

EXPORT STRATEGY OF COOPERATIVE IN AN EMERGING COUNTRY: EVIDENCE OF MITRA MALABAR COOPERATIVE

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Abstract: *Mitra Malabar Co-operative (KMM) was established based on Notarial Deed of Martin Arifin, S.H., Certificate No. 16 dated June 20, 2012. KMM oversees several Branch Cooperatives in several coffee-producing districts in West Java. KMM manages agribusiness by applying the principles of cooperatives to provide the highest benefit for the people of West Java by trying to improve the economy to be a better community, especially members. KMM collects cash at reasonable prices for farmers under the Fair Trade (FT) principle. Farmers get the base price of coffee sales plus the rest of the proceeds from coffee trading and other facilities that support coffee farming activities. The principle of fair trade will improve the welfare and livelihood of coffee farmers directly. Besides to gain farmers' income and welfare, KMM's coffee is very potential to be exported to International market. Therefore, this paper aims to analyze the export strategy of KMM by using five stages of the export behavior adoption of an innovation process. In addition, this paper can be useful for determining the barriers that KMM has experienced in the exporting process so that they can learn from the obstacles to improve its export system in the future.*

Keywords: *case study, export strategy, emerging countries, Indonesia*

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Introduction

Export is often called to increase economic growth (Bernard, A. B., & Jensen, J. B., 2004). Export and Foreign direct investment and direct investment (FDI) has played an important role in fostering rapid economic growth (Xing, Y., & Pradhananga, M., 2013). Exports are expected to encourage growth by relaxing the balance of payments constraints, increasing the country's capacity to import intermediate goods and essential capital goods, and promoting specialization and productivity gains through access to an abundance of knowledge, advanced technology, learning by doing, and better management practices. (Thirlwall 1979; Melitz 2003; Helpman and Krugman 1985). Cooperatives can be considered an important part of a community. Because it is usually formed for a special advocate that ultimately benefits the community.

According to Buckley and Dunning (1994), the cooperative has the purpose of bringing back something to the community that is why it is preferred by the government. There is no tax for the association because they usually give back to the public part of their profits. Their social goals make them more popular by the community. Therefore, a large number of such associations usually last longer than normal organizations. The proliferation of cooperatives in different communities shows how to achieve individual goals. It is such as improved services for the people to make it easier and regulated (Leela Rodriguez, 2016). Developing countries have become as significant producers in recent years, moving from their traditional role as providers of primary and processed natural resources. (Lall, S., 1998). Developing countries are on the "winning side" of trade. This belief has sparked the current reaction to international trade in the United States and parts of Europe (Pavcnik, N. (2017).

The problem occurs, as the market price of coffee in West Java and the profit the farmers get are very low. The market price of coffee in West Java could only reach approximately Rp 25,000 per kilograms, on the contrary, in Sumatera, it could reach up to Rp 45,000 in 2013. Regardless, KMM was still determined to export Malabar Coffee as their priority is to increase the market price of West Java's coffee, providing the fact that people tend to buy coffee from these regions: Sumatera, Medan, and Surabaya. In 2014, the representatives of the KMM party went to Morocco to attend an expo there while taking payment of one container that had been shipped. Right before returning to Indonesia they got an order of 6 containers (120 tons). But the agreement was no longer agreed because KMM re-adjusted the price, based on Fair Trade with Small-Scale Producers. From this price adjustment, the Moroccan party no longer cooperated with KMM. Henceforward, the new problem arises; as Java Preanger Coffee is less attracted to international markets resulting in supply is higher than demand. The work of marketing efforts, proper Trading House usage, and efficient Fair Trade should be enforced and scrutinized according to the theory based on practical usage.

Mitra Malabar Cooperative (KMM)

In this chapter the authors discuss the role of fair trade and the definition of trading house as the concept of KMM. Besides, this chapter also contains of the explanations of the establishment of KMM.

Fair Trade (FT) and Trading House (TH) as the concept of Mitra Malabar Cooperative (KMM)

Fair Trade Coffee (FTC) is a means of a long-term, decent partnership between small-scale producers (SSPs) and co-operative to improve their livelihood and well-being (Krupka, 2012). More importantly, the goal of FTC business is further aimed at trimming global poverty through SSPs selling FTC in developed countries, referring to the fact that more than 25 million people worldwide rely upon the income of coffee to pay for education, medical, and transportation needs (FLO 2009; Krupka, 2012). For this reason, the concept of FT and FTC should be in the foreground of any business practices that intend to leverage SSPs in a more privileged manner particularly for the producing countries.

