

Market Structure and Industrial Behavior Analysis of Micro, Small and Medium Enterprises (MSMEs) in Indonesia: a Case Study of The Handicraft Industry

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Abstrak : This study aims to analyze the market structure and industrial behavior of Micro, Small and Medium Enterprises (MSMEs) in the handicraft industry in Indonesia and identify barriers faced by MSMEs in market access and business development. Using a qualitative method with a case study approach, data were collected through in-depth interviews with 15 informants (10 MSME owners, 3 craftsmen, and 2 buyers/distributors) in Yogyakarta and Bali, complemented by direct observation and document analysis. The results show that the handicraft MSME market tends toward monopolistic competition with many producers offering differentiated products. However, significant entry barriers exist related to limited capital, technology, and market access, creating market imperfections. MSME behavior patterns show strong dependence on local markets (100% use physical stores, only 20% utilize e-commerce), cost-plus pricing with 30-50% markup, and limited innovation capacity. This study contributes to understanding industrial economics in the Indonesian MSME context by confirming the Structure-Conduct-Performance (SCP) paradigm and provides policy recommendations including flexible financing schemes, digital literacy programs, industry cluster formation, and strengthening intermediary institutions to improve market efficiency and MSME competitiveness.

Kata Kunci : Industrial Economics; Market Structure; MSME; Handicraft Industry; Qualitative Method

INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) play a strategic role in the Indonesian economy. According to data from the Ministry of Cooperatives and SMEs in 2023, MSMEs contribute approximately 61% to Gross Domestic Product (GDP) and absorb more than 97% of the national workforce (Ministry of Cooperatives and SMEs, 2023). The handicraft industry is one of the MSME sectors that has great potential in developing the creative economy and preserving local culture.

From an industrial economics perspective, market structure determines the behavior of business actors and ultimately affects overall industry performance. The Structure-Conduct-Performance (SCP) theory developed by Bain (1956) explains that market structure such as the number of sellers, product differentiation, and entry barriers will influence firm behavior in pricing, production strategies, and innovation (Jaya, 2001).

However, studies on market structure and industrial behavior of MSMEs in Indonesia, particularly in the handicraft sector, remain limited. Most research focuses more on empowerment and capacity development aspects without analyzing market dynamics in depth (Tambunan, 2009). Previous studies have several limitations: first, they lack in-depth analysis of the relationship between market structure and MSME behavior using the SCP framework; second, most studies are quantitative and do not capture contextual nuances of MSME decision-making processes; third, limited research specifically examines structural barriers that create market imperfections in the handicraft sector. These gaps create an urgent need for qualitative research that can explore market dynamics and business actor behavior comprehensively.

This research specifically aims to: (1) analyze the market structure characteristics of the handicraft MSME industry in Indonesia, (2) examine how market structure influences MSME business actor behavior in pricing, production, and marketing strategies, and (3) identify structural barriers faced by MSMEs in accessing markets and developing their businesses. Using a qualitative approach, this research is expected to provide in-depth understanding of handicraft MSME market dynamics and offer relevant policy recommendations.

METHODOLOGY

Research Approach

This research uses a qualitative approach with a case study method. According to Creswell (2014), a qualitative approach is suitable for understanding social phenomena in depth within their natural context. The case study was chosen because it allows researchers to explore in detail the market structure and behavior of handicraft MSMEs in a specific setting.

Research Location and Time

The research was conducted in handicraft industry centers in Yogyakarta and Bali. These two locations were selected based on several considerations: (1) both regions have the highest concentration of handicraft MSMEs in Indonesia with diverse product types, (2) Yogyakarta represents handicraft centers with strong traditional cultural characteristics (batik, wood crafts, silver), while Bali represents handicraft centers oriented toward tourism markets (woven products, wood carvings, accessories), (3) both locations have relatively well-developed MSME supporting ecosystems, enabling comparison of market structure patterns in different contexts. Data collection was carried out during the period from July to September 2024.

Research Informants

Research informants were selected purposively with the following criteria: (1) owners or managers of handicraft MSMEs that have been operating for at least 3 years to ensure business stability and adequate experience, (2) have products marketed

regularly indicating active business activity, and (3) willing to provide information in depth. The total number of informants in this study was 15 people, consisting of 10 MSME owners, 3 craftsmen, and 2 buyers/distributors. This number was determined based on the data saturation principle, where additional interviews no longer produced new information. The composition of informants was designed to capture various perspectives in the handicraft industry value chain.

Data Collection Techniques

Data were collected through three methods: (1) in-depth interviews with semi-structured interview guides, (2) direct observation of production and marketing processes, and (3) document analysis such as sales records and promotions. Interviews were conducted with a duration of 45-90 minutes per informant and recorded with informant consent.

