

## Enhancing Competitiveness in Indonesia's Furniture Craft Industry: A Five Porter Analysis

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### ABSTRACT

Indonesia's craft industry, encompassing traditional crafts such as batik printing, weaving, and furniture, plays a vital role in the nation's cultural identity. Micro, Small, and Medium-sized Enterprises (MSMEs) are key players, propelling the growth of creative cities. Among them, the furniture industry is prominent, despite a minor dip in 2022 exports. Notably, the United States accounts for 58.5% of Indonesian furniture exports and is the main export destination. This study employs the Five Porter Analysis to explore external factors influencing the furniture craft sector. The findings emphasize the importance of ensuring a stable supply of raw materials, aligning products with international preferences, promoting sustainable resource management, fostering innovation, and navigating international trade regulations. Government support is pivotal. The results demonstrate the need for a comprehensive strategy to sustain competitiveness. It calls for capacity building, market research, and global collaboration to strengthen Indonesia's position in the international market. This research offers valuable insights for policymakers, industry stakeholders, and MSMEs to enhance Indonesia's furniture craft industry's competitiveness while preserving its rich cultural heritage.

**Keywords:** Competitiveness, Creative Industry, Export, Five Porter Analysis, Furniture Craft

## **INTRODUCTION**

The craft industry in Indonesia has played a significant role in defining the cultural identity and artistic heritage of the country. From beautiful batik to intricate traditional weaving, crafts reflect the cultural richness and handcrafting skills that have been passed down from generation to generation (Iskandar, 2017). This dynamic craft industry is primarily fueled by Micro, Small, and Medium-sized Enterprises (MSMEs) within Indonesia's creative sector, contributing to the emergence of distinct creative cities. These MSMEs, dominating the creative industry landscape, leverage their extensive social networks and connections with various stakeholders to gain competitive advantages (Widyawati et al., 2023). These advantages enable them to effectively compete both domestically and on the global stage (Nugraha et al., 2022).

Furthermore, the opening of free trade within the ASEAN Economic Community since 2015 in the South East Region, can potentially provide several benefits. Such benefits, for example, a decrease in transport and telecommunication costs in the region, an increased number of internet users which made information easier and quicker to obtain, and increased investment and employment (Alexandri et al., 2019). Indeed, the development of the creative industry by Micro, Small, and Medium-sized Enterprises (MSMEs) in each region has created a unique characteristic for them to become creative cities. Within these cities, creativity, innovation, and individual potential thrive, often attracting tourists (Amri et al., 2022).

Within the broader creative economy, the craft sector, particularly the furniture industry, stands as a cornerstone of Indonesia's creative economy. In 2022, the recorded export value of Indonesia's furniture industry under HS Code 9403 amounted to USD 1.579,4 million, despite a 5,1% decrease from the previous year. Despite this decline, the export value remains significantly higher than the average of the last five years (International Trade Centre [ITC], n.d.). The United States represents the largest market share for Indonesia's furniture industry in international markets, accounting for 58,5% of total exports (ITC, n.d.). The furniture industry is spread across various regions in Indonesia, capitalizing on the nation's abundant natural resources and skilled workforce.

The furniture industry in Indonesia is one of the economic sectors that plays a significant role in showcasing creativity and artisanal skills in the country. However, in the face of an increasingly complex business environment and fierce global competition, a profound understanding of the external factors affecting this industry becomes crucial. The development of the craft industry in the furniture sector is influenced not only by internal factors but also by external factors involving market forces, competitors, suppliers, buyers, and substitute products.

To bridge this knowledge gap, this study adopts the Five Porter Analysis method to further analyze the external factors influencing the furniture industry in Indonesia. This research helps gain a better understanding of the challenges and opportunities faced by the furniture industry in Indonesia and to what extent these external factors influence the development of this craft sector.

## **LITERATURE REVIEW**

### **Competitive Advantage**

The definition of competitive advantage is the capability of a company to earn economic advantage above the profit earned by competitors in the market in the same industry. Competitive advantage is the advantage over competitors that can be obtained by offering consumers greater value, either by lowering prices or by providing greater

benefits and services (Porter in Alexandri et al., 2019). Companies which hold competitive advantage can always read the shift in market structure and know the effective marketing strategies for the situation.

An analysis of the business environment that determines opportunity and threat becomes the basis for the generic strategy selection. The approaches to gain a competitive advantage, in the study conducted by Porter, includes offering product or service with uniqueness of their own, rather than competing using differentiation, or focusing on a particular segment focus (Porter in Tresna & Raharja, 2018). Kotler and Armstrong offer another definition for competitive advantage, which is an advantage over competitors gained by offering value to consumers, either through decreased price or increased benefits to support higher profit (Kotler and Armstrong in Tresna & Raharja, 2018). David (2006) defined competitive advantage as a condition when a company could perform a task that other companies could not, or when a company possess something the competitors covet. Competitive advantage is a condition when two companies compete over the same market or consumers, and one of them has the level of advantage and potential to earn a higher profit than the other (Grant in Alexandri et al. (2019).

