

## Analyzing the Industrial Forces of Food Industry SMEs in Surabaya-Indonesia

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**Abstract:** The concept of Porter's Five Forces have been recognize for many years for analyzing the industry where the companies decide to compete. Porter's Five Forces are perceived as a holistic measurement of companies' environment. The food industry in Indonesia is experiencing positive and significant growth in their performance, however in there are many challenges in the industry. This research objective was to determine the forces in food industry SMEs in Surabaya-Indonesia by using the concept of Porter's Five Forces. This study was designed as a cross-sectional survey of the SMEs food industry in Surabaya-Indonesia. The population was 112 food industry SMEs in Surabaya from which 88 SMEs were used as a sample in this research. Primary data was collected using questionnaires which were administered to managers or owners in the firms. Data was analyzed using descriptive analysis and presented in tables. The study found that on average the respondents agree that they perceived the forces in the industry as a threat. Substitutes are perceived as the highest threat, followed new entrants, and bargaining power of buyers. Bargaining suppliers is rated relatively lower. Further research can focus on how this forces effect company performance.

**Keywords:** Porter's Five Forces, SMEs, food industry.

## INTRODUCTION

Entering the era of free trade, Small and Medium Enterprises (SMEs) sector is seen to have a strategic role in encouraging economic growth of a country [1-3], including Indonesia. This is reflected in Indonesia government policies that are increasingly leading to align SMEs sector. In line with the spirit of NAWACITA (Nine Jokowi-JK Priority Agenda) - which focuses on the priority of the path of change towards a politically sovereign Indonesia, independent in the economic, and personality in culture [4] the Indonesian government seeks to improve people's productivity and competitiveness internationally, and foster economic independence, through the weighting of strategic sectors in domestic economy, especially the empowerment of SMEs [5].

In order to strengthen Indonesia's national economy, coordination and cooperation in regional economic and financial development is a vital things to do. This is in line with the increasingly important regional role since decentralization policy has been implemented. One of the regions that contributed significantly to the growth of Indonesia's national economy is East Java. The achievements of East Java during the year 2017 showed a pretty good figure compared to national achievements. Indonesia's economic growth in 2017 is estimated at 5.1 percent with an estimated inflation rate at a low level, at about 3.0-3.5 percent. While, East Java economy is expected

to grow in the range of 5.0-5.4 percent in 2017. The inflation rate until the end of the year is expected to control in the range of 3.8-4.0 percent. East Java's economy is believed to be able to record growth improvements amid various challenges, with East Java's projected economic growth in 2018 reaching 5.2-5.6 percent [6].

Previous studies [7-9] suggest that organizational performance can be explained by industry factors. This is because even though the industrial structure is changing relatively slowly, it will certainly change over time [10]. A common reason for changes in industrial factors is growth as a result of industry maturity. Whether the company is able to achieve monopoly profits depends on industrial factors that are beyond the control of the company.

In the food industry, several industry factors are present as the challenges that food industry players have to cope with. Uncertainty supply of raw materials, poor infrastructure, in-efficiencies regulatory and licensing, and many more [11]. Therefore, recognizing and analyzing these industry factors is very important to ensure the company's position in the industry [12].

In the context of industrial factor analysis, the *Porter's Five Forces* framework model -comprising threat of new entrants, bargaining power of buyers, threat of substitutes, bargaining power of suppliers, and

industry rivalry- is considered to be the best construct. This is because *Porter's Five Forces* consider able to assist companies in evaluating the external environment and understand the competitive position of the company [13]. Studying these strengths is important because it allows a company to evaluate its competitive position [14]. Of the five attributes of *Porter's Five Forces*, the industry rivalry will not be used in this study. This is because the potential of the food and beverage industry in Indonesia is quite large. The average growth of the food industry is almost twice than national economy. The food and beverage industry also has strong competitiveness and various "players", which none of the "players" dominate [15].

