

Conference

MSME Policy Based on Cost Reduction Strategies During the COVID-19 Pandemic

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Abstract. One of the sectors that has been most affected by the COVID-19 pandemic is the economic sector, especially micro, small and medium enterprises (MSMEs). Many MSMEs have experienced a decline in turnover, or have even gone out of business. The COVID-19 pandemic which has occurred in Indonesia since the beginning of January 2020 has limited the activities of MSMEs and their consumers, leading to the reduced supply of raw materials, resulting in a decline in production, and causing the number of workers to be reduced; also, demand has decreased due to restrictions on people's activities outside the home. The OECD has stated that MSMEs have been significantly impacted by the COVID-19 situation. Policies are needed for MSMEs based on cost reduction strategies in maintaining long-term business continuity during the COVID-19 pandemic. In this research, descriptive qualitative methods were used. The results revealed that MSMEs in Cianjur Regency applied cost reduction strategies to maintain their businesses. Generally, they made savings that did not affect product quality, such as reducing the number of employees and recruiting daily employees, and reducing production costs and operating costs.

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1. Introduction

MSMEs have an important role in the economy as regional economic heroes, such as in Cianjur Regency, the presence of MSMEs enliven the economy in Cianjur. However, the conditions were different during the Covid-19 pandemic, the economy declined in the area. Restrictions on the movement of people and goods substantially affect MSMEs, the supply of raw materials is reduced because the distribution of raw materials is limited, resulting in a reduction in labor, and causing production to decline, income also decreases. Based on the results of a survey by the MSME Office in each region, it was stated that not a few MSMEs had lost orders, even their businesses went bankrupt. As stated by the Agency of Cooperatives, SMEs, Trade, and Industry of Cianjur Regency, almost 98% of MSMEs in the Cianjur Regency area are affected by the Covid 19 Pandemic.

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Micro, Small, and Medium Enterprises (MSMEs) according to Law no. 20 the Year of 2008 is a small company owned and managed by a person or owned by a small group of people with a certain amount of wealth and income. MSME are business activities that can expand employment opportunities and provide broad economic services to the community and can play a role in the process of equity and increase people's income, encourage economic growth, and play a role in realizing national stability. Although MSMEs play a very important role in the Indonesian economy, they are still faced with various internal and external obstacles and constraints, in terms of production and processing, marketing, human resources, design and technology, and capital (1). Various policies have been set on business reserves, funding, and development, but they have not been optimal because these policies have not been able to provide protection, business certainty, and adequate facilities for the empowerment of MSMEs.

Horngren, C.T Datar M & Foster G in Bragg, Steven M (2010) stated that cost reduction is often also called production cost efficiency. Production cost efficiency is cost efficiency or reducing costs used for raw materials, labor, and production process overhead. Sometimes general cost suppression is only carried out when an indication of a decrease in operating profit is found. The concept of cost reduction strategy is not only applied when a business experiences a decline in productivity and profitability but must become one of the pillars of the strategy in running a business. Cost reduction will focus on reducing costs that are considered waste (2). The purpose of doing cost reduction is so that entrepreneurs can determine costs that might be saved without having to reduce product quality and not affect product sales. Cost reduction will be effectively applied in the right position by conducting a comprehensive analysis beforehand.

Elvie Mulia (2014) explained that Cost Reduction Strategies will usually involve two important elements that affect production, namely elements of human resources (people) and also elements of the system which in this case is not only related to the organizational structure but also related to business processes (3). To implement cost reduction strategies successfully, it is necessary to identify activities or processes that involve systems and humans. The goal is to be able to find the part of the activity or process that contributes more so that it needs to be maintained. All activities that do not add value can be said to be inefficient. The change from the old system to the new system will make a business organization structure more streamlined. If human resources are judged to be too fat, meaning that the amount is not proportional to the resulting production, then it is necessary to do streamlining of employees or streamlining. Streamlining that is done must be based on employee performance evaluations first so that what is being retained are employees with a growth mindset type.

Studies on adaptation strategies are intended to reveal the knowledge system of a group of people or communities that is manifested in behavior. Such as the adaptation strategy chosen by angkringan traders to overcome the problems found in their business activities, namely through production strategies, sales strategies, and service strategies (4).

