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# Problem Identification and Alternative Solution of Retail Furniture in Indonesia

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**ABSTRACT**

The retail business or retail trade for furniture products is very dependent on the supply of products offered to consumers in accordance with the consumer's choice and purchasing power. Changes in furniture buying behavior is one of the important factors that is a concern for retailers to build their competitive advantage with continuous innovation starting from products, service processes, marketing and management. Competition among furniture retailers, especially traditional retailers is increasingly pushed by the presence of modern retail with the ability to create high buying value to consumers in terms of price, product variants, design and quality. The presence of e-commerce that sells furniture products through online, has begun to grow significantly. This paper will discuss more specifically about Furniture Retail Businesses in Indonesia and identify problems faced and various alternative solutions from both theoretical and practical perspectives.

***KEYWORDS:*** *Retail Furniture, Problems and Solution*

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## INTRODUCTION

The trade sector, particularly retail or retail sales, is one of the crucial drivers of the Indonesian economy. The contribution of this sector to GDP (Gross Domestic Product) is 13.23%, the second largest after the manufacturing or processing sector (Coordinating Ministry for Economic Affairs, 2019). The retail business which is the final part of a supplier's product and service chain of suppliers, before reaching the consumer or end user, is in a highly competitive and volatile business environment. When the Indonesian economy was macro-positive with positive economic growth and an inflation rate of 3.5%, the retail sector slowed down every year in the retail sector.

The retail sector in 2016 had total sales of 522 million USD, with a total of 36,000 modern retail outlets in 2015 and growth of 4% -5% per year. From 2017 to 2018 the slowdown in this sector is still happening, seen from the increase in modern retail outlets that were closed, starting with 7-Eleven which closed all of its outlets in Indonesia, followed by fashion retail GAP from America, and finally the closing of several Giant (economic) .bisnis.com, 2019). Traditional retailers also experienced a decrease in the number of outlets to 12,000 in 2015 with a decrease of more than 7% per year (Global Business Guide Indonesia, 2016). The shift in buying behavior and competition with modern retailers that provide better purchase value for buyers, makes traditional retailers have to create a competitive advantage with competitors. This paper will discuss more specifically about Furniture Retail Businesses in Indonesia and identify problems faced and various alternative solutions from both theoretical and practical perspectives.

### Furniture Retailers in Indonesia and Its Problems

Furniture retailers in Indonesia and their problems. Although it is well known for selling groceries products such as food products and daily necessities or fashion products, retail businesses also exist as providers of other necessities. One retail business that has a large market in Indonesia is in the furniture retail sector. The furniture retail sector in Indonesia is in a competitive industry with a large population, a growing number of middle class households, low-cost housing programs by the government, property projects for both residential and commercial. Furniture consumption for the domestic market in 2013 reached Rp 9 trillion (Trade Assessment and Development Agency, 2017). According to HIMKI (Indonesian Furniture and Crafts Industry Association), the turnover for furniture and crafts in the country currently reaches Rp 10 trillion per year. The domestic consumption is filled with furniture products produced in the country by 55%, while the remaining 45% is imported furniture products from China (Trade Assessment and Development Agency, 2017).

Indonesia, which is famous for the production of wood-based furniture crafts, has furniture retailers ranging from shops with self-owned workshops, traditional furniture shops to modern retailers who have a network of outlets in several cities in Indonesia such as Informa, Vinoti, Vivere, JYSK, or part of an international retail chain such as the presence of IKEA, Index Living, Zara Home, and also the entry of e-commerce for furniture products such as Dekoruma, Fabelio, RupaRupa, Livasa. The furniture retail market in Indonesia in 2017 reached Rp 29,571 billion with a growth of 3.9% in 2017. The challenges facing the retail industry, in 2018 it is projected that furniture retailing will also experience a growth decline at 3.6% (Euromonitor International, 2017).

Competition among furniture retailers, especially traditional retailers is increasingly pushed by the presence of modern retail with the ability to create high buying value to consumers in terms of price, product variants, design and quality. The presence of e-commerce that sells furniture products through online, has begun to grow significantly, with sales of 795 million USD in 2015, projected to be 2,076 million USD in 2020 (Trade Research and Development Agency, 2017).

The retail business or retail trade for furniture products is very dependent on the supply of products offered to consumers in accordance with the consumer's choice and purchasing power. Changes in furniture buying behavior is one of the important factors that is a concern for retailers to build their competitive advantage with continuous innovation starting from products, service processes, marketing and management. Domestic furniture consumers are predominantly in the lower middle segment, which is dominated by affordable or assembled furniture products (Trade Assessment and Development Agency, 2017). Consumers in the upper middle segment prefer products with design and quality materials The shift in buying behavior is happening for furniture products with more alternative choices of products that are more diverse in design.Today furniture such as fashion products that follow the design trends, which prioritizes aesthetics, comfort, and less attention to the durability of furniture in a long time.

