External and Internal Environment Analysis (A Study in Tasikmalaya City Embroidery Industry)

Pratami Wulan Tresna
Universitas Padjadjaran

ABSTRACT

This study aims to determine the environmental analysis in Tasikmalaya City embroidery industry. The environment studied includes the external and internal environment of the industry. The method used in this research is descriptive analysis where the data are collected by deep interview and observation. The informants in this study consist of representatives from businessmen, industry associations, and also from the government. The data are processed using external and internal factor matrix then analyzed using SWOT method. The conclusion of this study shows that the result of calculation using SWOT method toward Tasikmalaya City embroidery industry is in quadrant 2 which means the industry is on growing condition. The suggestions that can be given based on the result of the research is that company can implement partnership strategy, market expansion strategy, product line extension strategy, or rebranding strategy.

Keywords: external environment, internal environment, SWOT

1. BACKGROUND

Generally, a business will always attempt to achieve the purpose and target appointed beforehand in a highly tense of rivalry situation. The attempt to achieve such purpose and target will easier to perform if the business has an appropriate strategy and it implements the strategy correctly.

Strategy is a big-scaled plan which is long term-oriented to interact with a competitive environment to achieve the purpose of company (Pearce and Robinson, 2007). A company, either it is big or small, needs a strategy. What makes it different is the emphasis in making the strategy and the model used (Verreynne, 2006).

Small and medium ventures (UKM) as the form of entrepreneurship take an important role in national economic growth. They become important as the source of employment and they maximize resource allocation and distribution by mobilizing and utilizing the human resources and local materials (Cunningham and Rowley, 2007 in Mahmood and Hanafi, 2013). They also act as service and good suppliers in a bigger business. Most of them have dynamic, innovative, and efficient characteristics within a small area.

A particular characteristic of UKM can be strength or weakness that at the same time can be an obstacle in its development. The combination of strength and weakness as well as the opportunity and challenge faced and also external condition become its own determiner of UKM development prospect.

UKMs in West Java recently take a very important role and have a huge contribution. Based on BPS data, in 2012, small and medium ventures contribute 65% of increased revenue in West Java. From the whole PDRB of West Java, processing industries give the most contribution at the amount of 42% (source: West Java in Number in 2013).

Tasikmalaya City is one of cities in West Java Province. PDRB of Tasikmalaya City contributes 2.54% of PDRB of West Java. Similar with West Java, Tasikmalaya City has various industries. One of them is processing industry. Based on BPS data, processing

industries in Tasikmalaya City contribute 14.56% of PDRB of Tasikmalaya City (source: Tasikmalaya City in Number in 2013).

One of industries included in processing industry sector is embroidery industry. It is the number one featured product in Tasikmalaya City. Its excellence is the high quality. Smooth embroidery and update design make this product liked by the market. Tasikmalaya City embroidery always develops because this industry can easily get the main materials and labors and the demand for this industry is also high.

Another excellence of Tasikmalaya City embroidery industry is the latest technology usage in production so that this industry is able to produce a high production volume. The technology is called computer embroidery machine which in one production, it can produce a hundred cuts. The Government of Tasikmalaya City always supports the embroidery industry. One of the form of supports by the government is by making a compulsory program to wear religious outfit on every Friday for all employees in the environment of Tasikmalaya City Government. Religious outfits in Tasikmalaya City are identified by embroidery outfits.

The weakness of Tasikmalaya City embroidery industry is the condition where even though the industry is always following a trend, the product design looks similar to all industry owners. Operational activities in a company of embroidery industry also experience a number of obstacles such as a situation when although it is easy to get the main material, the price is fluctuated. Moreover, the type of cloth that comes is not always similar to the former one. They cause uncertainty in production.

Nevertheless, recently embroidery industry in Tasikmalaya City gets competitors of embroidery industry from Padang. Embroidery industry in Padang has also been known as the handicraft from West Sumatra. The main product of embroidery from Padang is *mukena*. Embroidery products from Padang have got a place in market. Although the embroidery products from Tasikmalaya City are more varied, most of embroidery businessmen from Tasikmalaya City produce *mukena* that is similar to embroidery products from Padang.

The result of interview with a number of embroidery businessmen states that they are reluctant to get into middle up market due to selling volume on the segment is relatively low. The businessmen are more likely to choose pursuing the quantity of good selling than their product values. Embroidery in Tasikmalaya City is sold more expensively in original place than in Pasar Tanah Abang or Thamrin City Mall in Jakarta.

Some businessmen also send the products to Tegal Gubug Market in Cirebon or Thamrin City Mall in Jakarta every week. However, there is a phenomenon where each product brought has to be sold out. Therefore, in order not to bring the products back, they have to sell the products below the regular price.