## LITERATURE REVIEW

In the 1960s, strategic management emerged as a field of coherent academic research. Concepts such as Strategy and Structure by Chandler, Corporate Strategy by Ansoff, or the most famous textbook references The Harvard textbook Business Policy [16], contributes greatly to the development of the fundamentals of strategic management discipline. As the study of strategic management rises, various theoretical approaches are developed, one of the most notably concept is the Industrial Organization (I-O View) popularized by Porter [12]. In the I-O view, industry factors are the determinants of competitive advantage. I-O explains the concepts of organizational performance through external industrial structures and competitors' strategic behavior in the industry [10, 17]. In the view of "out-in", organizational performance and competitive advantage is largely influenced by the structure of the industry. For example, there are barriers to entry that keep an "additional" competitor outside, and thus protect the company's profits [18].

The Industrial Organization Paradigm was first built by Bain and Mason in 1960 through the development of Structure, Conduct and Performance (SCP) model. This paradigm was first intended to create social welfare, by starting activities that are able to create competition in an environment without competition, which ultimately leads to a condition in which perfect competition occurs [19].

At first, many academics supported this view by focusing more on industry performance than on organizational performance [20]. But then Porter [12] modify the traditional paradigm of Bain and Mason by focusing on the factors that can create competitive advantage, not on factors that can create perfect competition. Porter reverses the SCP model and focuses on how a single company can create and maintain competitive advantage. Companies must seek an industry with few competitors and seek to achieve a monopoly advantage in the industry [19].

Porter [12] argues that organizational performance depends on the choice of industry it

chooses, and different industries will attract different levels of performance. This idea represents a corporate-level strategy, which is related to business associations, where the company is decide to be involved; and a functional level strategy, which focuses on how to maximize the productivity of resources on a particular function. Thus, both focus on how the company can compete effectively in the selected product market segment [21, 22].

The I-O Model emphasizes the company's responsiveness to external environmental characteristics, which are industries where companies seek their competitive advantage [23]. Thus, I-O model seen external market position of the company as an important factor to achieve and maintain a competitive advantage, or in other words, the traditional view of I-O model offers a systematic models to assess the competition happened in industry companies [19].

The view of the Industrial Organization of Porters is considered to have an "inward" view, where the goal for a company is to achieve monopolistic profits in the industry, and whether the company is able to do will depend on industrial factors that are beyond the control of the company [12]. This is because although the change in industry structure is relatively slow, but the industry structure will change from time to time [10]. A common reason of the change is as a result of the maturity of the industry. Therefore, understanding these industry factors is critical to understanding the position of a company in an industry [12].

Porter [12] assumes that firms in an industry have almost the same strategic resources, and firms can easily acquire the resources the company needs. Thus, the resource is viewed as a homogenous and mobile. Any business that is directed to develop a diversity of resources, will has no long-term benefits due to the high level movement of these strategic resources. For this reason, the I-O view emphasizes the importance for companies to adopt a strategy that can be used as a defense against industrial power.

In *Five Forces* framework, Porter [13] identifies specific attributes which can threaten the industrial structure of the company's competitive advantage. The five threatening powers come from: 1) new entrants; 2) substitutes; 3) strong suppliers; 4) strong buyers; and 5) intensive competition.

The threat of new entrants in the industrial realm depends on whether there are barriers to entry or not, including the reaction of existing firms to new entrants. If entry barriers are deemed low, then potential new entrants will most likely go into an industry. The threat of substitutes depends on how attractive an alternative product/service(s) in the market. If a company offers a product(s) or service(s) with almost

the same functionality like any other company, for almost the same or lower prices, then companies with such alternative product(s) or service(s) may be considered as a competitor. The threat from the supplier will be high, if the supplier group is dominated by some companies, and more concentrated than the industry where the company interacts. Suppliers can be considered strong if the product(s) or service(s) that is consider important for the company's business is owned by supplier, and the cost for switching high or supplier able to provide a threat to integration forward. The buyer's bargaining power depends on whether the buyers is able to compete, forcing the product(s) or service(s) price down or bargaining for higher quality product(s) or service(s). The intensity of competition determines how competitive and profitable an industry is. In a competitive industry, companies must compete aggressively to gain market share, resulting in low profits [13].