The domestic furniture retail market is currently dominated by traditional retailers in the form of shops that sell furniture owned and managed by families or mom and pop stores, with limited outlets and outreach (Trade Research and Development Agency, 2017). The presence of modern retailers with a wider network of outlets and a wider and more extensive store area, is an alternative for the middle class to make furniture purchases. The large domestic market with a large population and middle class family is the main attraction for entering this retail business, as is done by modern retailers with the largest number of outlets, namely Informa. The entry of foreign retailers to Indonesia, IKEA, which is the largest furniture retailer and producer from Sweden in 2014, proves that the big potential of the Indonesian market for furniture retailing is still remain.

APRINDO (Indonesian Retail Employers Association) as an Indonesian retail association, does not have specific data on furniture retailing and its performance. The phenomenon that occurs in the furniture retail business that has been described above, raises a gap about how the furniture retail business, especially traditional retail which has been dominating the market, building its competitive advantage in the midst of the slowing growth of the retail industry, changes in furniture buying behavior, technological developments and competition.

**Alternative Solutions for Retail Business Problems: Theoretical and Practical Views**

Building sustainable competitive advantage is a challenge for companies in the midst of change and intense competition. Competitive advantage is the creation of value (creating value) provided by the company above its competitors, has a relationship with company performance. The creation of competitive advantage has been a concern of strategic management researchers from the beginning in scientific contributions that help business practitioners to adopt and integrate economic principles and logic into their fields (Breznik and Hisrich, 2014). As business develops and changes more quickly, and competition gets tougher, studies in strategic management science, explore and redefine various theoretical perspectives and relationships between constructs in the creation of sustainable competitive advantage.

Two major theories developed in strategic management that looked at the company's competitive advantage, has a relationship with the performance produced by the company. Hoskisson (in Sukoco, 2014) shares the development and evolution of strategic management theory in a pendulum that moves in four swing eras. Starting with an inward movement that focuses on the company's internal, the second era of the pendulum moves outward with a focus on the external organization which says that organizational performance is a function of the industrial environment or known as I / O Economics, the third swing when the pendulum is in the middle position between internal and external with a focus on organizational economics, the fourth swing of the pendulum moves back into the organization with a focus on a resource-based approach or Resource-Based View (RBV).

Perspectives on the company's internal and external environment as described above, strive to explore and explain how companies compete, building competitive advantage that affects their performance. The industrial organization perspective or I / O focuses on the external environment with the main premise that organizational performance is a function of the industrial environment in which the company is located and competes. In this perspective industrial structure will determine actions, and actions influence on performance (Sukoco, 2014). The five forces theory put forward by Porter states that companies are influenced by five forces namely supplier power, buyer power, competition in the industries entered, barriers to new entrants and threats from substitute products. These five strengths affect the performance of the company. But this approach cannot answer how companies that are in the same industrial environment, have different performance.

The dynamic business environment and increasingly fierce competition landscape, encourages companies to continuously renew their competitive advantage. Competitive advantage comes from ownership of resources and capabilities that have the characteristics of VRIN (Valuable, Rare, Inimitable, Non-substitution), with a dynamic environment that is no longer a permanent advantage. So the implication is that competitive advantage must be dynamic, not static, which must be continuously updated (Breznik and Hisrich, 2014). Dynamic capabilities that support goals or goals through the creation of excellence that are continuously renewed to be one step ahead of their competitors are a challenge for the company (Eisenhardt and Martin, 2000).

The RBV (Resource Based View) approach sees a gap that the I / O (Industrial Organization) approach cannot explain the different performance of companies in the same industrial and competitive environment. This research is directed at strategic resources and capabilities owned, managed and controlled by companies through the creation of competitive advantages that have an influence on business performance. Resource-based research (RBV) and its relationship to competitive advantage and performance, received strong support from empirical studies conducted by researchers. An analytical study conducted by Barney and Arikan (2001) states that of 166 empirical studies of RBV, only 2% are inconsistent with the logic of the RBV approach. This study was further developed by Newbert (2007), who conducted a study of 55 articles on RBV using a more comprehensive and unbiased approach to sampling. Newbert's research found that the RBV had empirical support of 53% of the total sample studied. The most widely used approach is through heterogeneity of resources. Newbert's study also provides recommendations for future research to focus more on dynamic capabilities compared to static resources.

