

EXPLORATORY STUDY OF MICRO, SMALL AND MEDIUM ENTERPRISES PROFILE OF HERBAL PRODUCT CLASSIFICATION IN BANYUWANGI REGENCY

Suwarso ^{a*)}, Fandi Ahmad ^{a)}, Galih Satriyo ^{a)}

^{a)} *Akademi Kelautan Banyuwangi., Banyuwangi., Indonesia*

^{*)}Corresponding Author: suwarso0204@gmail.com

Article history: received 21 May 2025; revised 02 June 2025; accepted 15 June 2025

DOI: <https://doi.org/10.33751/jhss.v9i2.251>

Abstract. The purpose of this study is to clearly understand the profile of Micro, Small, and Medium Enterprises (MSMEs) classified as herbal products in Banyuwangi. Furthermore, the purpose of this study is to identify the problems faced by these entrepreneurs and the efforts made to overcome these problems. The approach used in this study is descriptive qualitative. The population in this study is micro, small, and medium-scale entrepreneurs classified as herbal products in Banyuwangi. The sample in this study is producers of herbal products in Banyuwangi who are still actively running their businesses. The data analysis method used is to process data in depth with data from observations, interviews, and literature. Data analysis techniques are carried out by summarizing, categorizing, and interpreting. The results of the study show that the profile of small, micro, and medium enterprises in Banyuwangi Regency shows that MSMEs in the classification of herbal products in Banyuwangi Regency on average start their businesses with their own capital. The number of employees involved in their activities ranges from 2-5, with a monthly turnover of between Rp 8,000,000 and Rp 80,000,000. The products produced by this herbal business in Banyuwangi include beverages, food, and medicines or herbal medicine. Information obtained from informants indicates that sales have increased by 30%-75% during the COVID-19 pandemic. The current challenge is the high cost of production. Financial support is also essential for expanding production scale. Difficulties in obtaining permits are considered very burdensome for business owners, hindering the expansion of marketing activities.

Keywords: Herbal, Classification, Qualitative, Capital, MSMEs

I. INTRODUCTION

The sluggish Indonesian economy, stemming from financial problems and unfavorable regulations for MSMEs, remains a daunting prospect for businesses. MSMEs have proven capable of weathering the crisis that has gripped the country, amidst the collapse of large-scale companies. The resilience of these MSMEs is evident in their continued efficacy in producing goods and services.

MSMEs are also considered to play a significant role in the national economy. Calculations show that MSMEs circulate approximately 10% of the money in circulation, yet contribute approximately 49% to Gross Domestic Product (GDP). Research (Riyanti, 2003) indicates that these small and medium-sized enterprises (SMEs) absorb the largest number of workers. This data demonstrates the enormous potential for growth in Indonesia due to their ability to revitalize the national economy.

The Banyuwangi Regency Medium-Term Development Plan (RPJMD) for the 2016-2021 period states that MSMEs and entrepreneurial resources in Banyuwangi Regency do not yet have a strong bargaining position. Their competitiveness is

still suboptimal, requiring more serious attention to compete in the national economy. Informal micro-businesses still dominate the business landscape in Banyuwangi due to suboptimal government development, which has prevented the region's human resources from leveraging the potential of local natural resources to add economic value to the community.

Currently, there is a growing demand for herbal products. This increase is due to growing consumer awareness of the importance of long-term health, as they perceive consuming herbal products as much safer than consuming chemical-based products. Therefore, entrepreneurs have recognized the promising future business opportunities in the herbal product sector.

Banyuwangi has excellent potential for developing various herbal plants due to its tropical climate. This advantage could make Banyuwangi a center for MSME development, particularly in the herbal product category.

Micro, Small, and Medium Enterprises (MSMEs)

The General Explanation of Law Number 20 of 2008 concerning Micro, Small, and Medium Enterprises emphasizes that Micro, Small, and Medium Enterprises are business

activities that can expand employment opportunities and provide broad economic services to the community. They can play a role in the process of equalizing and increasing community income, encouraging economic growth, and contributing to national stability.