## RESEARCH METHOD

Research design constitutes the blue print for collection, measurement, and analysis of data. This research study was a cross-sectional survey of food industry SMEs in Surabaya. The proposed study population comprised of 112 SMEs. This is because in accordance with the research objectives that have been proposed, this research uses purposive sampling technique, where this technique requires the way sampling based on certain criteria. The sampling criteria used in this study are:

- Located in Surabaya
- The age of SMEs is  $\geq 3$  years
- SMEs are a vulnerable type of business, and have a high failure rate. More than 70% of SMEs failed during the first three years of their operations. Statistics show that eight out of ten new ventures fail within the first three years [24]. On that basis, according to the research objectives to be achieved, this study took a sample of SMEs that have stood for more than three years.
- Categorized as medium-sized enterprises
- The smaller the organization, the more difficult it is to determine its limits [25]. Small businesses, consisting of one or several people, are generally composed of the same family members, and

strongly influenced by family inheritance, making it vulnerable to bias. On that basis, in accordance with the research objectives to be achieved, this study took a sample of SMEs with medium scale.

Based on data from the Central Bureau of Statistics, the number of food industry SMEs in accordance with the characteristics established in the area of Surabaya is as many as 112 SMEs. This study in determining the number of samples using Slovin formula:

$$n = \frac{N}{1+Ne^2}$$

Where:

n = number of sample

N = population size

e = level of error

In this research the value of e is 5%, so the minimum sample amount used by researchers is 88 SMEs. Questionnaires were used to collect primary data and the respondents were the owner/general managers in each of the firms. The questionnaires were administered using drop and pick later method. The results of the survey were analyzed using descriptive statistics of mean and standard deviation to interpret the 5-point Likert scale type responses. Each element of the four elements of the balance scorecard were analyzed using frequencies and percentages to enable independent assessment of the effectiveness of each element as well as appraise the overall effectiveness of the tool in the industry.

## FINDINGS

Validity test is done through Pearson Product Moment Correlation testing. The test results show that the Pearson Product Moment Correlation value between each indicator with the total score of the variable yields a significance value of  $\leq 0.05$  ( $\alpha = 5\%$ ), so it can be stated that all the indicators tested in this study are valid and thus it can be concluded that the statement- the statements in the questionnaire (indicator) are quite representative in measuring Organizational Performance.

**Tabel-1: Validity Test**

Dimensions	Indicators	Pearson Correlation	Sig. (2 tailed)	Statement
Threat of New Entrants	New entrants can easily open business (ne1)	0.745	0.000	Valid
	New entrants can easily get customers (ne2)	0.883	0.000	Valid
	New entrants can easily gain economic scale (ne3)	0.746	0.000	Valid
Threat of Substitutes	There are many substitutes with lower price (sub1)	0.727	0.000	Valid
	There are many substitutes with same functions (sub2)	0.506	0.000	Valid
	There are many substitutes with high variances (sub3)	0.495	0.000	Valid
Bargaining Power of Suppliers	Suppliers can easily raise their price (sup1)	0.684	0.000	Valid
	Suppliers can easily adjust their quality (sup2)	0.742	0.000	Valid
	Suppliers can easily lowered their supply quantity (sup3)	0.894	0.000	Valid
Bargaining Power of Buyers	Buyers can easily make bargaining (b1)	0.842	0.000	Valid
	Buyers can easily lowered their buying quantity (b2)	0.744	0.000	Valid
	Buyers can easily switch to another products (b3)	0.738	0.000	Valid

Reliability test is done through Cronbach Alpha testing. The test results show that the Cronbach Alpha value yields a value of  $\geq 0.6$ , so it can be stated that all the indicators tested in this study are reliable and

thus it can be concluded that the statements in the questionnaire (indicator) are quite consistent in measuring the variable.