The study of strategic resources that meet the VRIN criteria (Valuable, Rare, Inimitable, Non-substitution) and their effects on performance, through a meta-analysis study conducted by Crook et al. (2008), found that resources and performance have a stronger relationship if these resources meet the RBV attributes. At present the RBV research stage is more geared towards meeting the missing link that occurs between resource ownership and resource use that can be a lever of competitive advantage and high business performance (Ellitan, 2017).

Building a sustainable competitive advantage is largely determined by how the company establishes a strategic orientation. Strategic orientation is an intangible resource that a company has. Strategic orientation is a means used by companies to manage and carry out activities in business and efforts to maintain and improve business performance (Hakala, 2010). According to Gatingnon and Xuareb, strategic orientation is the principles that direct and influence activities within the company and build behaviors that are directed to ensure success and business performance (Gatingnon and Xuareb, 1997).

Strategies are made at the business or company level, directing every activity and behavior in the company to build excellence and improve business performance, which influences how the company determines its structure, how to manage its resources and capabilities. Strategy is a tool to create solutions to problems faced by the company and also capture various opportunities that exist in the company's external environment (Obeidat, 2016). According to Huff, strategy is one of the tools trusted by managers in the company that influences the achievement of company performance (Huff et al., 2009).

Strategic orientation was first used by Venkatraman (1989), to express the measurement scale of strategy constructs. Strategic orientation is measured through managerial perceptions and trust in the main dimensions of the company, namely strategic aggressiveness, analysis, defensiveness, futility, proactiveness, riskiness. A study conducted by Hakala (2010) states that strategic orientation consists of four different perspectives to measure the elements of strategy that affect business performance, namely market orientation, entrepreneurial, technology and learning orientation. Developed from previous research, Ho (2014) conducted a study of strategic orientation by holistically looking at the multiple strategies implemented by companies. Multiple strategic orientation is a unique resources that is an element to form competitive advantage and has an influence on company performance.

The company should compete in seeing the strategic orientation from the perspective used by Ho, (2014), namely by looking at multiple strategic orientations, by measuring how the managerial perceptions of furniture retailers on the four elements of strategy are market orientation, entrepreneurial orientation ), technology orientation (technology orientation) and relationship orientation / collaboration (relationship orientation) as a source of competitive advantage and influence on business performance.

Companies that have high performance on an ongoing basis are those who are able to identify and manage the unique internal resources (unique internal resources) they have, build capabilities from the uniqueness of resources so that it becomes the core competency of companies that can maximize the opportunities they have in the external environment to obtain competitive advantage. Ireland (2011) mentions four important criteria for building sustainable competitive advantage: building rare capabilities, having value that can maximize opportunities and neutralizing threats (valuable capabilities), difficult and expensive to be imitated by competitors (costly to imitate) and there is no substitute or nonsubstitutable.

The increasingly fierce competition in the current era of knowledge economy, as well as the intensity of global competition and the high level of technological progress, make companies increasingly see the importance of innovation as the center of creating competitive advantage of the organization. One of the highest priorities of an organization or company is how to develop new ideas and innovations (Lawson and Samson, 2001). The resource-based-view (RBV) approach as described in the previous paragraph, that organizations are a collection of unique resources and capabilities that are the source of core competencies to create competitive advantage. With this assumption, differences in organizational performance will greatly depend on how organizations use organizational resources that are owned so it is not easy to emulate. The organization does not compete on new products but more than that as the core competency is how the organization has the capability of innovation.

According to Teece and Pisano (1997) based on dynamic capability theory, that the competence or capability of a company will enable a company to create new products, processes and responses to market changes. Dynamic capability emphasizes management capabilities and combinations of resources that are not easy to replicate. Innovation is one of the dynamic capabilities that a company must have in order to continue to be able to provide value above the average of the market and its competitors. Managing innovation is an important thing that receives the attention of both researchers and business practitioners (Tidd, Bessant, Pavid, 1997; Breznik and Hisrich, 2014).

Minztberg et. al. (2003), said if a company wants to survive, then the company must maintain its flexibility by innovating on established patterns, and that is possible if the company has innovation capabilities. The capability of innovation is the ability to continuously transform knowledge and ideas into new products, processes and systems that benefit the company and its stakeholders (Lawson and Samson, 2001). Companies that have innovation capability are companies that have the ability to integrate the resources and key capabilities they have as stimulation to create innovation.