The practice of international trade might be difficult for firms that never exported before. However, just as they are inexperienced in engaging with foreign markets, it does not always they cannot prevail in international trade. Alternatively, it is suggested the use of Trading Houses (THs) to aid penetrating foreign markets. By definition, an export trading house is an enterprise that practices exports, mostly imports or trades between third countries either as a merchant for its account or agent, export manager, for commissions or fees because it can be a salient source of revenue (AMCEQ – Quebec Association of Export Trading Houses). In

practical terms, the dependency of THs on suppliers is assured due to the availability of exportable products, whereas manufacturers and producers can opt either calling on THs or creating their own in-house export organization (CCM, 2001).

The discussion on the concept of FT and TH above could shed light and should be an implication of any international trade in the scope of export and import. The focal point of the study takes on a real example of Mitra Malabar Co-operative (KMM) implementing FT and TH specifically in export practice. Java Preanger Coffee is one of KMM's main commodities and product lines to be exported overseas via TH. However, the TH is mainly and solely controlled by KMM as a merchant doing the transaction to foreign buyers, not utilizing TH's agency.

Concerning product sourcing, KMM sources Java Preanger's coffee bean directly from farmers in Subang, Pangalengan, and Gunung Halu, West Java. One of Java Preanger's flagships is Malabar Coffee of which farms take place mainly in Pangalengan, West Java. As a co-operative, KMM enforces FTC in the upstream threshold embracing coffee farmers and workers in the making, whereas TH is implemented at the downstream end for marketing channeling and communication to foreign buyers. KMM believes that the concept of FT is more paramount, favorable, and in line with their value and vision improving the livelihood and well-being of coffee producers, rather than a free trade which is more corporate approach instead. In the end, it is expected that the purpose of creating TH is to promote Java Preanger Coffee and could bring success to world's favorite coffee.

However, the problem faced by KMM is that the Malabar Coffee that was ever exported ceased due to the disagreement in price in terms of both parties, KMM, and the Moroccans. Indeed, their concept of FT was failed to communicate, and the implementation of TH was not done correctly in the making. Furthermore, the more significant problem right now is most of Java Preanger product lines are not yet preoccupied with overseas market, resulting in fear of export practice and the vacuum of the trading house. In the process of analyzing and knowing the real condition that happens in KMM, especially in the scope of Java Preanger Coffee and TH, it needs a profound investigating regarding with the interaction between the firm and individual characteristics in a company that is affected the export performance.

According to Ried (1981), the specific firm and decision-maker play a vital role at each stage in the exporting process. Here are the explanations of overall steps in the scope of KMM. The first stage of export is export awareness. We have to know the problem or opportunity that we recognize before doing the export. We can also see what the arousal of export needs. Regarding the decision maker, whether they have experience export-related or not, type, level & amount of different information exposed to, and associated individual characteristics, unsolicited International orders. In terms of a firm, we have to know past firm performance, reputation, and visibility. In the second stage, we come to the export intention. It means that we should be motivated, attitude, beliefs, and expectancy about the export contribution. Regarding the decision maker, we must expect entry into the foreign market, foreign market orientation, export orientation, and underlying attitudes toward international involvement. Regarding the firm, we need to know the managerial and company objectives. The third stage is about the export trial. According to the decision maker, we can look for foreign orders through international market search. According to the firm, we can find out unsolicited overseas orders, the existence of available managerial and financial resources. The fourth stage is an export evaluation. At this stage, we can know the result of engaging in exporting.

Concerning the decision maker, we can get profitability, the stability of sale if our product can penetrate in the international market. Concerning the firm, the results from engaging in the export behavior. The last stage is export acceptance. In this stage, we can determine export adoption/rejection of export. Export expansion activity was shown by continued export growth as (1) increased exports as a percentage of sales; (2) continued entry into new markets; (3) continued total export growth; (4) continued the introduction of new products into export markets.

History of Mitra Malabar Cooperative (KMM)

In 2001

Rahayu Farmers Group engaging in horticulture cultivation was inaugurated on September 24, 1992; then, based on the result of a meeting of members under the leadership of Mr. Supriatna Dinuri, Rahayu Farmers Group agreed only to plant one commodity that is coffee plant on May 17, 2001. After switching to the coffee plant, this group shrank its members to 7 people. Also, some farmers did not want to join before seeing the benefits obtained from the coffee plant since farmers did not receive maximum benefits from coffee plants because they still sold coffee in the form of cherry.