**Tabel-2: Reliability test**

Variable	Cronbach Alpha	Statement
Industrial Forces	0,919	Reliable

Industrial forces in this research consist of four dimensions, namely: Threat of New Entrants, Threat of

Substitute, Bargaining Power of Suppliers, and Bargaining Power of Buyers.

**Tabel-3: Description of respondents answer for industrial forces**

No.	Dimensions	Mean	Statement
1	Threat of New Entrants	3.64	Agree
2	Threat of Substitutes	3.88	Agree
3	Bargaining Power of Suppliers	3.38	Neutral
4	Bargaining Power of Buyers	3.50	Agree
Average		3.60	Agree

Table 3 shows that the average of respondent's answer for Industrial Forces variable is 3.60 with the agreed category, which means that on average, the respondents, that are the owners of the food industry SMEs in Surabaya, assess the Industrial Forces as a high threat for their business. Substitute is rated by the owner of the food industry SMEs as the highest threat, this is reflected by the average value of Threat of Substitute, which is 3.88, followed by new entrants with the average value of 3.64 and buyers with the average value of 3.50. Bargaining Power of Suppliers is rated by

the owners of SMEs food industry in Surabaya as a relatively lower threat, reflected in the value of 3.38.

A detailed description of the respondent's answer to the dimensions of Threat of New Entrants are as follows:

**1. Threat of New Entrants**

Threat of New Entrants consists of three indicators. Assessment of respondents to each indicator presented in Table 4.

**Tabel-4: Description of respondents answer for threat of new entrants**

No.	Likert Scale					Mean	Statements	Std. Dev
	SD	D	N	A	SA			
ne1	0	6	21	44	17	3,82	Agree	0,824
ne2	0	15	23	38	12	3,53	Agree	0,934
ne3	0	12	23	44	9	3,57	Agree	0,855
Threat of New Entrants						3.64	Agree	

Table 4 shows that the average respondent's answer for Threat of New Entrants dimensions is 3.64 with the agreed category, which means that on average, the respondents, which are the owners of food industry SMEs in Surabaya, assesses Threat of New Entrants in Surabaya's food industry is high.

The result of respondent's description for Threat of New Entrants dimensions shows that on average, the respondents, which are the owners of the food industry SMEs, considers that the easiness of new entrants to open business in food industry is high, this is reflected in the value of the ne1 which is 3.82; which is also the highest value for Threat of New Entrants

dimension. However, the easiness of new entrants to get customers and reach economies of scale is still rated relatively lower. This is indicated by the value of ne2 (customers), which is 3.53, and the value of ne3 (economies of scale), which is 3.57, which in this research is the lowest value for Threat of New Entrant dimensions.

## 2. Threat of Substitutes

Threat of Substitutes consists of three indicators. Assessment of respondents to each indicator presented in Table 5.

**Tabel-5: Description of respondents answer for threat of substitutes**

No.	Likert Scale					Mean	Statements	Std. Dev
	SD	D	N	A	SA			
sub1	0	8	29	33	18	3,69	Agree	0,902
sub2	0	3	29	36	20	3,83	Agree	0,820
sub3	0	0	17	44	27	4,11	Agree	0,702
Threat of Substitutes						3.88	Agree	

Table 5 shows that the average respondent's answer for Threat of Substitutes dimensions is 3.88 with the agreed category, which means that on average, the respondents, which are the owners of food industry SMEs in Surabaya, assesses Threat of Substitutes in Surabaya's food industry is high.

The result of respondent's description for Threat of Substitutes dimensions shows that on average, the respondents, which are the owners of food industry SMEs, considers that the variations of substitutes in food industry is high, this is reflected in the value of the sub3 which is 4.11; which is also the highest value for

Threat of Substitutes dimension. However, the number of substitutes that have lower prices and the same function with company's products is still consider relatively low. This is indicated by the value of sub1 (price), which is 3.53, and the value of sub2 (function), which is 3.83, which in this research is the lowest value for Threat of Substitutes dimensions.