Furthermore, Micro, Small, and Medium Enterprises are one of the main pillars of the national economy and must receive primary opportunities, support, protection, and the broadest possible development as a manifestation of a firm commitment to the people's economic business group, without neglecting the role of Large Enterprises and State-Owned Enterprises.

Micro, Small, and Medium Enterprises (MSMEs) can take the form of sole proprietorships, partnerships, such as firms and CVs, or limited liability companies (PT). Currently, in Indonesia, there are 41,301,263 small businesses and 361,052 medium-sized businesses. These MSMEs operate in various economic sectors, such as agriculture, fisheries, animal husbandry, industry, trade, and services (Trisnawati, 2016).

Research conducted by Suandi and Susilo (2011); Sakur (2011); Syahza (2013); and Irdyanti (2012) found that the weak competitiveness of MSMEs is caused by several issues, including: marketing, capital and funding, innovation and utilization of information technology, use of raw materials, production equipment, workforce absorption and empowerment, business development plans, and readiness to face external environmental challenges.

Human Resources

In Micro, Small, and Medium Enterprises (MSMEs), the role of human resources (HR) is crucial to business sustainability. This aligns with the concept of Mubyarto (2002), which states that empowerment is an effort to build communities by encouraging, motivating, and raising awareness of their potential and striving to develop it.

However, SME development must be accompanied by human resource development (HRD) in various aspects. One survey showed that the education level of SME entrepreneurs in Indonesia is high school (44.1 percent), diploma (3) (7.4 percent), and bachelor's degree (17.9 percent), with the remainder having less than high school (Ardiana, Brahmayanti, & Subaedi, 2010). Therefore, human resource development (HRD) plays a strategic role in determining the success or failure of an organization in achieving its goals. This indicates that HRD serves as a reflection for top business leaders of the character of the human resources (HR) they are developing (Rosmadi, 2017).

Based on research conducted by Sudiarta, Kirya, & Cipta (2014); Gunartin (2017); and Bismala (2016), it can be concluded that human resource (HR) competency is a limiting (inhibiting) factor in the development of MSMEs.

Advances in science and technology, particularly the internet, have changed the way companies conduct marketing communications, from initially using one-to-many methods to now, with technological advancements, many-to-many. This one-to-many communication has evolved into many-to-many communication, developing in the new media era.

One phenomenon occurring in the new media era is the growth of social media, which companies use to create

electronic word of mouth (eWOM). eWOM is a positive or negative statement expressed by potential or existing customers about a product or company via the internet. One form of eWOM (electronic word of mouth) marketing is social media (Mardalis & Hastuti, 2017).

The ease of information dissemination and increasing competition have increased consumer awareness of the wide range of products and services available (Purwiantoro, Kristanto, & Hadi, 2016).

Social media is the easiest and cheapest marketing tool for companies. This is also what attracts MSMEs to use it as a reliable promotional tool through websites/blogs that display company profiles. It also serves as an interactive marketing tool, providing services, and building communication with consumers, as well as a tool for selling and buying online (Akhmad, 2015).

Based on research conducted by Neti (2011), it can be concluded that social media is a highly effective marketing communication medium that can increase consumer interest in a product, ultimately increasing sales.

One of the supporting elements in the marketing mix is the marketing aspect of the goods and services produced. The implementation of e-business in a business organization (company) can actually produce two alternative outcomes, namely profitable and detrimental.

II. RESEARCH METHOD

The object of this research is Micro, Small, and Medium Enterprises (MSMEs) in the herbal industry sector in Banyuwangi Regency. This research is an exploratory study that aims to provide a definition or explanation of the concepts or patterns used in the research. In this type of research, the researcher does not yet have a clear understanding of the definition or research concept. The researcher will ask questions in an attempt to dig deeper into the information. The nature of this research is creative, flexible, and open, and all sources are considered important as sources of information. The population in this study is all business actors in the herbal industry in Banyuwangi Regency, namely the districts of Banyuwangi, Kalipuro, Tegal Delimo, Kalibaru, Purwoharjo, Muncar, and Glagah. Data regarding the number of business actors in the craft industry refers to membership data in the Banyuwangi MSME Association. The sampling technique in this study used a purposive sampling method. The criteria established in the sampling process were as follows:

- The businesses sampled must be in the herbal product industry and still actively operating daily;
- The criteria for a business to be included in the herbal product industry refer to the classification issued by the Banyuwangi Regency Department of Industry and Trade;
- The MSMEs sampled must be those operating as producers, not agents or traders of herbal products;
- The businesses sampled must be located within the working area of Banyuwangi Regency. The final sample size that met the above requirements was 21 MSMEs in the herbal producer sector in Banyuwangi Regency.