The embroidery businessmen state that they do not differentiate their products. So that the products produced tend to be similar from one company to the other. They usually just follow the other companies that have produced the existing models or designs.

The aim of this research is to do environmental analysis internally or externally to map strength, weakness, opportunity, and threat faced by Tasikmalaya City embroidery industry that in the end, they will get an optimally competitive strategy.

2. THEORETICAL REVIEW

The base of strategic management is an idea that creates harmony between company's strength and internal weakness on one side, and opportunity and threat in external environment on the other side (Andrew, 1987). It is supported by Pearce and Robinson's argument (2007) that states that strategic management is a set of decisions and actions that produces plan formulation and implementation to achieve company's purposes.

Meanwhile, strategic management according to J. David Hunger and Thomas L. Wheelen (2008) is "*a set of managerial decisions and actions that determines the long-run performance of a corporation.*"

Rivalry in business cannot be avoided because in business, the actors are many or more than one. In facing rivalry, a company should determine a proper decision in a set of competitive strategies for the sake of the company's success. So that, to be able to make a proper decision in competitive strategy, it is necessary to pay attention to competitive environment where the company runs the business.

A competitive environment describes a group of companies that run their business by offering products, services, and related experiences. In a competitive environment, company's success in a related industry is often affected directly by the development of competitive method inside the industry.

According to Hitt, Ireland, and Hoskinsson (1999: 39), the external environment of company has two main components: general environment and industry environment. General environment covers element in a large community that can affect an industry and companies inside. This element is categorized into segments such as demography, politic/law, social culture, technology, and economy.

Industry environment is a group of factors that affects a company and its competitive step and response. According to Porter (1996: 4), those factors are the threat of new comers, the power of bargaining from suppliers, the power of bargaining from buyers, the threat of substitutive products and the rivalry from similar companies from inside an industry.

2.1. Theoretical Framework

Embroidery is a folk craft that needs perseverance and patience in working on it. This craft has grown in some areas with their typical motives and designs in each area. At first, it develops to fulfill the need of *kebaya* which is the national dress of Indonesia. But, within its development and spreading usage, this craft becomes a part of typical features of cloth for praying like *mukena* (cloth for female)*, koko* (cloth for male)*,* and scarf. The characteristic of embroidery business is labor intensive and containing a high level of creativity (Creative Industry).

Tasikmalaya City is known as its embroidery commodity. It is evident in the potential embroidery commodity that is quite big and spread across some centers. With its potential, it is certainly necessary to do development so that the embroidery commodity in Tasikmalaya City can still exist in market both domestic and overseas. It is due to Tasikmalaya City embroidery commodity still has problems as herein under:

- The business people of Tasikmalaya City embroidery that often get difficulty in term of labor
- The middle up markets that have not been utilized yet
- The price of main material like yarn and cloth that increases
- The craftsmen's awareness toward the importance of embroidery designs that is still low

In a line with such conditions, Tasikmalaya City embroidery industry needs a proper competitive strategy to anticipate a tightly competitive dynamics. Moreover, with the condition where foreign products are easy to come to Indonesian market, the domestic products get a quite tough challenge. For instance, Chinese embroidery products come to Indonesia with their relatively cheap price but with quality that is not inferior to Tasikmalaya City embroidery products.

In order to be able to compete, Tasikmalaya City embroidery industry needs to design a strategy. But before designing a proper strategy, first thing first, it is necessary to analyze the internal company that consists of strength and weakness inside the company of

embroidery industry to utilize opportunity and anticipate threat that exists in external environment of the company.

After analyzing internal and external factors, it is continued with adjustment step that combines internal and external factors formulated in Value Chain Matrix, IE Matrix, and SWOT Matrix. By the number of strategic alternatives that emerges, it is necessary to do strategic mapping and to find which strategy that is the most proper for embroidery industry in Tasikmalaya City.

3. RESEARCH METHODOLOGY

The research method that will be used in this research is qualitative method. It is due to this research takes the phenomenon that happens about the factors of business environment in formulating competitive strategy in the field. In this case, the phenomenon taken is what happens in embroidery industry. A qualitative method is suitable to be used to gain a descriptive result based on field phenomenon or based on phenomenology approach that furthermore will be discovered and analyzed deeply in a line with the situation and condition of an object observed.

Data Source

The data needed in this research are secondary and primary data. The secondary data are gained from literature study, magazines, internet, and agency data while the primary data are gained from interview result and written data from research object needed appropriately. The data about company's business environment and embroidery industry, rivalry in embroidery industry, government's policy in embroidery industry, company's competitive strategy and supporting resource factor, strength power, company's importance, market desire to company and embroidery industry, and company's obedience and responses toward company's business environment.