According to Barney and Clark (2007) in the Resource-Based Theory, sources of competitive advantage include resources that cannot be imitated and have no substitutes. The resource includes all assets, capabilities, organizational processes, company characteristics, information, knowledge and so forth, that are in the control of the company, which in turn empowers the company to implement strategies in order to achieve goals efficiently and effectively (Barney in Alexandri et al., 2019). Kotler & Armstrong added by specifying three metrics for quantifying competitive advantage as follows: excellence in product differentiation, how the business benefit from market segmentation, and excellence in market entry (Kotler & Armstrong in Adiputra et al., 2023)

Competition itself is the core of a company's success or failure. It determines the feasibility of activities that contribute to performance such as innovation, cohesive culture and good implementation. Competitive strategies, are methods of achieving competitive positions in the industry, whose intent is to establish favorable and sustainable positions, and determine the strengths to fight industrial competition. Industrial attractiveness and competitive position can be purpose-made by companies. The choice of Competitive strategies, has considerable power in determining the attractiveness and position of the company within its industry. Competitive strategies are not limited only to being reactive in response to the environment, but also actively shape the environment for the good of the company. Competitive advantage grows fundamentally from the value the company can create or its consumers to exceed the company's costs in the production process. Value is what the buyer pays for and the superior value starts from a lower price offer than the competitor to obtain equal benefits or provide unique benefits. Two basic types of competitive advantage exist, namely, cost leadership and differentiation (Herawaty & Raharja, 2018).

The industrial ability to enhance its own output implies that the business unit understands how to utilize its own resources to the utmost against the challenge of competition and market expectation, which tend to be fluctuative at all times. Thus, the development of a sustainable competitive advantage, or SCA in the business competition is significantly influenced by the strong resources owned by the business units. The resource-based view considers competitive advantage and excellence in strategic management to be related to valuable resources, and factors that cannot be easily imitated by competitors. Competitive advantage is the only aspect that is limited and difficult to imitate. This concept is known as the company's core competency. A company could achieve a sustained competitive advantage, by implementing a strategy which taps the company's

internal strength to answer outside challenges, while suppressing external threats and overcoming internal weaknesses (Barney in Tresna & Raharja, 2018). Taken further, a company can leverage strategic resources to generate a market positional advantage that will ultimately enhance business performance. Relational resources describe that if strategic assets are properly managed, they will be difficult to replicate, substitute, and become scarce resources as well as have superior values compared to competitors (Barney in Sitaniapessy & Huwae, 2023)

Competitive advantage strives to outperform competitors and go beyond the average level of industrial performance. However, a company must first achieve a deep understanding of itself, especially regarding the level of relationship between internal resources, competitive advantage, and performance. This way, a company can implement the exact business strategies to improve its position by identifying its internal strengths and resource weaknesses (Tresna & Raharja, 2018).

### **Creative Industry**

The implementation of creative economic policies in developing countries brings forth distinct attributes, notably their symbiotic relationship with intellectual property and the preservation of traditional craftsmanship. This distinct characteristic is vividly exemplified in Indonesia's creative industry, which predominantly revolves around the preservation and enhancement of traditional crafts, reflecting the country's rich cultural heritage. Amidst the evolution of Indonesia's economic and technological landscape, entrepreneurial pursuits have transitioned from being mere opportunities to an imperative necessity for individuals seeking sustainable livelihoods (Lita et al., 2020). This shift underscores the changing dynamics wherein entrepreneurship is not just a choice but a pathway to navigate the evolving socio-economic terrain. Moreover, as part of its developmental trajectory, entrepreneurship education has been progressively integrated, spanning from educational institutions to universities across Indonesia. The introduction of entrepreneurship education from the grassroots level to higher education aims to instill a spirit of innovation, resourcefulness, and business acumen among future generations (Suryadi & Anggraeni, 2023).

This intimate connection between the creative industry and the entrepreneurial orientation of Micro, Small, and Medium-sized Enterprises (MSMEs), as highlighted by Hikmah et al. (2023), underscores the significance of entrepreneurial orientation. This entrepreneurial orientation embodies a multifaceted approach, comprising diverse strategic elements essential for guiding the intricate web of business decisions. It encapsulates innovation, proactive initiatives, risk-taking, and collaborative endeavors, constituting the bedrock for a dynamic and adaptive organizational culture. Within the dynamic landscape of the creative industry, this entrepreneurial orientation assumes a transformative role, not merely as a framework for strategic decision-making but as a catalyst propelling the genesis of groundbreaking innovations and positioning entities to thrive in fiercely competitive markets.