As time went by, with the grief faced by the members and offset by the increasingly improved coffee harvest, the number of farmer group members grew. In 2009, Forest Village Community Institution (LMDH) of Rahayu Farmers Group got the Right of Forest and Village Management from Government Institution, PERHUTANI KPH, in South Bandung, with the area of 60 hectares.

In 2009

In 2009, the Pangalengan area experienced earthquake disaster. Mr. Jayagama held a social activity in the form of Mass Kitchen activity for several days and closed with Mass Treatment to at least reduce the burden and increase the motivation of earthquake victims in Margamulya Village, which is mostly inhabited by coffee farmers. This social activity resulted in a thought, how to improve the welfare of society, especially coffee farmers considering coffee is an export commodity of Indonesia.

Furthermore, to approach the community to explore the real potency, the Social Service Team implemented the farmer's community empowerment program through the activities of "livestock care" which is the first step in the effort to help to restore the economy of coffee farmers community. The "livestock care" activity is a program to provide cattle, sheep, and rabbits to several Coffee Farmers. The results of the business are returned to other farmers in needs, essentially the cultivation of livestock implement a revolving fund program system. This activity is the starting point of the industry pioneered in the field of coffee, with the principle of caring partnership, by the forerunner of Malabar Coffee Indonesia between Mr. Jayagama and Mr. Supriatna Dinuri.

Here are the awards achieved by the Rahayu Farmer Group: Award of Food Security (Vice President of the Republic of Indonesia) – Rahayu Farmer Group; Charter Award of Business Executors Post Harvest Plantation (Director General of P2HP-Deptan; Food Security Processing and Marketing Award; Award Chief of Farmers Group Leader; Award Character of Integrated Pest Management Farmer Group (IPM) Plantation of West Java; Certificate of Quality Improvement of Coffee Plantation.

In 2010

There are some agenda that occurred in the year 2010. The first is the establishment of PT Nuga Ramitra (Malabar Coffee Indonesia). There has been a cooperation agreement on plantation management and coffee processing between Malabar Coffee Indonesia and LMDH Rahayu Tani Malabar Coffee Indonesia in order to get patent from Government Trademark Institution, HAKI in September 2010. They have also developed a coffee garden by revitalizing displaced land, planting of the new coffee garden, developing of Malabar Indonesia coffee breeding land. They tried to develop Malabar civet coffee by doing civet husbandry and developing civet. They also have a treatment method to produce the excellent civet coffee. Also, they established a civet representative household facility. The awards achieved by Malabar Indonesia Coffee enhance the image so that PERHUTANI gave additional plots of 100.00 Hectares. Therefore, the total of cultivated land becomes 238.50 Hectares.

In 2011

In this year, they enhanced the quality of Malabar Coffee Indonesia by inviting experts from PUM Netherland, Mr. Sipke de Schriffat. They have a coffee processing facility in the form of the plant, warehouse, and roasting machine. Malabar coffee also obtained some awards namely from Puslitkoka Jember as three best coffee flavors, the best cultivation of the cilantro cage management in Indonesia and they had a certificate of coffee seeds from BP2MB JABAR. Last but not least, they have a classification of P4S Madya class. In building a good community empowerment program, they are planning to develop a sustainable organization, create Amanah foundation and coffee village Malabar.

In 2012

This year is the establishment of Malabar partner cooperative (KMM) West Java based on the notarial deed of T.Martin Arifin, SH No.16 (June 20, 2012). They performed some cooperative activities, such as trading coffee, training, and provision of crop production facilities. They got a national assessment of Malabar coffee Indonesia by awarding the three best flavors at SCAI coffee auctions, drafting expert team RSKKNI civet coffee production, becoming a chairman of AKLI (Association of Indonesian Kopi Luwak) West Java Province, has been tested for Competence of Luwak Recommended Recommended by the AKLI, and Malabar training becomes P4S main level. KMM developed the Malabar coffee Indonesia facilities by building cow cages, gazebo, *Saprotan* Warehouse, mini Café and cooperative office. With the achievement of Malabar Indonesia Coffee could partner with other institution to strengthen the role of PERHUTANI so that the land of PHBM is expanded to 257.50 Ha. The total of cultivated land becomes 596.00 Ha until the end of 2012.

Methodology

The methodology of this study is a case study research. The first step of doing a case study is you should explain and show how you express yourself to a tough methodological path. The path starts out with a careful literature review and thoughtful thoughts on research questions or objectives. Secondly, you must understand and publicly acknowledge the strengths and limitations of case study research. Special needs for case studies arise from the desire to understand complex social phenomena. The case studies commonly use as a research method in the social science discipline including business and marketing. "How" and "Why" questions are more transparent and help guide case studies, history, and experiments as a

smart method of research. This is because such questions relate to the interaction that can be tracked from time to time, not just events to events (Yin, R. K., 2009).

