

Supply Chain Model of MSMEs Products in Modern Wholesale Surabaya

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ABSTRACT

This research aims to investigate the supply chain model employed by Micro, Small, and Medium Enterprises (MSMEs) in the retail sector, specifically focusing on the challenges they encounter as suppliers to wholesalers in Surabaya. Through interviews with employees of the Surabaya wholesale centre and MSME actors, this study elucidates the supply chain process, which commences with raw material suppliers and progresses through MSMEs, distribution channels, wholesalers, retailers, and ultimately reaches consumers. A key challenge identified in this research is the difficulty faced by MSMEs in competing with products from large-scale industries within the wholesale centre. Despite these challenges, several MSME products, such as Cakzin sweet and spicy shrimp potato chips and various bread varieties from Sri Roti, have successfully gained a foothold in the Indogrosir Surabaya wholesale centre.

INTRODUCTION

Quick population expansion follows Surabaya's quick development, which promotes the establishment of several contemporary retail businesses and supermarkets in the city. Human resources and the business sector are two areas where company competitiveness is becoming more intense. As a result, several tactics are used to win the contest. MSMEs have a very promising impact on the local economy, particularly in Surabaya. However, since MSMEs operate in a range of industries, including trade, services, home industries, and the culinary arts, rivalry amongst them is unavoidable. Businesses must comprehend supply chains when operating MSMEs in order to save expenses, such as those associated with storage and transportation. According to Nainggolan (2018), the majority of microbusinesses lack intricate supply chains.

Surabaya's rapid urbanization, fuelled by a population surge, has catalysed the emergence of numerous contemporary retail outlets and supermarkets. This burgeoning retail landscape has intensified competition across various sectors, including human resources and business. To gain a competitive edge, businesses have implemented diverse strategies.

Micro, Small, and Medium Enterprises (MSMEs) have emerged as a significant driver of economic growth in Surabaya. These enterprises, operating across diverse industries like trade, services, home industries, and culinary arts, contribute substantially to the local economy. However, this diversity also intensifies competition among MSMEs.

Effective supply chain management is crucial for MSMEs to optimize costs and maintain competitiveness. Unfortunately, a significant number of microbusinesses, as highlighted by Nainggolan (2018), lack sophisticated supply chain systems.

Partnerships, client relationships, and information have a significant role in the competitive advantage of Surabaya minimarkets in supply chain management from upstream to downstream (Sanjaya et al., 2016). Suppliers play a crucial part in modern retail operations as distributors, agents, collectors, and more. Supermarkets and other contemporary retail establishments play a part in national and international economic operations. While some are imported, the majority of the goods that modern retail sells are domestically produced. Local vendors, notably those in the MSME sector, provide the majority of these goods. It has been demonstrated that cooperation, trust, and enduring connections improve supply chain management performance (Kurniawan & Kusumawardhani, 2017). In this system, the completion is the most crucial cooperation.

In the dynamic retail landscape of Surabaya, the role of supply chain management has become increasingly critical. Effective supply chain management can provide a significant competitive advantage for minimarkets, enabling them to deliver high-quality products to customers efficiently and cost-effectively. This paper delves into the key factors influencing supply chain management in Surabaya minimarkets, with a particular focus on partnerships, client relationships, and information sharing. Strong partnerships with suppliers, distributors, and logistics providers are essential for the success of

Surabaya minimarkets. These relationships foster collaboration, trust, and open communication, leading to improved supply chain performance. By building long-lasting relationships with suppliers, minimarkets can ensure a steady supply of quality products, reduce lead times, and negotiate favourable terms.

Furthermore, cultivating strong relationships with clients is paramount. By understanding customer needs and preferences, minimarkets can tailor their product offerings and optimize their supply chain to meet customer demands. Effective communication and feedback mechanisms can help to build trust and loyalty among customers.

Cooperation, trust, and enduring relationships are essential for optimal supply chain management. By working together, minimarkets, suppliers, and other stakeholders can create a more efficient and resilient supply chain. Trust is the foundation of strong partnerships, enabling open communication, timely information sharing, and collaborative problem-solving.

LITERATURE REVIEW

Supply Chain Management

Supply chain management, as defined by Pride et al. (2017), is a sustained collaboration among distribution channel participants with the goal of minimizing inefficiencies, cutting expenses, and getting rid of redundancy in order to improve customer satisfaction and obtain a competitive edge. Collaboration across all marketing channels, including production, research, sales, advertising, and delivery, is necessary for efficient supply chain management. This approach requires attention to all stakeholders in the supply chain, not just manufacturers, but also wholesalers, retailers, consumers, component suppliers, shipping firms, as well as other goods distributors. The products that suppliers deliver have a significant impact on the products that are available in retail establishments, with the supply chain covering the entire process from production to getting into the hands of customers (Adwiyah, 2017).