The information sources in this research are elements or important people in embroidery industry classified into:
1. Embroidery businessmen
2. The Agency of Industry, Trading, Cooperative, and UMKM of Tasikmalaya City
3. Tasikmalaya City Embroidery Entrepreneurs Association

Data Analysis Techniques
1. IFAS Matrix
2. EFAS Matrix
3. TOWS Matrix

4. ENVIRONMENTAL ANALYSIS ON EMBROIDERY INDUSTRY IN TASIKMALAYA CITY

To analyze the environment of Tasikmalaya City embroidery industry in this research, the researcher uses IFAS, EFAS, and SWOT analyses. SWOT analysis is used in this research to filter stakeholder assessment toward internal and external factors of Tasikmalaya City embroidery industry that will gain strength, weakness, opportunity, and threat factors.

SWOT Analysis
Based on the interview result with interviewees, these are internal factors that become strength and weakness and external factors that become opportunity and threat in Tasikmalaya City embroidery industry.

Weighting Internal and External Factors

After internal and external factors being determined by the interviewees through interview, the next step is weighting those factors by using IFE (Internal Factor Evaluation) for internal weighting and EFE (External Factor Evaluation) for external weighting where all of them are SWOT elements and they can be seen herein under:

Table 4.13
Recapitulation of Internal Factor Assessment

Internal Environment		Strength	Weakness
Resource	**Finance**	Owner's equity. If the company needs additional funding, it looks for third party non-bank.	
	Physic	Nearby location	Companies rarely have spaces for display.
	Technology	Newest machines with big capacity	Companies have not used online media.
	Human Resource	A lot of sources of labor	Untrained labors
	Innovation		High duplication
	Reputation	Embroidery = Tasikmalaya City	Competitors' reputation
Value Chain Analysis	**Infrastructure**		Unaware about orderly administration
	MSDM	Easy to get labors	Untrained labors
	Technology development	Updated machines	Low usage of social media
	Procurement	Main materials are easy to get	Companies have to buy main materials in cash.
	Inbound logistics		
	Operations	Huge capacity of machines that can operate 24 hours	
	Outbound logistics	Tasikmalaya City market	
	Marketing and selling	More often selling in big scale	Consumer behavior that penetrates sellers
	Service	Companies attempt to sell with cheap price and the payment can be postponed.	Long payment so that the capital does not spin

Table 4.14
Recapitulation of External Factor Assessment

External Analysis		Opportunity	Threat
General environment	**Demography**	Majority of Indonesian people are Moslem	
	Economy	Interest rate is not influenced	People's purchasing power tends to decrease.
	Politic	Government's support	
	Social culture	Social environment that is highly supporting	
	Technology	Sophisticated machines	
	Global		ASEAN Economic Community
	Environment		
Industry environment	**Threat new entrants**		New embroidery industry starts to penetrate market.
	Bargaining power of suppliers		Purchasing in cash
	Bargaining power of buyers		Postponing payment
	Threats of substitutes products		Fashion industry getting developed
Rivalry environment			Competitor's reputation

IFAS and EFAS Analysis

Table 4.15
Internal Factors Analysis Summary

INTERNAL FACTORS		WEIGHT	RATING	WEIGHT SCORE
S1	Owner's equity. If the company needs additional funding, it looks for third party non-bank.	0.04	3	0.12
S2	Nearby location	0.04	3	0.12
S3	Newest machines with big capacity	0.05	4	0.2
S4	A lot of sources of labor	0.04	3	0.12
S5	Embroidery =	0.08	4	0.32

	Tasikmalaya City			
S6	Updated machines	0.04	3	0.12
S7	Main materials are easy to get	0.05	3	0.15
S8	Tasikmalaya City market	0.06	4	0.24
S9	More often selling in big scale	0.04	4	0.16
S10	Companies attempt to sell with cheap price and the payment can be postponed.	0.06	3	0.18
TOTAL STRENGTH		**0.50**		**1.73**
W1	Companies rarely have spaces for display.	0.04	4	0.16
W2	High duplication	0.08	2	0.16
W3	Competitor's reputation	0.05	3	0.15
W4	Unaware about orderly administration	0.04	4	0.16
W5	Untrained labors	0.05	3	0.15
W6	Low usage of social media	0.06	3	0.18
W7	Companies have to buy main materials in cash.	0.05	3	0.15
W8	Consumer behavior that penetrates sellers	0.06	3	0.18
W9	Long payment so that the capital does not spin	0.07	1	0.07
TOTAL WEAKNESS		**0.5**		**1.43**
TOTAL INTERNAL FACTOR		**1.00**		**3.16**

Table 4.16
External Factors Analysis Summary

EXTERNAL FACTOR		WEIGHT	RATING	WEIGHT SCORE
O1	Majority of Indonesian people are Moslem	0.18	4	0.72