Within this context, various dimensions play pivotal roles, in shaping the strategic maneuvering and operational agility of MSMEs. The propensity for risk-taking signifies the managerial audacity to navigate uncertainties with resolute decision-making, while proactiveness embodies the foresight to anticipate future challenges and unearth potential opportunities for growth and expansion. Innovativeness serves as the engine fueling the creation of avant-garde products and services, fostering differentiation and market relevance. Simultaneously, strategic aggressiveness strategically positions entities to challenge industry rivals and seize market share. Autonomy empowers independent decision-making, fostering agility and adaptability in a dynamic market environment. Collaboration, a cornerstone of entrepreneurial success, fosters synergy, knowledge exchange, and strategic partnerships, amplifying collective strengths and

bolstering market competitiveness (Paulus & Hermanto, 2022; Setiawan & Ferdinand, 2021).

Amidst the vibrancy of Indonesia's creative industry, individuals endowed with creative acumen emerge as the linchpin of organizational success. Acknowledging their pivotal role, companies operating within this sector are urged to prioritize comprehensive human resource development alongside technological advancements and market expansion strategies. Extensive studies underscore the pivotal role of a creative workforce in propelling product innovation, and driving forward the creative industry in Indonesia. Product innovation is the development of new goods or services, or improvement of existing ones (Sharma et al. in Adiputra et al., 2023) These creative individuals inside, must be able to cultivate a culture of innovative spirit inside of their own companies. Cultivation of cultural norms that encourage proactive creativity and growth risk orientation amongst the SME staff and workers would contribute to product development endeavors, which in turn effectively bolstering innovation performance (Azizah et al., 2023).

Nonetheless, employees in this dynamic sector often encounter hurdles related to negotiation tactics and substantial contributions, necessitating focused improvement efforts and tangible support from the Indonesian government to further bolster the sector's growth trajectory (Astuty et al., 2018). Furthermore, in the realm of market adaptation readiness, a crucial facet emerges - the adaptability of companies to the ever-evolving market dynamics. Referred to as market dynamic adaptability, this critical attribute profoundly influences customer relationships and marketing performance. Timely responses to consumer grievances cultivate brand loyalty, underscoring the profound significance of synchronized network assets, resilient partnerships, adaptive strategies, and collaborative initiatives. These multifaceted facets converge synergistically, magnifying marketing effectiveness, enhancing customer satisfaction, and serving as the linchpin for the overall business triumph (Setiawan & Ferdinand, 2021).

### **Export**

Exports have long been regarded as a pivotal catalyst for fostering economic growth, occupying a paramount position in the national economic agendas of most countries. The expansion of product and service exports stands as a cornerstone for economic progress, significantly bolstering the overall economic landscape. Particularly in emerging nations, the export of goods serves as a substantial contributor to economic prosperity. Export competitiveness, a pivotal aspect, delineates a country's capability to compete globally by bolstering export capacity, diversifying product portfolios, and advancing export-oriented technological capabilities.

Scholarly discourse extensively investigates export competitiveness, elucidating its intricate correlation with economic integration and consequent growth trajectories. The multifaceted determinants of export competitiveness encompass an array of factors, including access to export financing resources, proficient supply chain management strategies, comprehensive market intelligence, adept export marketing approaches, fostering corporate reputation, strategic promotional endeavors, adept assessment of export market dynamics, fostering robust international distributor relationships, and geographical proximity to global markets. However, nurturing and enhancing export competitiveness constitute intricate and resource-intensive undertakings, demanding substantial investments in research and development initiatives, cutting-edge technology adoption, the establishment of high-quality infrastructure, and fostering collaborative ecosystems intertwining businesses, academic institutions, and research bodies.

Moreover, a plethora of determinants intricately shapes a country's export competitiveness landscape, encompassing factors like exchange rates, levels of capital and labor productivity, domestic GDP growth, the impact of trade liberalization, inherent organizational characteristics, export-oriented marketing policies, incurred transportation expenses, the unique business environment's characteristics, production technology nuances, and the scale and capacity of firms. The interplay of these multifaceted determinants significantly influences a country's prowess and prowess in the global export arena (Tarihoran et al., 2023).

Within the sphere of global trade, the quality of exported goods assumes a fundamental role in dictating their reception and acceptance in international markets. Different countries enforce distinct and specific quality standards, demanding strict adherence to imported products. The concept of product quality is multifaceted, encompassing both narrow and extensive dimensions. Narrowly construed, it refers to specific and quantifiable attributes of a product, often assessed through tangible indicators such as strength, hardness, and chemical composition. Conversely, in a broader sense, product quality encompasses intangible aspects that conventional indicators cannot solely measure, including elements like shape and color.