## 3. Bargaining Power of Suppliers

Bargaining Power of Suppliers consists of three indicators. Assessment of respondents to each indicator presented in Table 6.

**Tabel-6: Description of respondents answer for bargaining power of suppliers**

No.	Likert Scale					Mean	Statements	Std. Dev
	SD	D	N	A	SA			
sup1	6	6	28	30	18	3,55	Agree	0,902
sup1	12	14	23	21	18	3,22	Neutral	0,820
sup1	9	12	23	26	18	3,36	Neutral	0,702
Bargaining Power of Suppliers						3.38	Neutral	

Table 6 shows that the average respondent's answer for Bargaining Power of Suppliers dimensions is 3.38 with the agreed category, which means that on average, the respondents, which are the owners of food industry SMEs in Surabaya, assesses Bargaining Power of Suppliers in Surabaya's food industry is relative.

The result of respondent's description for Bargaining Power of Suppliers dimensions shows that on average, the respondents, which are the owners of food industry SMEs, considers that the easiness of suppliers to raise their price is high, this is reflected in the value of the sup1 which is 3.55; which is also the

highest value for Bargaining Power of Suppliers dimension. However, the power of suppliers to adjust their quality and lowered their supply quality is still consider relatively low. This is indicated by the value of sup2 (quality), which is 3.22, and the value of sub3 (quantity), which is 3.36, which in this research is the lowest value for Bargaining Power of Suppliers dimensions.

## 4. Bargaining Power of Buyers

Bargaining Power of Buyers consists of three indicators. Assessment of respondents to each indicator presented in table 7.

**Tabel-7: Description of respondents answer for bargaining power of buyers**

No.	Likert Scale					Mean	Statements	Std. Dev
	SD	D	N	A	SA			
b1	3	21	34	27	3	3,07	Neutral	0,907
b2	3	6	24	46	9	3,59	Agree	0,892
b3	3	6	18	37	24	3,83	Agree	1,020
Bargaining Power of Buyers						3.50	Agree	

Table 7 shows that the average respondent’s answer for Bargaining Power of Buyers dimensions is 3.50 with the agreed category, which means that on average, the respondents, which are the owners of food industry SMEs in Surabaya, assesses Bargaining Power of Buyers in Surabaya’s food industry is high.

The result of respondent’s description for Bargaining Power of Buyers dimensions shows that on average, the respondents, which are the owners of the food industry SMEs, considers that the easiness of buyers to switch to another products is high, this is reflected in the value of the b3 which is 3.83; which is also the highest value for Bargaining Power of Buyers dimension. The easiness of buyers to lower their buying quantity is also consider high, which is reflected in the value of b2 which is 3.59. However, the power of buyers to make bargain is consider relatively low. This is indicated by the value of b1, which is 3.07, which in this research is the lowest value for Bargaining Power of Suppliers dimensions.

**DISCUSSION**

The results of the respondent’s answer description shows that the average owner of food industry SMEs in Surabaya assess the strength of the industry as a high threat. The average owner of SMEs food industry in Surabaya perceives the business environment where the company is located is a very dynamic environment. Substitutes, new entrants, appear alternately and put pressure on the company. Not to mention problems coupled with increasingly demanding customers. This requires a quick response from the company in order to survive. This is the reason why threat of substitutes are perceived as the highest threat, followed by threat of new entrants and bargaining power of buyers. While bargaining power of suppliers is perceived by the average owner of food industry SMEs in Surabaya as a relatively lower threat. This is because the average owner of food industry SMEs in Surabaya perceives the supplier as part of company’s supply chain, so there will be cooperation between company and suppliers, and by the end result in lower pressure.

Based on descriptive statistic of the respondent’s answer, it is known that the highest indicators of threat of substitutes dimensions perceived by the average owner of food industry SMEs in Surabaya is there are many substitutes with high variances, followed by indicator there are many

substitutes with the same functions, and last indicator is there are many substitutes with lower price.