Management structure, partner selection, contracts, transaction systems, policy support, and capital are all crucial components of supply chain management. Supply chain models that are frequently used include (1) supplier-manufacturer-consumer, (2) supplier-manufacturer-retailer-consumer, (3) supplier-distributor-consumer, and (4) supplier-retailer-consumer. In MSME operations, raw materials are generally obtained independently from local markets, shops, or stalls, and the entire process from production to distribution to retail and sales to consumers is carried out directly by MSMEs (Nainggolan, 2017).

Additionally, while distributing products, shipping operational expenses must be taken into account (Syamil et al., 2023). The short supply chain model is used by many MSMEs to increase production efficiency by accelerating the production process and reducing waiting times for raw materials (Haryadi & Dewi, 2019). Additionally, this strategy helps MSMEs overcome a number of obstacles pertaining to their patterns of product distribution (Rakhman et al., 2022).

Modern Wholesale

Kotler and Keller (2014) define retail activities as any activity that involves selling products or services to final customers directly for their own use rather than for commercial gain. Businesses that sell directly to customers or retail establishments are known as retailers. Any organisation that sells products to end consumers, whether it is a manufacturer, wholesaler, or retailer, belongs to the retail business. In this study, the modern retailer in question is a supermarket.

(Kotler & Keller, 2014) identify several main types of retailers:

1. Specialist Stores that offer products in limited categories.
2. Department Stores that provide a wide selection of products at retail.
3. Supermarket, a large self-service store that practices low costs with small profits but high sales volume. Supermarkets are designed to fulfil the daily needs of consumers.
4. Grocery store: a small neighborhood business with a high product turnover that is typically open twenty-four hours a day
5. Discount shops that offer basic or speciality items at affordable prices, with fast turnover, albeit at a slim profit.
6. Superstores, which combine the concepts of supermarkets, discount stores and wholesalers by providing daily household needs.
7. Catalogue Showrooms, which sell branded products with large profits and fast product turnover, generally using the catalogue method with discounted prices.

Large supermarkets or contemporary wholesalers in Surabaya are the kind of modern retail that is covered in this article. Supermarkets and wholesalers who are prepared to accept cash payments during transactions can reduce risk and enhance supply chain efficiency (Adwiyah, 2017). Furthermore, trust is a key component of supply chain connections and fosters cooperation within the chain (Latuconsina et al., 2022).

Micro, Small and Medium Enterprises

Home-based businesses are the small and medium-sized businesses that are being discussed here. The following criteria are used to classify micro, small, and medium-sized businesses in accordance with the regulations of (Kementerian Koperasi dan UKM RI, 2008): yearly turnover and asset value.

1. Micro Enterprises: A company with a net worth of no more than IDR 50,000,000, exclusive of the building and land used for the business. Furthermore, microbusinesses can only make up to IDR 300,000,000 a year.
2. Small Business: An organization with an annual revenue between IDR300,000,000 and IDR2,500,000,000 or a net value between IDR50,000,000 and IDR500,000,000, excluding land and buildings.
3. Medium-sized Businesses: Businesses with yearly revenue between Rp2,500,000,000 and Rp50,000,000,000 and assets between Rp500,000,000 and Rp10,000,000,000, excluding land and buildings.

MSMEs play an important role in the local economy as they support employment and contribute greatly to the economic activities of local

communities. Micro and small enterprises, in particular, tend to focus on a local scale or neighbourhood area, while medium-sized enterprises have greater potential for expansion.

METHODOLOGY

The supply chain model used by Micro, Small, and Medium-Sized Enterprises (MSMEs) in the setting of contemporary retail in Surabaya is examined in this study using a qualitative methodology. Direct observation and in-depth interviews were used to gather data.

Primary data was obtained through semi-structured interviews with key stakeholders, including MSME owners, managers, and retail store representatives. The interviews aimed to explore their perspectives on the existing supply chain, challenges faced, and potential improvements. In addition, direct observations were made at various stages of the supply chain, from procurement to distribution, to gain an in-depth understanding of the operational processes and logistical constraints that occur. After the data collection process is finished, data reduction and display are conducted. Lastly, pertinent conclusions are reached.

RESEARCH RESULT

Interviews with businesses show that the main source of raw materials is suppliers, although some are obtained from traditional markets and wholesalers. Food, drinks, handicrafts, batik, and other items are among the many diverse MSME products available in Surabaya. Keripik pisang, pecel, keripik tempe, and other similar foods are typically offered directly to consumers through MSME stores or direct orders.