In economic research realms, the comprehension of product quality extends into this broader context, emphasizing the need for a more comprehensive understanding. Quality measurement endeavors focus on establishing indicators capable of encapsulating the diverse and multifaceted product characteristics that align with and meet consumer demands comprehensively. This holistic perspective underscores the paramount importance of considering both quantifiable and non-quantifiable dimensions when sculpting market competitiveness and effectively catering to the needs and preferences of foreign consumers. Such an inclusive approach becomes pivotal in ensuring the sustained success and acceptance of exported goods in the ever-evolving landscape of global markets (Wan et al., 2022).

Export performance barriers represent a complex interplay of both internal and external influences. Internally, a multitude of factors come into play, ranging from personal aspects and individual competencies to the strategic decisions made regarding exports. The organizational capabilities, skills, and knowledge within a company play significant roles, often constrained by limited resources or hindered by managerial obstacles. The effectiveness of marketing strategies and the depth of understanding of global market nuances also directly influence a company's success in the international trade arena.

Externally, the challenges are equally diverse, encompassing market conditions and broader business environments. Factors such as competition within export markets, geographical distances between markets, and the specific conditions within the company's home country marketplace weigh heavily on export performance. Additionally, industry type, company size, management proficiency, and prior experience in exporting goods also significantly impact a company's ability to excel in global markets.

The convergence of these multifaceted internal and external factors collectively shapes a company's export performance on the global stage. Understanding and effectively navigating these complexities are imperative for companies aspiring to succeed and thrive in the global trade landscape, given the intricate and interconnected nature of these influences (Kazemi et al., 2023; Tarihoran et al., 2023).

## **RESEARCH METHOD**

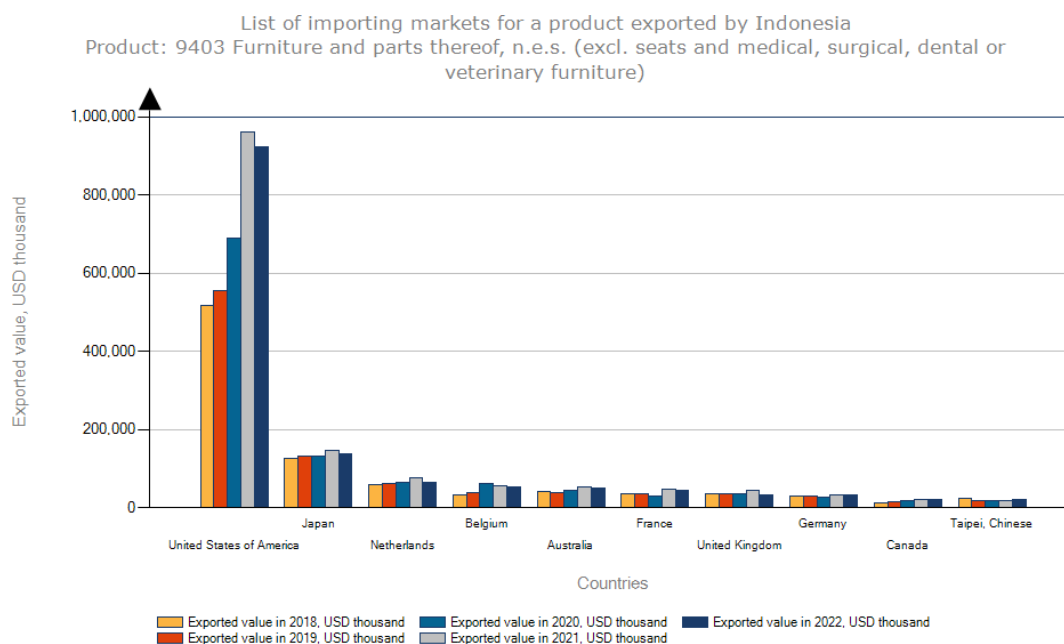
The research methodology employed in this study involves a qualitative desk study approach, drawing from a diverse range of international journal articles, news sources,

books, reports, and various other secondary data. To comprehensively analyze the external factors influencing the craft industry in Indonesia, particularly concerning furniture products, the study utilizes the Five Porter Analysis.

The Five Porter Analysis which was developed by Porter (1979), serves as a robust tool for comprehending the external environment of an industry. This analytical framework enables the identification and evaluation of forces that can impact the competitiveness and profitability of the industry. In the context of Indonesia's craft industry, this analysis aids in addressing pivotal questions regarding the factors influencing the industry's capacity to compete, grow, and preserve its valuable culture.