Threat of Substitutes refers to the availability of other products in the market that may be consumed by customers other than the company’s products. A replacement product is a product of another company or industry offering similar benefits such as a product produced by a company. Being a threat because customers can prefer replacement products rather than company products. High level of Threat of Substitutes can increase the intensity of existing competition in the industry, and ultimately reduce the company’s ability to reach potential profits [13].

Food industry perceived by the average owner of SMEs food industry in Surabaya as a rich industry with a variety of variations. The riches of natural resources that are the main ingredients in food products cause the “players” in the food industry can easily create and produce new variants. This is also supported because food products have almost the same function. Functions in food products are generally only distinguished from the composition and the way of processing, thus making food products tend to be perceived to have almost the same function. This is the reason why many substitutes with high variances is perceived to be highest threat by the average owner of food industry SMEs in Surabaya, followed by an indicator there are many substitutes with the same functions.

The lowest indicator perceived by the average owner of food industry SMEs in Surabaya is the indicator that there are many substitutes with lower price. This is because the average owner of food industry SMEs in Surabaya perceives that the average company “engaged” in food industry has a cost component that is almost the same, so the price difference between the company’s products and substitutes is only relative and not too significant. Although this indicator is perceived at the lowest, but this indicator is still has high value, which means it is still perceived as a potential threat. This is because the food industry is perceived as a price sensitive industry, so there are times when small price changes alone can make customers move from company products to substitutes.

Based on descriptive statistic of the respondent’s answer, it is known that the highest

indicators of threat of new entrants dimensions perceived by the average owner of food industry SMEs in Surabaya is new entrants can easily open business, followed by indicator new entrants can easily gain economic scale, and last indicator is new entrants can easily get customers.

Threat of New Entrants refers to the threats that new entrants give to existing companies. New entrants can reduce existing companies' market share and profit, and can lead to changes in product quality standards or price levels. High level of new entrants' threat can increase the intensity of existing competition in the industry and ultimately reduce the company's ability to reach potential profits [13].

Easiness of new entrants to open new business is perceived as a high threat by the average owner of food industry SMEs in Surabaya. This is because there are some deregulations related with starting a new business. Starting new business that initially had 13 procedures changed to 7 procedures. Time of processing changed from 47 days to 10 days. The cost changed from Rp 6.8 million – Rp 7.8 million to Rp 2.7 million. Number of permits, from 5 to 3. Establishing of PT (Limited Liability Company) which previously must have initial capital of at least Rp 50 million, changed into special regulation for SMEs, which stated that capital base is based on agreement of founder as stated in deed of establishment of PT. Another deregulation is regarding tax payments. Where previously there were 54 times tax payment that need to be done by SMEs, trimmed into only 10 times with online system. With regard to credit access, if previously no private credit bureau/lending information management institutions, it has now issued business license to two private credit bureaus / credit information management institutions (VOA Indonesia, 2017). Deregulation of starting new business policy "trigger" many new entrants enter and compete in food industry. The ease of doing business in terms of cost, capital, taxes, and others also causes new entrants to easily achieve the same cost structure as the old "players", so new entrants do not take long to reach economies of scale. This is why the indicator of new entrants can easily open business is perceived to be the highest threat by the average owner of food industry SMEs in Surabaya, followed by the indicators new entrants can easily reach economic scale.

The lowest indicator perceived by the average owner of SMEs in the food industry in Surabaya is the indicator that new entrants can easily get customers. This is because the average owner of food industry SMEs in Surabaya perceive that the food products produced by the company have different tastes from each other. Taste is an affectionate response that comes from within buyers' emotionally driven. When the buyers already has an affection response to the company's product, the customer is perceived to have a relationship with the company and thus will not be

easily distracted. Although this indicator is perceived at the lowest, but still has high value, which means it is still perceived as a potential threat. This is because the food industry is perceived as an industry that has products with low switching costs, so if companies are not vigilant, new entrants can still seize the company's customers.