Wam Laura Hardilawati's (2020) research on MSME Survival Strategies in the Middle of the Covid-19 Pandemic produced data on several recommended survival strategies that MSMEs could do to maintain their business, namely (1) selling through e-commerce; (2) conduct product marketing by utilizing digital technology; (3) improve the quality of products and types of services; (4) doing customer relationship marketing (5).

This study aims to develop MSME policies based on Cost Reduction Strategies to maintain long-term business continuity during the Covid-19 Pandemic. The scheme for implementing cost reduction strategies can focus on 'people (human resources) or systems (internal organizational processes). Determination of cost reduction strategies will certainly be carried out with full consideration because in-depth identification is needed to determine which strategic priorities will be used to reduce business costs.

2. Method

The research took place at the local government in Cianjur, West Java, Indonesia, for four months (from Mey to September 2021). This is descriptive qualitative research that uses both primary and secondary data. The primary data are collected by field study that uses interviews and focuses group discussion with some experts of UMKM and Dinas UMKM. The secondary data are collected by desk study that uses literature and documentation. The data analysis technique used is qualitative descriptive analysis. This technique describes, interprets, and describes the data collected systematically and systematically. To present the data to make it more meaningful and easy to understand is to use interactive model analysis from Miles and Huberman (1992:16) (6).

analysis activities are divided into 3 stages, namely data collection, data reduction, data presentation, and concluding.

1. Data reduction stage

The data reduction stage carried out was to thoroughly examine the data collected from the field regarding MSME policies based on Cost Reduction Strategies during the Covid 19 pandemic and then sort them into certain categories.

2. Data Display Stage

In this stage, the researcher makes a descriptive and systematic summary so that the central theme, namely the MSME policy based on Cost Reduction Strategies, can be easily identified.

3. Data verification stage/withdrawal of conclusions

Verification of research data is drawing conclusions based on data obtained from various sources, then researchers take temporary conclusions while looking for supporting data or rejecting conclusions.

3. Result and Discussion

Cianjur Regency is one of the regencies in West Java which has 50,000 MSMEs, of which 1,500 already have permits. The area of Cianjur Regency is 350,148 km² with a population of 2,138,465 people. The main occupation of the population of Cianjur Regency is in the agricultural sector, which is around 52.00%. Another sector that absorbs a lot of labor is the trade sector, which is around 23.00%. The agricultural sector is the largest contributor to the GRDP of Cianjur Regency, which is around 42.80%, followed by the trade sector around 24.62%. Administratively, Cianjur Regency is divided into 32 sub-districts, with administrative boundaries: (a) the north is bordered by Bogor Regency and Purwakarta Regency; (b) In the west it is bordered by the Sukabumi Regency; (c) the south is bordered by the Indonesian ocean; (d) the east is bordered by Bandung Regency and Garut Regency. Geographically, Cianjur Regency can be divided into three development areas, namely the northern, central, and southern regions.

Generally, the problems faced by MSME actors during the Covid-19 pandemic are: First, regarding limited capital in developing MSMEs, although there is already a capital assistance program from the government (KUR) which is credit with low interest, the amount of capital has not met the needs of MSMEs to develop, especially during the Covid Pandemic, where MSMEs are faced with declining sales and a limited supply of raw materials. The second problem is regarding the limited skills of MSME actors who are human resources (HR), such as packaging skills and product innovation. Third, the problem is regarding product marketing, where restrictions on people and goods during this pandemic also limit MSMEs' space for marketing their products. Not a few MSMEs do not understand digital marketing so this affects sales. Fourth, licensing issues, many MSMEs do not have a business license. More than half of the SMEs in the Cianjur Regency does not yet have a business license. This is due to the proliferation of MSMEs in the community simultaneously due to work stoppages. Opening businesses

such as stalls, hawkers, is an option to survive during a pandemic. The last problem is the lack of knowledge of MSME actors in making financial reports.

a. Knowledge of SMEs about the Covid-19 Pandemic condition

The pandemic has changed the pattern of community needs, where all activities are carried out from home. Almost 98% of MSMEs in Cianjur are affected by the Covid 19 Pandemic. This affects the economy from the supply and demand side. On the supply side, companies reduce the supply of raw materials and labor. From the demand side, the lack of demand and decreasing consumer confidence in a product. Based on the results of interviews with MSME actors, they felt that during the COVID-19 pandemic, sales turnover decreased sharply, the decline in sales turnover was between 21% to 50%. This is understood as a result of restrictions on goods and people, especially during the Large-Scale Social Restrictions (PSBB) and the Enforcement of Restrictions on Community Activities (PPKM).