## RESULTS

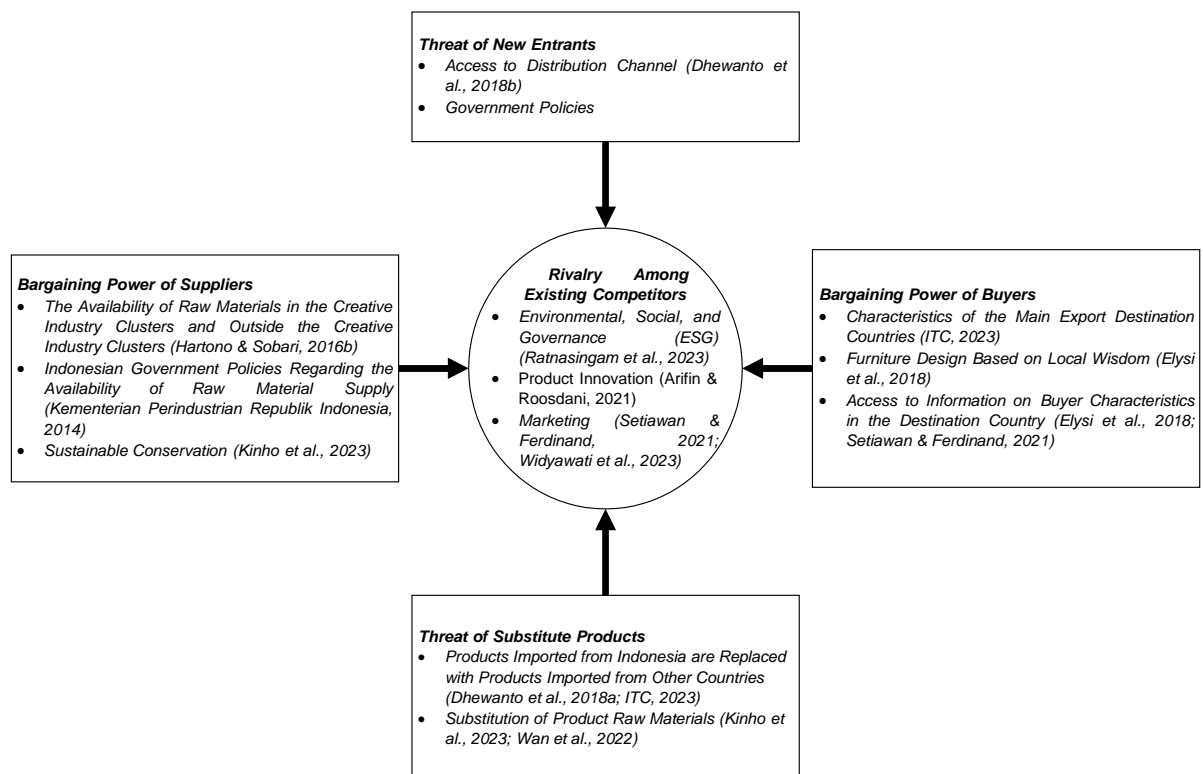
**Figure 1.** Indonesian Export Value in HS Code 9403 for 10 Main Destination Countries



Source: ITC (n.d.)

Figure 1 shows the main destination countries for furniture products exported by Indonesia. The percentage of export value of furniture products in 2022 of the total value of exports to the world carried out by Indonesia includes the United States (58,5%), Japan (8,7%), the Netherlands (4,1%), Belgium (3,4%), Australia (3,2%), France (2,9%), United Kingdom (2,1%), Germany (2,1%), Canada (1,3%), and Chinese Taipei (1,3%) (ITC, n.d.).

**Figure 2.** Five Porter Analysis of Indonesia's Furniture Craft Industry



The findings of our research are summarized and configured into a Five Porter Analysis diagram in Figure 2 above. Findings which will be discussed further in the following chapter.

## DISCUSSION

### Indonesian Export of Furniture Craft

One of Indonesia's flagship craft products exported globally is furniture, a comprehensive category that encompasses various types falling under the HS Code 9403 classification. This inclusive category includes wooden, metal, bamboo, rattan, and plastic furniture, and items crafted from diverse materials. The export data from 2022 highlights Indonesia's position, ranking 15th globally and 3rd within ASEAN, following Vietnam and Malaysia. Despite securing a market share of 1.4%, Indonesia's standing in the furniture export market is notably distant from Vietnam, which holds a formidable 10.6% market share, securing the 2nd rank worldwide after China. Similarly, Malaysia maintains an appreciable market share of 2.3%, securing the 8th position globally, following the United States. These statistics illuminate Indonesia's current standing and emphasize the notable market share disparity between Indonesia and its regional counterparts, signifying areas where further strategic initiatives could potentially bolster Indonesia's global furniture export presence.