O2	Interest rate is not influenced	0.07	3	0.21
O3	Government's support	0.07	3	0.21
O4	Social environment that is highly supporting	0.1	4	0.4
O5	Sophisticated machines	0.08	4	0.32
TOTAL OPPORTUNITY		**0.5**		**1.86**
W1	People's purchasing power tends to decrease.	0.09	2	0.18
W2	ASEAN Economic Community	0.05	4	0.1
W3	New embroidery industry starts to penetrate market.	0.08	2	0.16
W4	Purchasing in cash	0.07	3	0.21
W5	Postponing payment	0.09	2	0.18
W6	Fashion industry getting developed	0.06	4	0.24
W7	Competitor's reputation	0.06	2	0.12
TOTAL WEAKNESS		**0.5**		**1.19**
TOTAL EXTERNAL WEIGHT SCORE		**1.00**		**3.05**

Each company needs a strategy as one of tools used to achieve the purpose appointed. Strategy is a management process that will place the company to desired position. In achieving the purpose, a company needs to take proper decisions and actions that lead to the purpose.

To formulate a proper strategy for Tasikmalaya City embroidery industry, Grand Strategy Matrix that has four quadrants will be used. The four quadrants are stability quadrant, growth quadrant, decrease quadrant, and diversification quadrant. The position of Tasikmalaya City embroidery industry can be determined from IFAS and EFAS tables. The calculation of position can be seen as herein under:

- Axis X Position
  - Total score of strength weight   : 1.73

- Total score of weakness weight   : 1.43
- Axis X Position   : 0.30

- Axis Y Position
  - Total score of opportunity weight   : 1.86
  - Total score of threat weight   : 1.19
  - Axis Y Position   : 0.67

Axis X and Y scores then are put into Grand Strategy Matrix and the position of Tasikmalaya City embroidery industry is showed in the picture below. Based on IFAS and EFAS calculation, Tasikmalaya City embroidery industry is on quadrant I which is growth quadrant.

David states that the company in quadrant I has a perfectly strategic position. In this condition, the appropriate strategy is concern for market (market penetration and market development) and concern for product (product development). If the company in quadrant I has more resources then the effective strategy is backward integration, forward integration, or horizontal integration. Once the company in quadrant I is too dependent to a certain product, related diversification probably can help decreasing risk related to a narrow product line. The company in quadrant I has enough resources to earn profit from various external opportunities emerging in various fields. They can take some risk aggressively if they need to.

Tabel 4.17
TOWS Matrix

	STRENGTH	WEAKNESS
	1. Owner's equity. If the company needs additional funding, it looks for third party non-bank. 2. Nearby location 3. Newest machines with big capacity 4. A lot of sources of labor 5. Reputation 6. Updated machines 7. Main materials are easy to get 8. Tasikmalaya City market 9. More often selling in big scale 10. Companies attempt to sell with cheap price and the payment can be postponed.	1. Companies rarely have spaces for display. 2. High duplication 3. Competitor's reputation 4. Unaware about orderly administration 5. Untrained labors 6. Low usage of social media 7. Companies have to buy main materials in cash. 8. Consumer behavior that penetrates sellers 9. Long payment so that the capital does not spin
OPPORTUNITIES	**S-O STRATEGIES**	**W-O STRATEGIES**

1. Majority of Indonesian people are Moslem 2. Interest rate is not influenced 3. Government's support 4. Social environment that is highly supporting 5. Sophisticated machines	1. Enlarging market 2. Rebranding 3. Partnership with other stake holders 4. Making new product line	1. Optimizing social media 2. Cooperation in training program held by the government
THREATS 1. People's purchasing power tends to decrease. 2. ASEAN Economic Community 3. New embroidery industry start to penetrate market. 4. Purchasing in cash 5. Postponing payment 6. Fashion industry getting developed 7. Competitor's reputation	**S-T STRATEGIES** 1. Making new product line 2. SOP application in cooperation contract 3. Retail market penetration with agent or reseller system 4. Push and pull strategy	**W-T STRATEGIES** 1. Optimizing online marketing 2. Payment system restructuration

The table above is the result of TOWS matrix where the strategy that can be used by Tasikmalaya City embroidery industry is the strategy in quadrant II; that is S-O strategy. On quadrant S-O strategy, the alternative strategy that is possible to do by Tasikmalaya City embroidery industry is enlarging market, rebranding, partnership with other stake holders, or making new product line.

5. CONCLUSION

The result shows that Tasikmalaya City embroidery industry has ten strengths, ten weaknesses, five challenges, and seven threats. The result of calculation shows that Tasikmalaya City embroidery industry is on second quadrant which means Tasikmalaya City embroidery industry does S-O strategy.

Suggestions

Tasikmalaya City embroidery industry should do a number of strategy options that are appropriate with industry position based on the result. Those strategies are e.g. enlarging market, rebranding, partnership with other stake holders, or making new product line.

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