b. The capacity of MSMEs in dealing with problems during the Covid-19 pandemic

The proliferation of stall traders and hawkers as a result of the layoffs experienced by many employees. Almost all people from various professions choose entrepreneurship to fulfill their life needs. So that business competition during the current pandemic is increasing sharply. However, the increasing number of new entrepreneurs is not supported by the ability and expertise in managing a business, so that many of their businesses go bankrupt in a short time. Most MSMEs are in the food/beverage sector with an initial capital of less than 1 billion. and most of the forms of business are in the form of individual businesses (not yet incorporated and do not have a deed of establishment). There are 3 main obstacles before the pandemic and during the pandemic, namely the problem of MSME human resources, marketing, and capital. To overcome the obstacles mentioned above, the local government in this case the Agency of Cooperatives, SMEs, Trade, and Industry of Cianjur Regency in 2020 held training to improve marketing, packaging, digital marketing, and financial records/business management skills, which were attended by 700 SMEs. MSMEs in Cianjur Regency generally have implemented Cost Reduction Strategies to maintain their business existence. Generally, they make savings by reducing the number of employees and recruiting daily employees, reducing production costs and operating costs.

According to Elvie Mulia, Reducing product costs must be carried out with proper calculations and serious investigations, whether reducing product costs can have an impact on reducing product quality. Because every product produced in it contains raw material costs, employee wages, and factory overhead costs known as "product costs", in other words, product costs are all costs incurred to obtain products. According to

Elvie Mulia, the cost structure is divided into 2 parts, namely product costs and period costs. Included in the period costs are marketing, sales, and administrative costs.

c. The ability of local institutions to increase the capacity of MSMEs during the Pandemic

As previously explained, the problems that arise are generally related to the lack of expertise in human resources, capital, and marketing. The local government in this case the Agency of Cooperatives, SMEs, Trade, and Industry of Cianjur Regency has organized several activities in the context of empowering SMEs. Such as organizing training to improve marketing, packaging, digital marketing, and financial records/business management skills, also supported by the issuance of Regional Regulation No. 4 the Year of 2020 concerning the Empowerment of Cooperatives and MSMEs, one of the articles requires hotels, restaurants, retailers to provide a maximum of 20% space for MSMEs to sell their products. This is also reinforced by the Circular of the Regent of Cianjur Regency to love products made in Cianjur. In 2021, the Cianjur Regency Government will also validate MSME data to find out whether the 50,000 MSME data are still active in MSME activities or not, through the integrated MSME management information system (SIMADU). Overall, the MSME data in Cianjur Regency is in SIMADU, MSMEs that have been fostered are in SIMPUL (Superior Product Marketing Information System), which in the future SIMPUL will be developed into e-commerce 130 MSMEs.

d. Assistance from the local MSME Service

Assistance from the local MSME Service through the provision of consultation media, namely the MSME Integrated Business Service Center in Pacet District which is a branch of the Cianjur MSME Service. MSMEs can consult in various fields, namely, there are 5 SKKN certificate consultants in the fields of institutional, business management, production, marketing, and capital. Also assistance in accessing business capital and empowering MSMEs. The mentoring program for the last two years has helped MSME entrepreneurs to gain new knowledge related to reporting and bookkeeping. It is hoped that Dinas can make programs that are more up-to-date and do not seem monotonous but can touch the needs of MSMEs. Mentoring or coaching programs that involve MSME entrepreneurs who are at an advanced level should be improved by assisting and providing guidance for MSME entrepreneurs so that they can open up a wider market.

4. Conclusion

MSMEs in Cianjur Regency apply Cost Reduction Strategies to maintain their business existence. Generally, they make savings that do not affect product quality, such as

reducing the number of employees and recruiting daily employees, reducing production costs and operating costs. Product cost reduction must be carried out with proper calculation and serious investigation, whether product cost reduction can have an impact on product quality reduction. Local government assistance in increasing the capacity of MSMEs has been well done in Cianjur.

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