From our findings as shown on Figure 1, the United States stands as the primary destination for craft products exported from Indonesia. Over the last five years, the average export value from Indonesia to the United States amounted to a substantial US\$ 729.793 million. Conversely, during the same period, the United States recorded an average global export value of approximately US\$ 2.824 million. This disparity is further highlighted by the average import value of furniture for domestic use within the United States, which surged to a staggering US\$ 29.360,8 million over the last five years. In contrast, Indonesia's import value for furniture commodities during this period amounted



to US\$ 303.266 million. These statistics portray that Indonesia's furniture commodities for the export market significantly surpass the value of its imports, underscoring the nation's noteworthy competitiveness in meeting international markets, notably the high-demand United States market.

Despite the United States having a considerably larger export value than Indonesia, its substantial need for furniture is evident. In 2022, it recorded the highest import value for furniture in the past five years, amounting to an astounding US\$ 36.139,352 million (ITC, n.d.). This illustrates a substantial market demand, creating an opportunity for Indonesian furniture exporters to further penetrate and satisfy the United States market needs despite the overall higher export value of the United States itself. Such a scenario highlights Indonesia's promising position in catering to the demands of a market as significant and competitive as the United States, showcasing the country's substantial potential and competitiveness in the global furniture export landscape.

### **Five Porter Analysis**

#### ***Bargaining Power of Suppliers***

*The Availability of Raw Materials in the Creative Industry Clusters and Outside the Creative Industry Clusters (Hartono & Sobari, 2016b)*

The accessibility of raw materials, greatly influenced by the development of creative industry clusters, significantly enhances the availability of essential materials for artisans and Micro, Small, and Medium-sized Enterprises (MSMEs) within the furniture craft sector. These clusters serve as hubs not only facilitating access to raw materials within their boundaries but also harmonizing supply sources from areas beyond the clusters. This integrated approach bolsters the industry's capacity to meet the growing demands of the international market, ensuring a sustained supply chain.

#### *Indonesian Government Policies Regarding the Availability of Raw Material Supply*

Government Policies are instrumental in regulating the availability of raw material supplies. Indonesian governmental regulations, notably Minister of Trade Regulation Number 44 of 2012 (Indonesia. Ministry of Trade, 2012b) and Number 35 of 2011 (Indonesia. Ministry of Trade, 2012a), play a pivotal role by imposing restrictions on the export of raw wood and rattan materials. Such measures aim to safeguard and maintain the domestic supply sources, thereby nurturing a sustainable ecosystem within the country. Interestingly, these regulations do permit the export of finished products like furniture, aligning governmental strategies with the promotion of value-added exports (Kinho et al., 2023)

#### *Sustainable Conservation (Kinho et al., 2023)*

the concept of Sustainable Conservation assumes paramount importance within this context. Given that raw materials for furniture, particularly wood and rattan, are derived from nature, sustainable conservation practices are imperative. These initiatives aim to avert depletion and extinction risks associated with these vital resources. Sustainable conservation strategies are meticulously designed not only to preserve these tree species and rattan but also to maintain ecological balance and respect local wisdom. This approach ensures the long-term availability of these critical raw materials, underpinning the industry's sustainability while safeguarding indigenous knowledge systems and environmental equilibrium. These practices serve as a testament to the industry's commitment to environmental stewardship and the preservation of invaluable cultural heritage.

#### ***Bargaining Power of Buyers***

*Characteristics of the Main Export Destination Countries (ITC, 2023)*

Analyzing the characteristics of main export destination countries provides essential insights into the demands and preferences of these markets. According to data by ITC

(2023) or based on Figure 1, the United States emerges as Indonesia's primary destination for furniture product exports, closely followed by Japan, the Netherlands, Belgium, Australia, and several other countries. This highlights the necessity for Indonesian furniture MSMEs to adapt swiftly to diverse market conditions prevailing in these destination countries. Factors such as design, color palette, shape, and size should align with the preferences and trends within these markets to ensure market relevance and competitiveness.

*Furniture Design Based on Local Wisdom (Elysi et al., 2018)*

The Embrace of Local Wisdom in Furniture Design emerges as a hallmark feature accepted within the international market. Furniture designs infused with indigenous Indonesian wisdom, such as the intricately carved pieces from Jepara (Amri et al., 2022), rattan creations from Cirebon (Hartono & Sobari, 2016a), and bamboo innovations from Bandung (Maulina & Raharja, 2018) embody the unique competitive edge of Indonesian furniture in the global arena. This authenticity rooted in Indonesian heritage positions the furniture industry favorably, establishing a niche that resonates with international consumers seeking unique and culturally-rich products.