Research subjects are data sources requested for information in accordance with the research problem. Data sources in research refer to the subjects from whom the data is obtained. To obtain accurate data, it is necessary to identify informants who are competent and meet the data requirements (purposive sampling). This study aims to determine the profile of Micro, Small, and Medium Enterprises (MSMEs) classified as herbal products in Banyuwangi Regency in 2021, the problems faced by MSMEs within the herbal product industry in Banyuwangi Regency in 2021, and the efforts made by MSMEs to address each challenge. Therefore, subjects who meet the parameters described above are needed to enable data collection. Subjects with these characteristics are owners or business owners in the herbal industry sector in Banyuwangi Regency.

In-depth interviews and questionnaires were used to collect data on the profile, type of business, problems faced, and efforts made to address these issues faced by MSMEs. The data used in this study is primary data. The data collection methods used were questionnaires, in-depth interviews, observation, and documentation. The data obtained in this study will be analyzed using qualitative descriptive analysis, reports, and graphical summaries. The research outputs that will be generated from this study will be an accredited national journal and a detailed and comprehensive catalog of MSMEs in the Herbal Industry in Banyuwangi Regency.

IV RESEACH RESULTS AND DISCUSSION

1. Profile of MSMEs in the Herbal Product Classification Sector in Banyuwangi

The results of the research indicate that 21 MSMEs in the herbal product classification sector meet the criteria established by the researcher, namely that MSMEs in the herbal product classification sector must be actively operating their businesses at the time of the research. These entrepreneurs are herbal product producers, not simply retailers, distributors, or collectors.

The research data indicates that MSMEs in the herbal product classification sector in Banyuwangi Regency generally started their businesses with their own capital. They employ between 2 and 5 people, with a monthly turnover of between IDR 6,000,000 and IDR 15,000,000.

The types of products produced by these herbal business operators in Banyuwangi include beverages, food, and medicines or herbal medicine. Information obtained from informants indicates that sales increased between 30% and 75% at the start of the COVID-19 pandemic. Consumers of Banyuwangi Regency's herbal products include local residents, residents from outside the city, and even international customers such as Korea, Japan, Hong Kong, Taiwan, and Australia.

Herbal product sales in Banyuwangi Regency have declined again recently due to the sluggish economy. According to Mr. Egik, a producer of the herbal drink "Sarirem" in Banyuwangi, sales of herbal products are currently declining due to declining purchasing power. Furthermore, the decline in herbal product sales is due to the lack of tourism in Banyuwangi due to the

closure of tourist attractions due to the spread of the Covid-19 virus currently sweeping the globe.

2. Problems Faced

Production Problems

As stated in marketing theory, product quality and consistency are crucial for consumer interest. Meanwhile, for relatively new entrepreneurs, they are unable to maintain product quality, resulting in inconsistent taste. High production costs also remain a major problem for MSMEs in Banyuwangi Regency.

The primary challenge facing MSMEs in the herbal product industry in Banyuwangi Regency is limited capital. Good business ideas are unable to significantly increase sales turnover due to inadequate access to capital to support their business development. Additional capital, which is expected to boost businesses, remains an unresolved obstacle.

The lack of banks in certain areas is a major issue facing MSMEs. Lack of access to financial institutions prevents businesses from synergizing with these institutions, leading to less transparent financial management, which hinders rapid growth. These entrepreneurs lack adequate managerial skills, particularly in marketing information, which is still largely conventional or limited to specific communities.