The retail industry, which is the last channel between producers and consumers or end users, manages relationships with suppliers and consumers is a very crucial part. Therefore supplier network capability is an element that forms a company's competitive advantage and influences business performance (Chandra and Kumar, 2000). Managing supplier networks is a way to improve competitiveness by reducing uncertainty and improving customer service. Managing supplier networks is an important issue in companies in various industries, because it involves how companies build a competitive advantage in a sustainable manner against their competitors and affect the company's performance (Suharto and Devie, 2013). A superior supplier network, optimization and integration are the focus and goals of many companies, because at this time to achieve growth in company revenue is very important, in addition to only making cost reductions. The supplier network is formulated into a strategy aimed at dealing with increasing levels of competition, on the other hand it is a media in building competitive advantage (Holmberg, 2000). Previous studies suggest that there is a significant influence between supplier networks on competitive advantage and company performance (Suharto and Devie, 2013). Supplier network capabilities must be re-evaluated regularly including network accessibility, network efficiency, network mobility and network learning capabilities (Jin and Edmunds, 2015).

Business performance is the final stage of the strategic management process. Company performance reflects how the company takes advantage of tangible and intangible resources to achieve company goals (Wheelen and Hunger, 2015), which is the culmination of business processes and activities. Organizational or business performance is a multidimensional construct. Different organizational strategies and organizational activities have different effects on organizational performance (Richard et al., 2009), so that measurement benchmarks differ according to their characteristics such as business fields and business formats, company background, company status, capital structure, growth rate , the level of technology and other specificities.

Competitive advantage is the company's position to provide more value to the market above its competitors. From Barney's conceptual model (1991), it was stated that competitive advantage affects business performance. The company's competitive advantage is obtained when the company is able to explore and use the company's internal strength to respond to opportunities that exist in the external. Researchers generally classify sources of competitive advantage into two, namely assets that are defined as unique resources, and capabilities that are defined as specific expertise (Bharadwaj et al., 1993). In a study conducted by Bharadwaj et al. (1993) in the service industry and Grant (1996), it is stated that assets and capabilities are the source of companies to build differentiation advantages and cost advantages that affect market performance and financial performance.

Garcia and Moreno (2018) state that competitive advantage plays an essential role as a mediating variable between strategic resources, dynamic capabilities and business performance. The ownership of strategic resources and dynamic capabilities positively contribute to achieving competitive advantage through cost, differentiation and staff efficiency.

The explanation in the previous paragraph states that not every resource ownership will be a source of competitive advantage, only strategic resources that meet the attributes of VRIN (Valuable, Rare, Inimitable, Non-subtitutions) that have an influence on business performance (Crook et al., 2008). This research puts competitive advantage as an intervening variable from exogenous variables, namely strategic orientation, supplier network capability, innovation capability, towards endogenous variables, business performance. The company's competitive advantage is built on the strategic orientation which is a unique resource of the company, as well as the supplier network capabilities and innovation capabilities that enable the company to have a competitive advantage measured from resources and capabilities that meet the VRIN attributes (Valuable, Rare, Inimitable, Non-subtitutions).

The Gyang stated that there is an urgency to conduct a study that looks at traditional furniture retail businesses in Indonesia, building their competitive advantage through unique resources, namely multiple strategic orientations from a market, entrepreneurial, technology and relationship orientation perspective, and supplier network capabilities and innovation capabilities. This study also looks at how they affect business performance as measured by the perception of shop owners or managers of financial and non-financial performance compared to their competitors.

**Conclusion**

This paper is expected to provide theoretical benefits in adding insight, especially in the Resource Based View (RBV) and Dynamic Capability approach, as well as practical benefits for building competitive advantage and business performance in furniture retailing. The review in this paper contributes to the thought and enrichment of strategic management theories within the scope of the resource based view and dynamic capability approach. This paper has discussed how to build competitive advantage sourced from the company's unique resources, namely strategic orientation, and supplier network capabilities and innovation capabilities, making the company have a competitive advantage. With the competitive advantage that is owned will affect the resulting business performance variations.

From the discussion of phenomena in the furniture retail industry, it is expected to add to the literature for practitioners and to see how to build business excellence in furniture retailing, which is still very limited in empirical studies. Through this research findings, traditional retailers who are the biggest dominance in the furniture retail business will find out how the influence of a holistic strategic orientation, namely market, entrepreneurial, technology and relationship organization orientation, as well as supplier network capabilities and innovation capabilities, will affect business excellence and business performance , amid increasingly fierce competition and enter the digital economy. This paper is expected to provide benefits for companies that are in the furniture industry as furniture suppliers, to be able to find out how customers, namely retailers, namely traditional shops, build their business performance through their resources and capabilities. So the company is able to provide more value to customers than other suppliers.

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