Result and Discussion

The 1st Stage: Export Awareness

The first stage defines the recognition of opportunities or problems that may occur in exporting process. It is either awareness of foreign markets of the issues that arise in KMM, which this can be as a solution for KMM for further export, or the recognition of potential opportunity from foreign markets in expensing and growing their business in the domestic markets, KMM. Due to the unsynchronized price of coffee, the agreement between KMM and Morocco was canceled. This can be a lesson for KMM to be more evident in determining the selling price for the international market.

Regarding the firm itself, foreign markets eventually seek out KMM's reputation, performance and visibility to catch the attention to collaborating. As stated above, started in 2009, KMM has awarded several achievements in food security and quality improvements of a coffee plantation. A coffee expert from the Netherland once visited Malabar coffee to enhance the quality of the coffee, etc. These will make the foreign markets collaborate with KMM. Besides, concerning the current problem of KMM that supplier is higher than demand, they should make foreign markets aware of their existence. They can attend the international coffee competition compete with other countries, to be continuously part of international agribusiness exhibitions inside or outside the country as they ever experienced in Morocco.

The 2nd Stage: Export Intention

This stage focuses on expectations, attitude, and beliefs towards foreign customers, foreign countries, the commitment of resources to support it, and exporting process. KMM must know which country they want to collaborate with for shipping coffee because every state has different characteristics in buying a product. For instance, in the European countries, the consumers tend to buy green beans and organic coffee rather than the roasted one. So, KMM must have the right international market knowledge to extend their business abroad. In the business issue of KMM occur that they have exported coffee to Morocco but not sustainably exporting the coffee because of the unfixed selling price to foreign markets. KMM should learn more about the economic, political, cultural, and market-strategic dimensions of a country they are going to collaborate with, to establish reasonable cooperation between both parties.

The 3rd Stage: Export Trial

This stage is to test KMM whether they can establish good cooperation with foreign parties or not. This may involve the unsolicited international order. The products that foreign markets can cancel what KMM have offered because of some reason. From this export trial, KMM can analyze what factors they should improve in exporting coffee to international markets. With the empirical evidence of KMM above, we can conclude that KMM needs an explicit agreement in their internal organization determining the selling price to the global market. The decision maker of KMM should have information about foreign markets. They can go to the country where they want to cooperate to find more information concerning the exporting process or they can be part of an international expo for building a relationship with foreign markets.

The 4th Stage: Export Evaluation

From the results of the export trial, KMM can see how they should be engaged with their foreign partners. If the trial were successful and achieved their goals, it would lead to good profitability and sales stability of the firm. If the trial was unsuccessful, we must evaluate what causes the failure of our goods export process, so we can improve the next export process. Further expansion will expect the growth of the firm in foreign markets.

The 5th Stage: Export Acceptance

The last stage is if the expansion was successful, they could continue to export coffee to the foreign markets with more amount of the coffee. Once they sell the coffee to the global market and it is what they are expected to be, other countries will become aware of their product and eventually want to cooperate. It means that the demand for coffee will be higher. It is supported by the cooperation of local governments who expand the land to plant more coffee. By the awards of the best coffee flavors that KMM has achieved could be potential as a differentiation among other coffee producers inside or even outside the country. So, it means that they have different flavors of coffee, which can be as a typical of Malabar Coffee that others might not have. KMM could export other products except coffee if the export were successful. Besides, if the exporting process was successful, their coffee could be transported to several other foreign countries.

Conclusion

This paper analyzes the export's perspective of KMM by using five stages of the export behavior adoption of the innovation process. Also, this paper can be useful for determining the barriers that KMM has experienced in the exporting process so that they can learn from the obstacles to improve its export system in the future. By analyzing the case study of KMM, we can enrich our knowledge in detail the steps that we should do in the process of exporting products to foreign markets. The five stages of the export behavior process are helpful as a guideline to reach the goal of the firm. If we use these stages, we can reduce the failures we have done in the past in exporting our products. This paper has a limitation. Namely, it examines only one particular case of Indonesia's Cooperative, *Koperasi Mitra Malabar* (KMM). For further investigations, these steps could be useful for small businesses in other regions of Indonesia that intend to expand their business abroad regarding the exporting process. This paper could also be beneficial for other cooperatives or small businesses in other emerging countries, which has been successful in local industry but has never exported its products abroad.

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