional.

##### II. Supervision of operational activities

Operational supervision is conducted directly by business owners. However, in some of them, there have been an arrangement to assign an officer in every stages of production. The supervision activities encompass production output check, the field problems handling, etc.

#### 3.2 Strategies to overcome the material dearth

There are some strategies set by producers of Cibaduyut leather shoe to face the problem of leather material scarcity transpired some time ago that soared the price. They have to provisionally substitute leather to a cheaper material to maintain the production and to meet demand despite the price agreed is based on the negotiation when leather scarcity had not taken place yet. To tackle the selling price problem, the business owner must renegotiate with the customers to adjust the price.

Another strategy run by the business owner to keep producing is to replace the leather material with other stuff such as satin and canvas which presently favored by teenager segment. Despite this method is hard to implement due to expertise requirement but it can be a profitable alternative since it offers a highly differentiated product with lower material cost so it can be sold with competitive price.

Table 1. Comparison before and during the leather material dearth

No	Scrutinized aspect	Prior to the dearth	During the dearth
1	Number of leather supply	6-7 rolls	0 roll
2	Number of shoe pairs produced	100 – 2000 pairs per month	0 – 70 pairs
3	Number of employee	5-10 fulltime employees, 15-22 casual employees	Same number of fulltime employees, 2 -7 casual employees

4	Number of customer	No change occurred prior to and during the dearth. There were only complaints from business customers due to their orders fulfilled after the due date.
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### 3.3 Value Chain of Cibaduyut's Footwear Creative Industry

#### 3.3.1 Creativity which distinguishes a product form its competitors

Nearly all of business owner are encouraged to create distinctive product to be superior above its competitors. Yet, due to the limited creativity, time, old custom and technological knowledge cause the business owner of Cibaduyut shoe to go nowhere.

Only they who have courageousness do embark to make a distinctive product to serve niche market which less demand but it generates higher margin. However the complexity of production will be higher as it will make the manufacturing process to be longer. Nonetheless, once it is able to grab the market, the opportunities in the long term will be greatly huge.

For instance, one business owner has initiated to design and to develop a specific shoe for salsa dancers. The kind of shoes required certain specification as it is made from particular stuff, shoelas and flexibility. But, the size market to serve is promising as the number of salsa dancers community is big. Moreover, some of them have network not only inside country but also outside of the country. Some producers have experimented to use alternative material to substitute the leather to anticipate recurrence of the event. They use printable canvas with diverse motive besides it is also more economical than leather.

They who are risk averse prefer to carry on the old customs that is to produce ordered shoes with leather as the main stuff or to fabricate seasonal shoes. Thus, it can be said that business owners of Cibaduyut leather shoe are less creativite and innovative that need improvements.

#### 3.3.2. The uniqueness of product design

As result of lack of creativity, the leather shoes they produced become indifferent. They design the shoes using standard model that is considered will be durable and convenient. They neglect the details of shoes.

As stated by Porter, that mass production business model will prioritize volume of products. It does not mean that the design is not favorable. Commonly the producer in mass production model modify the desaign based on trend or imitate it from prominent designers to be then massively manufactured. It is in line with business

condition of Cibaduyut leather shoe that implement mass production model as it is made based on consumer's order in enormous number.

Meanwhile, the foreign competitors successfully penetrate Cibaduyut market by offering many choices of fashionable shoe with various models and colors coupled with affordable price. Even though, on the eye of its consumers, leather shoes of Cibaduyut are perceived to have certain specification that creates its own market. Eventually, the attractiveness of Cibaduyut shoe product will be determined by its own market demand.

#### **4. CONCLUSION AND SUGGESTION**

Based on the analysis, it can be concluded that value chain of Cibaduyut leather shoe industrial centre in relation with leather scarcity is not favorable. The most affected activity is production as one of main activities. The production process does not operate for 1 to 2 months. The discontinued production negatively impacts employability of labors. Those employees who lose their income source subsequently moved to other shoe manufacturers. If such condition continues to happen, it will threaten the business continuity of leather shoe industry in Cibaduyut leather shoe industrial centre.

Another conclusion from the research is that the leather scarcity phenomenon drives the business owner in Cibaduyut to design new shoe model using dissimilar material to anticipate recurrence of the event. Nevertheless, some of them carry on production using the remaining raw material or wait until it is available.

Considering the importance of leather availability as raw material of Cibaduyut leather shoe production, it is suggested to the business owner to improve some unfit aspects in value chains. For instance, raw material stock in warehouse should be managed more precisely to ensure its readiness. FIFO (First In First Out) method can be an alternative to apply the stock management. Besides, they also should take care of warehouse condition to maintain the raw material from decay. The sufficiency of raw material is expected to encourage the producers to keep receiving the orders from customer to increase the inventory turn over.

Due to its rapid development, the business owners of Cibaduyut should have started to concern on and adopt the information and computerization technology to support modern business management to achieve more effective and efficient production. One way to apply this strategy is to join or delegate the employees in such training as computer technique.

By comprehending the computerization system, the business owners are expected to be able to increase their competitiveness so that they can win the competition particularly over chinese import product which presently take part in market of Cibaduyut leather shoe industrial centre.

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