DISCUSSION

Interviews with MSME suppliers to wholesale centres in Surabaya and wholesale centre employees show the diversity of MSME products sold at Indogrosir, such as kerupuk tulang ikan Cakzin, kerupuk kentang udang manis pedas Cakzin, roti sisir mentega Sri roti, roti krim meses klasik Sri roti, dan roti cokelat flat Sri roti. Micro, small, and medium-sized businesses are the source of these goods. Modern wholesalers first place MSME products in the warehouse before marketing them to customers directly or through retail outlets. The management of the business will next determine whether or not the products are classified as fast-moving items. The product will be advertised if it pertains to the fast-moving product category. Products are sold directly to customers and delivered to retailers that collaborate with contemporary wholesalers after leaving the warehouse. According to the findings of research by Nainggolan (2017), it can be inferred that the supply chain model for MSME items in contemporary retail is rather straightforward.

Diversity of MSME products: Interviews show that MSME products marketed through modern wholesalers have a wide variety, ranging from snacks to bakery products. The role of the warehouse, in this case the Indomaret warehouse: serves as the initial distribution centre for MSME products. Products that are considered to have good market potential will be further distributed to

the Indogrosir warehouse. Indogrosir distribution strategy: Indogrosir uses a multi-channel distribution strategy, including through a network of cooperating retailers and direct sales to consumers. Simplicity of supply chain model: The supply chain model used by MSMEs in the context of modern retail tends to be simple, involving few distribution stages.

By understanding these supply chain models, potential improvements and challenges faced by MSMEs in marketing their products through modern channels can be identified.

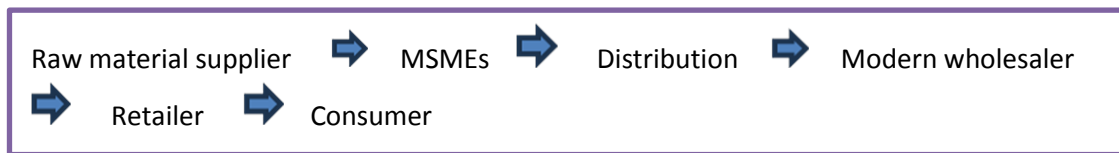


Figure 1. MSME Supply Chain Model in Modern Wholesalers

MSMEs first buy raw materials from vendors. According to research by Nevita et al. (2024), efficient supplier communication is crucial to achieving efficiency. After being transformed into completed goods, the raw materials are delivered to a state-of-the-art wholesale warehouse. The products are sorted initially at this warehouse. The products are placed in the warehouse to be shipped to merchants who place orders or sold straight to customers after it has been verified that they belong to the fast-moving product category.

The Standard Operating Procedure (SOP) is followed in the extremely regular and orderly supply chain management process. The supplier and Indogrosir have a clear relationship because the supplier section complies with the SOP established by management. Other modern retail businesses, such as Indogrosir, also employ SOPs when communicating with their suppliers. Modern retail organizations like Indogrosir have a wide range of suppliers, from small to major businesses. This makes it possible for merchants to work with both big and small firms who manufacture goods that consumers require.

Wholesale centers like Indogrosir and Lotte Mart are known for their extensive product range, catering to diverse consumer needs. These centers are committed to providing optimal service, evident in their well-organized shelves that facilitate easy product navigation. This strategic approach enhances the shopping experience, ensuring consumers find the desired items efficiently.

MSMEs often encounter significant challenges when collaborating with modern retailers. One major hurdle is the risk of unsold inventory, which can lead to substantial financial losses. Additionally, gaining supplier status at modern wholesale centers is highly competitive, particularly for MSMEs competing against larger industries. Meeting stringent quality standards and adhering to specific packaging requirements are crucial factors in securing such partnerships.

Effective communication with suppliers can assist MSMEs in ensuring the timely availability of quality raw materials, and in managing production costs. Modern warehouses act as product consolidation and distribution centres. By sorting and classifying products, warehouses can improve distribution efficiency

and reduce the risk of stockouts. The challenge for MSMEs is that they must be able to overcome various challenges to compete with large industries and meet the quality standards set by modern retailers.

CONCLUSIONS AND RECOMMENDATIONS

The production process for MSMEs typically commences with the procurement of raw materials from suppliers. These raw materials are subsequently transformed into finished products through various manufacturing processes. The finished products are then sent to modern wholesale warehouses, where they are sorted to determine whether they fall into the fast-moving product category. After that, the products are distributed to retailers who place orders or sold directly to end-consumers.

A primary challenge confronting MSMEs is intense competition from larger industries. Furthermore, the potential for product returns due to damage can lead to significant financial losses for these small businesses. Competition with large industries is one of the main challenges faced by MSMEs. To be able to compete, MSMEs need to improve product quality, innovation, and operational efficiency. This research can serve as a solid foundation for further exploration in this field. Further research can be conducted to explore more about effective marketing strategies for MSMEs.

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