Based on descriptive statistic of the respondent's answer, it is known that the highest indicators of bargaining power of buyers dimensions perceived by the average owner of food industry SMEs in Surabaya is buyers can easily switch to another products, followed by indicator buyers can easily lowered their buying quantity, and last indicator is buyers can easily make bargain.

Bargaining Power of Buyers refers to the pressure that the buyers can give to the company, which forces the company to provide products that match the buyer's preferences. The buyer's preferences can be: more variations, better customer service, or lower prices. Strong buyers can force companies to do all of these things, even though they mean more costs to the company. The Bargaining Power of Buyers can increase the intensity of existing competition within the industry and ultimately reduce the company's ability to reach potential profits [13].

Food industry is perceived by the average owner of food industry SMEs in Surabaya as industry with low switching cost, which lead to easiness of buyers to switch from one product to another. The absence of significant switching barriers, make food industry SMEs owners in Surabaya have to strategically think ways to maintain their market share. Easiness of buyers to switch also causes fluctuations in demand. When buyers switch to another product, it means buyers will automatically change their purchase quantity from the company's products to another company's products. This is why the indicator buyers can easily switch to another products perceived to be the highest threat by the average owner of food industry SMEs in Surabaya, followed by indicator buyers can easily lowered their buying quantity.

The lowest perceived indicator by the average owner of SMEs food industry in Surabaya is an indicator that buyers can easily make bargain. This is because the average owner of SMEs food industry in Surabaya perceived that the products produced by the company have different tastes from each other. Taste is an affectionate response that comes from buyers' emotional driven. When the buyers already has affection responses to the company's products, then buyers will not be too concerned about the price compared to another factors. Although this indicators is perceived at the lowest, but this indicator is still at high value, which means it is still perceived as a potential threat. This is because the food industry is perceived as

a price sensitive industry, so most of the times companies are forced to engage in price wars in order to maintain their market share.

Based on descriptive statistic of the respondent's answer, it is known that the highest indicators of bargaining power of suppliers dimensions perceived by the average owner of food industry SMEs in Surabaya is suppliers can easily raise their price, followed by indicator suppliers can easily lowered their supply quantity, and last indicator is suppliers can easily adjust their quality.

Bargaining Power of Suppliers refers to the pressure that suppliers can provide to firms that compel companies to adapt to conditions created by suppliers. Strong suppliers can pressure companies by raising their prices, lowering their product quality, or reducing product availability, and all of these are additional costs for the company. High level of Bargaining Power of Suppliers can increase the intensity of competition in the industry, and thereby reduce the profit potential for the company [13].

The market structure of suppliers in the food industry, which is governed by several giant corporations, generally leads to a pattern of agreement. The consequence of this market structure is that any giant supplier involved in this pattern of agreement is required to consistently implement the policy that has been decided, including the policy on price increases. Small suppliers who act as followers will usually also run the deal. To ensure the acceptance of the new pricing structure, the price control strategy is usually followed by the quantity control measures. Supply reductions will push the equilibrium point of supply and demand curves to the established price point. An increase in prices that cannot be accepted by the market will usually be followed by a strategy of offering similar materials at the same price, but having a lower quality. This pattern of strategy causes the company to inevitably have to follow the price structure set by the supplier. This is the reason why the indicator of suppliers can easily raise their price perceived as the highest indicator perceived by the average owner of food industry SMEs in Surabaya, followed by the indicators suppliers can easily lowered their supply quantity, and finally the indicators suppliers can easily adjust their quality. Nevertheless, the overall Bargaining Power of Suppliers is perceived as neutral by the average owner of food industry SMEs in Surabaya. This is because the average owner of SMES food industry in Surabaya perceives the supplier as part of the supply chain of the company, so as not to put pressure on the company.

## CONCLUSION

The food industry in Surabaya-Indonesia is still growing. The environment is still move in dynamic "vibes". Focusing on substitutes and new entrants will

help the companies to maintain their position. A good collaboration with buyers and suppliers will support the companies to have sustainable performance.

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