*Access to Information on Buyer Characteristics in the Destination Country (Elysi et al., 2018; Setiawan & Ferdinand, 2021)*

Access to information on buyer characteristics in destination countries has been revolutionized by technological advancements, notably through the Internet and support from the Indonesian government. These advancements have eased the process of accessing crucial insights into buyer preferences and behaviors within target markets. While language barriers initially posed challenges in accessing such vital information, the availability of translator applications mitigates the risk of misinterpretation, facilitating better understanding and adaptation to the demands of international consumers. This enhanced access to buyer characteristics enhances the strategic positioning of Indonesian furniture MSMEs, enabling them to tailor their offerings more effectively to meet the specific needs of diverse global markets.

***Threat of Substitute Products***

*Products Imported from Indonesia are Replaced with Products Imported from Other Countries (Dhewanto et al., 2018a; ITC, 2023)*

There is an observable trend where products imported from Indonesia face the prospect of being replaced by alternatives from other exporting nations, notably Vietnam. Over the last five years, Vietnam has emerged as the second-largest global furniture exporter after China and holds the leading position within the ASEAN region. In contrast, Indonesia stands at the 15th position globally and 3rd within ASEAN, trailing behind countries like Malaysia. This discrepancy in export values indicates that Indonesia's export value significantly lags compared to neighboring ASEAN countries, paving the way for potential substitution by products from these competitive nations. This scenario underscores the possibility of Indonesian furniture products being substituted by alternatives originating from other countries, posing a challenge to maintaining market share and relevance.

*Substitution of Product Raw Materials (Kinho et al., 2023; Wan et al., 2022)*

The potential substitution of product raw materials in furniture production emerges as a significant concern. As furniture raw materials, such as wood, bamboo, and rattan, predominantly originate from nature, ensuring sustainable conservation has become a paramount global concern. Countries worldwide strive to sustainably manage these natural resources, critical for furniture production. However, this conservation effort prompts the potential substitution of primary raw materials. Such substitutions could involve replacing traditional materials with alternative wood types, bamboo, rattan, or even synthetic substitutes. These changes in material usage align with the policies of

each country of origin or exporting country (Kinho et al., 2023; Wan et al., 2022). This issue has the potential to escalate into an international concern, where destination countries may reject exports manufactured from certain materials to protect the existence of these resources, impacting the global trade of furniture products.

In essence, the evolving dynamics of substitute products underscore the necessity for Indonesia's furniture craft sector to continually innovate, adapt to changing market landscapes, and embrace sustainable practices. Maintaining market competitiveness in the face of potential product substitutions requires a proactive approach that not only addresses evolving challenges but also prioritizes sustainable practices to ensure the industry's resilience and longevity.

Indeed, this threat from fellow ASEAN member states has been understood since 2019. The Ministry of Trade identified several steps and measures to deal with this negative effect of competition within the ASEAN Economic Community due to free trade, steps which have to be done not only by the government, but also by the private sector, in cooperation. Those are developing educational curriculum that are in line with the ASEAN Economic Community, enhancing socialization activities with a focus on the supply and production side, improving consumer protection, providing more business space for micro, small and medium enterprises (MSMEs), encouraging the private sector to take advantage of open markets, and creating conditions that provide opportunities for domestic service suppliers to compete with foreign service suppliers (Alexandri et al., 2019).

#### ***Threat of New Entrants***

*Access to Distribution Channel (Dhewanto et al., 2018b)*

The hurdle of accessing distribution channels emerges as a notable barrier for new entrants seeking entry into international markets. Immigrants into the international market encounter difficulties due to limited access, marked by factors like unfamiliarity with export processes, products, and brand recognition, coupled with inadequate knowledge of destination country preferences. Additionally, substantial resources, including substantial business capital, are prerequisites for market entry. However, these challenges can be mitigated by proactive brand-building strategies. Utilizing e-commerce platforms, actively engaging in government-sponsored exhibitions, and fostering collaborations with stakeholders can facilitate brand recognition, create visibility, and enhance market penetration for new entrants, easing the entry barriers.

#### ***Government Policies***

The influence of Government Policies plays a pivotal role in shaping export activities and bilateral relations between countries. Understanding and adhering to regulations governing export trade systems are imperative for MSMEs engaging in export activities. Regulations encompass tariff policies, restrictions on certain raw materials that might affect domestic needs, and other provisions governing transactions. Currency exchange rate fluctuations also warrant attention, as they can either benefit or harm businesses. Implementing hedging policies becomes crucial to mitigate risks associated with currency fluctuations, safeguarding against potential financial losses due to exchange rate volatility.