The attitude of some financial institutions, which merely provide financing but lack optimal and sustainable support to MSMEs in Banyuwangi, is also a contributing factor to their underdevelopment. Failure often occurs in the utilization of funds for business development. Field evidence shows that mentoring, training, and marketing and promotion are crucial and inseparable components of building an MSME ecosystem, particularly for herbal products in Banyuwangi.

The limited knowledge of production technology and quality control among herbal MSMEs in Banyuwangi, due to a lack of opportunities to keep up with technological advancements, as well as a lack of education, training, and motivation to apply technology to production activities in the 4.0 era, is also a serious problem. Production processes are hampered in their ability to develop and meet desired qualification standards, as technology and information are now essential not only for producers but also for consumers, who, whether they like it or not, will always seek product references through these media.

Product innovation for herbal MSMEs in Banyuwangi still faces obstacles, preventing them from competing in the international market, except in very limited quantities. Currently, herbal products in Banyuwangi are still unable to compete with internationally recognized products due to the very high production costs. This still unbalanced price competition is a current marketing obstacle experienced by herbal MSMEs in Banyuwangi.

Production process delays are frequently experienced by businesses in Banyuwangi. These production delays are due to the manual process, with many lacking sophisticated production machinery. As a result, they frequently fail to secure larger orders. This inability to fulfill these orders can ultimately lead to consumer abandonment.

According to Rukiyan, the owner of Raja Sempu Banyuwangi, one of his company's biggest challenges currently

lies in managing human resources, starting with the farmers who are partners in developing organic herbal products. At the farmer level, organic herbal production presents challenges in producing organic herbal ingredients.

Marketing Issues

The high enthusiasm of MSMEs in Banyuwangi for producing herbal food and beverage products has apparently not been enough to drive these businesses to greater growth. Promotion and marketing of their products are the biggest challenges currently faced by these businesses. The rapidly developing information technology (IT) support has not been optimally utilized by MSMEs producing herbal products in Banyuwangi.

Based on observations, once the goods are available, they lack knowledge of how to sell them quickly. As a result, marketing and promotional strategies tend to be conventional, relying on word of mouth or simply displaying the products in stores.

MSMEs in Banyuwangi have utilized e-commerce platforms and social media, but these have not been fully utilized. Entrepreneurs focus more on production, while marketing is less effective due to the lack of a clear division of labor, as these businesses are generally managed independently or involve only immediate family members.

Many herbal MSMEs in Banyuwangi still don't understand that promotion and marketing budgets are part of their business's operational costs, not just production costs. Considering the average operational cost, 20%-25% of operational costs should be allocated to promotion and marketing. As a result, sales of herbal MSMEs in Banyuwangi often fall short.

One reason for the long-term failure of these herbal MSMEs in Banyuwangi is the lack of focus on promotion and marketing. Although the products produced by these MSMEs are of good quality, their long-term sustainability is not yet guaranteed. One reason their businesses cannot survive long-term is because they don't consider promotion as a primary focus.

According to Jawahir, a micro-entrepreneur of herbal products, marketing activities are currently hampered by rising raw material prices and declining purchasing power, which has impacted product orders. In addition to the aforementioned issues, relatively new business owners also face challenges with production quality.

Based on data collected by researchers, there are indeed training programs organized by relevant agencies, but these are still considered inadequate for MSMEs in Banyuwangi Regency. According to Agus, a herbal coffee beverage producer in Banyuwangi, MSMEs in Banyuwangi who classify herbal products require sufficient time to fully absorb the material. While training programs have been conducted for MSMEs, the duration of these sessions has been deemed insufficient, preventing optimal absorption.

Adequate mentoring is also essential, particularly in marketing these herbal products. Access to capital for business development is also a challenge faced by MSMEs, including those involved in classifying herbal products in Banyuwangi. Intensive mentoring is essential to provide motivation and

effective consultation for MSMEs. This is because most herbal product businesses in Banyuwangi still lack marketing skills and the ability to build business networks to access a wider market.

Businesses must be able to market their products effectively, as market absorption is crucial for a company's survival. MSMEs in the herbal product sector in Banyuwangi also face limitations in accessing a wider market. These limitations and the threat of failure are also significant factors in expanding their production scale, making this business sector relatively slow to develop, especially for relatively new MSMEs.

The hope of MSMEs, particularly in the herbal product sector in Banyuwangi Regency, is that ongoing training will be provided to improve their skills in maintaining production quality and marketing products, both online and offline, so that their businesses can grow.

The issue of obtaining permits is also a major obstacle facing herbal businesses in Banyuwangi. They often complain about the permitting process, which they consider too complicated. This makes it difficult for them to market their herbal products more widely, limiting them to specific communities. Distribution cannot be expanded due to the need for product legality, primarily licensing.

Most herbal products in Banyuwangi are still quite expensive compared to similar products produced by large-scale companies. Consequently, price competition is a significant challenge for herbal businesses in Banyuwangi. These herbal MSMEs are required to reduce production costs to compete with similar products from larger companies.

Advances in information technology are currently widely used by entrepreneurs to develop their businesses from a marketing perspective. However, understanding how to market using this technology presents a unique challenge for herbal MSMEs in Banyuwangi, particularly in areas related to digital marketing. The potential profits obtained are still not optimal because the understanding of digital marketing is still very low even though many herbal MSMEs sell their products online through social media or marketplaces.

Capital Issues

Capital is a crucial factor in building a business. Several herbal product MSMEs in Banyuwangi believe there is significant potential for development due to their excellent market prospects. However, they have yet to capitalize on these opportunities due to insufficient capital. Meanwhile, they face administrative difficulties in obtaining business capital from financial institutions.

The lack of capital among herbal MSMEs in Banyuwangi is a serious problem. This capital constraint prevents them from increasing their production volumes and achieving higher profits. New business ideas for expansion are often abandoned due to funding issues. The numerous requirements required by financial institutions are a significant issue, impacting the company's financial situation.

Limited capital is a major obstacle to growing the herbal business in Banyuwangi Regency. Most business actors use their own capital, therefore in general herbal MSMEs in Banyuwangi are individual businesses or companies that are

closed in nature, which rely on capital from the owner which is very limited in amount, while loan capital from banks or other financial institutions is difficult to obtain, because the administrative and technical requirements requested by the bank cannot be met.

3. Efforts to Solve Problems

Business actors have made various independent efforts to resolve the problems they face. Some of these efforts include forming joint business groups to bridge their various business challenges, such as marketing, capital, and inter-industry collaboration.

To address funding challenges, herbal product MSMEs in Banyuwangi employ several methods, including applying for loans from financial and non-financial institutions. Relatively new entrepreneurs typically seek loans from non-financial institutions, while established entrepreneurs typically seek capital from financial institutions.

Herbal entrepreneurs in Banyuwangi overcome marketing challenges by participating in various government-organized training programs. For entrepreneurs unfamiliar with digital technology, they recruit marketing staff who are proficient in Android-based marketing systems with a profit-sharing system with product owners.

Efforts to maintain the quality of herbal products carried out by these business actors include participating in training activities organized by the relevant agencies, and efforts to increase sales are also made through the same means.

Most MSMEs producing herbal products in Banyuwangi Regency still produce them conventionally, meaning they don't yet utilize modern technology. This conventional production method presents numerous drawbacks, including higher production costs. These higher production costs lead to an imbalance in price competition with larger companies.

Raw materials for herbal products in Banyuwangi Regency are readily available due to favorable natural resources. However, due to the lack of optimal production and marketing technology, their presence has been limited in capturing a broader market share.

Data analysis shows a year-over-year increase in public interest in consuming herbal products, whether packaged as food, beverages, or medicines. This presents a significant opportunity for herbal entrepreneurs in Banyuwangi. The growing public awareness of herbal products means greater opportunities for entrepreneurs to expand their businesses.

Herbal entrepreneurs in Banyuwangi Regency have begun to develop online marketing systems. In building this system, support from related parties is needed so that it can be implemented properly because the awareness that has been built may decline again when support from the government is late.