In essence, while the Threat of New Entrants poses substantial challenges for newcomers aiming to penetrate international markets within Indonesia's furniture craft sector, strategic approaches that prioritize knowledge acquisition, proactive branding, compliance with regulations, and risk management policies can potentially mitigate entry barriers and pave the way for successful market entry and sustainable growth.

#### ***Rivalry Among Existing Competitors***

*Environmental, Social, and Governance (ESG) (Ratnasingam et al., 2023)*

Environmental, Social, and Governance (ESG) factors have emerged as pivotal global concerns, significantly influencing the furniture industry. Countries engaged in furniture exports have adopted ESG standards as a benchmark in production, positioning sustainability and ethical practices as integral components. Consequently, integrating ESG principles into furniture production not only fulfils ethical responsibilities but also acts as a value-added proposition when marketing furniture commodities in the international arena. This emphasis on sustainability aligns with shifting consumer preferences, elevating the appeal of Indonesian furniture products that adhere to environmentally conscious practices. This emphasis on sustainability aligns with shifting consumer preferences, elevating the appeal of Indonesian furniture products that adhere to environmentally conscious practices.

Moreover, Product Innovation stands as a cornerstone driving force within the creative industry, leveraging cultural richness and accessible international market insights. The fusion of creative ingenuity with cultural heritage enables Indonesian furniture products to flourish in the international market and attain heightened profitability. Constant innovation, spurred by a deep-rooted cultural heritage and an understanding of global market trends, positions Indonesian furniture as a sought-after commodity that offers unique design elements and functional excellence (Arifin & Roosdani, 2021).

*Marketing (Setiawan & Ferdinand, 2021; Widyawati et al., 2023)*

The role of Marketing strategies plays a crucial role in influencing competition dynamics. Effective marketing approaches, enable existing competitors to distinguish their products, create brand awareness, and capture market share. Strategic marketing initiatives, encompassing branding, targeted campaigns, and customer engagement, empower Indonesian furniture entities to carve a distinctive identity, resonate with diverse consumer segments, and foster brand loyalty.

## CONCLUSION

To ensure the long-term competitiveness and sustainability of Indonesia's furniture industry, the Five Porter analysis has revealed several critical factors that demand careful consideration and strategic action.

First and foremost, preserving the supply of high-quality wood and rattan raw materials domestically is imperative. Government policies that prohibit the export of these raw materials play a pivotal role in providing a competitive advantage in meeting international market demand. By safeguarding these essential resources, Indonesian furniture manufacturers can maintain a reliable source of materials for their products. Additionally, the preservation of these raw materials aligns with global sustainability goals, which are increasingly important to consumers and international markets.

Secondly, industry players within the furniture sector must gain a deep understanding of the characteristics and preferences of export destination markets. This includes knowledge of the desired designs, colors, and sizes preferred by buyers in those countries. Leveraging local wisdom and accessing market information become vital assets in maintaining the competitiveness of Indonesian furniture products. Adapting designs and features to meet the specific needs and tastes of target markets can significantly enhance the industry's global appeal.

Furthermore, sustainability in the use of natural resources, with a special focus on efforts to conserve resources like wood and rattan, is essential. Sustainable practices not only help protect the environment but also ensure a long-term supply of these critical raw

materials. Sustainable conservation measures should be integrated into the industry's operations to prevent the depletion of these resources.

Thirdly, despite significant competition from countries such as Vietnam, Indonesian furniture industry players have opportunities to increase their international market share. Continuous innovation in product design, the strengthening of marketing strategies, and a steadfast commitment to maintaining product quality are key strategies. By offering unique and high-quality products that meet the evolving demands of global consumers, Indonesian furniture manufacturers can carve out a strong market presence.

Fourthly, external factors, such as export-import regulations and currency exchange rate fluctuations, need to be carefully considered in business planning. Fluctuations in exchange rates can impact the cost of materials and competitiveness in international markets. Effective risk management and proactive strategies to mitigate the impact of these external factors are essential for the industry's stability.

Lastly, the role of government policies in supporting the development of the furniture industry is crucial. This includes investment in distribution facilities and infrastructure to facilitate the export of furniture products. Additionally, compliance with international trade regulations and standards is essential to maintain access to global markets.

In conclusion, the sustainability and competitiveness of Indonesia's furniture industry rely on a multi-faceted approach. Preserving vital raw materials, understanding target markets, embracing sustainability practices, continuous innovation, and effective risk management are all integral components of this strategy. Government support and alignment with global sustainability initiatives further strengthen the industry's position in the international market. By addressing these key factors, Indonesia's furniture industry can achieve sustainable growth while preserving its cultural heritage and enhancing its global presence.

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## **DECLARATION OF CONFLICTING INTERESTS**

The authors declared no potential conflicts of interest.

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