IV. CONCLUSION

MSMEs in the herbal product category in Banyuwangi Regency generally start their businesses with their own capital and are managed by individuals with family members as their workforce. Their average monthly turnover ranges from Rp

6,000,000 to Rp 15,000,000. The largest sales are still limited to specific communities and based on orders from Indonesian migrant workers (TKI) in Hong Kong, Taiwan, Australia, and other regions. The largest increase in sales occurred at the beginning of the COVID-19 pandemic. The production challenges faced by herbal entrepreneurs in Banyuwangi are high production costs due to the relatively rudimentary technology used. One entrepreneur felt unable to maintain product quality and felt the need for increased training. Marketing is a serious issue that is a primary concern for entrepreneurs. The current COVID-19 pandemic, which is still affecting the nation, has also significantly impacted sales. The decline in revenue is due to the continued isolation of several areas, which has prevented Banyuwangi, once a popular tourist destination in Indonesia, from returning to normal. The skills of entrepreneurs in digital marketing also require serious attention, as online marketing is currently highly sought after by consumers. Financing for business development is crucial for herbal MSMEs in Banyuwangi. They generally find it difficult to obtain financing due to the difficulty of applying for credit from financial institutions, as some of their products have not yet received permits from the relevant agencies. Obtaining permits is particularly challenging due to the bureaucracy, which is highly complex and subject to frequent changes. Based on the various reviews above, the author recommends that relevant parties increase their intensity in implementing training programs tailored to the needs of MSMEs. Furthermore, there should be more flexibility in loan applications for entrepreneurs and a streamlined process for obtaining business and product permits.

REFERENCES

- [1] Abdul Halim. 2020. The Impact of Micro, Small, and Medium Enterprise Growth on Economic Growth in Mamuju Regency. *GROWTH: Scientific Journal of Development Economics* Volume 1, No. 2
- [2] Aija, S. & Dunska, M. 2019. The Importance of Creativity for Business Development in Latvia. *Journal of Economics and Management Research*. Vol. 8
- [3] Ardiana, I.D.K.R., Brahmayanti, L. A., & Subaedi. (2010). SME Human Resource Competencies and Their Influence on SME Performance in Surabaya. *Journal of Management and Entrepreneurship*. Vol. 12.
- [4] Ariani & Utomo, M. N. 2017. Study of Micro, Small, and Medium Enterprises (MSMEs) Development Strategy in Tarakan City. *Journal of Organization and Management*, Volume 13, Number 2
- [5] Banyuwangi Regency Medium-Term Development Plan (RPJMD) for the 2016-2021 period.
- [6] Buchory, Achmad Herry & Saadin Djaslim. 2010. *Marketing Management: First Edition*. Bandung: Linda Karya.
- [7] Edy Suandi Hamid and Y. Sri Susilo, (2011), "Development Strategy for Micro, Small, and Medium Enterprises in the Special Region of Yogyakarta

- Province," *Journal of Development Economics*, Vol. 12, Number 1, June 2011, pp. 45-55.
- [8] Gunartin, (2017), *Strengthening MSMEs as a Pillar of Building the National Economy*.
- [9] Ita Trisnawati, (2016), "Factors Influencing Debt Policy in Non-Financial Companies Listed on the Jakarta Stock Exchange."
- [10] Juliansyah Nur, (2010), *Research Methodology for Theses, Dissertations, & Scientific Papers*, Kencana Pernadamedia Group, Jakarta.
- [11] Law Number 20 of 2008.
- [12] Rizky, Y., D. (2016). *The Influence of Brand Image on Loyalty Through Consumer Satisfaction at the 3Second Distro in Jember Regency*. Thesis: Jember: Faculty of Economics and Business, University of Jember.
- [13] Sakur, (2011), "A Study of Factors Supporting the Development of Micro, Small, and Medium Enterprises: A Case Study in Surakarta City," *Spirit Publik*, Vol. 7, Number 2, pp. 85-110. ISSN. 1907-0489 October 2011.
- [14] Sugiono, (2014), *Qualitative and Quantitative Research Methods and R&D*, Alfabeta, Bandung.
- [15] Syahza, Almasdi, (2013). *Development of Small and Medium Enterprises (SMEs)*