Data Analysis Techniques

Data were analyzed using thematic analysis techniques following Miles and Huberman's (1994) stages: (1) data reduction, (2) data display, and (3) conclusion drawing. The coding process was conducted to identify themes related to market structure, business actor behavior, and barriers faced. Data validity was ensured through source and method triangulation.

RESULTS AND DISCUSSION

Characteristics of Handicraft MSME Market Structure

Research results show that the market structure of the handicraft MSME industry in Indonesia tends toward monopolistic competition. There are many producers operating with differentiated products based on design, materials, and production techniques. As revealed by one informant:

"There are many craftsmen here who make similar products, but each craftsman has their own characteristics. Some are strong in traditional motifs, others lean more toward modern designs. So buyers can choose according to their preferences". (Informant 1, Wood Craft MSME Owner)

Product differentiation becomes the main strategy for MSMEs to create uniqueness and avoid direct price competition. This finding is consistent with the theory of monopolistic competition proposed by Sukirno (2016), where product differentiation provides limited market power to producers.

However, this research found significant entry barriers, especially related to initial capital, access to quality raw materials, and mastery of special skills. These barriers create market imperfections and limit the mobility of new business actors.

Business Actor Behavior in Pricing and Production

Analysis of pricing behavior shows that handicraft MSMEs generally use the cost-plus pricing method with markups varying between 30-50%. Pricing is heavily influenced by raw material costs, labor wages, and product complexity levels. An informant explained:

"We calculate all production costs, then add profit of around 40%. But if there are large orders from stores or exporters, sometimes we can give cheaper prices". (Informant 5, Batik Craftsman)

In terms of production volume, MSMEs tend to produce based on orders (make-to-order) with limited production capacity. This flexibility is a strength of MSMEs in responding to diverse market demands, but also becomes a weakness in achieving economies of scale.

Marketing Strategies and Market Access

Research findings show that handicraft MSMEs have strong dependence on local markets and rely on word-of-mouth as the main marketing strategy. Only a small portion of MSMEs have utilized digital platforms to expand market reach. Table 1 shows the marketing channels used by MSME informants.

Table 1. Marketing Channels of Handicraft MSMEs

Marketing Channel	Number of MSMEs	Percentage (%)
Physical Store/Gallery	15	100
Local Market/Exhibition	12	80
Social Media	7	46.7
E-commerce	3	20
Exporter/Distributor	2	13.3

Source: Primary data processed, 2024

The low utilization of digital platforms indicates a digital literacy gap and limited technological infrastructure. This is consistent with Tambunan's (2009) findings that MSMEs in Indonesia still face obstacles in adopting information technology.

Structural Barriers and Their Implications

The research identifies three main structural barriers faced by handicraft MSMEs: (1) limited access to capital, (2) limited access to quality raw materials, and (3) limited market knowledge. These barriers create market failure and hinder MSME growth.

Limited capital causes MSMEs to be unable to invest in modern equipment, product development, and market expansion. Access to formal financial institutions remains limited due to strict collateral requirements and lack of adequate financial reports. An informant stated:

"We once tried to apply for credit at a bank, but the process was complicated and required collateral. In the end, we borrowed from cooperatives or family even though the interest was higher". (Informant 8, Woven Craftsman)

This finding confirms Kuncoro's (2010) argument about market imperfection in MSME capital access that hinders business development.

Innovation Capacity and Product Development

Analysis shows that the innovation capacity of handicraft MSMEs remains limited. Innovation conducted is generally incremental, such as variations in color and motifs, not radical innovation that fundamentally changes design or production techniques. This limitation is caused by lack of access to current design information, limited skills, and minimal collaboration with professional designers.

However, some MSMEs that have partnered with educational institutions or MSME development organizations show better innovation capabilities. This demonstrates the importance of intermediary institutions' role in driving MSME innovation.

Policy Implications

Based on research findings, several policy implications can be formulated. First, there needs to be a special financing scheme that is more flexible and accessible for handicraft MSMEs. Second, capacity building programs are needed in digital literacy and business management. Third, the formation of industry clusters can facilitate collaboration among MSMEs and increase bargaining power in accessing raw materials and markets. Fourth, strengthening the role of intermediary institutions such as business incubators and craftsmen associations can drive innovation and knowledge transfer.

CONCLUSION

Research results show that the market structure of the handicraft industry tends toward monopolistic competition with many producers offering differentiated products. Product differentiation becomes the main strategy for MSMEs to create competitive advantage.

However, there are significant structural barriers such as limited capital, market access, and innovation capacity that create market imperfections. Business actor behavior shows strong dependence on local markets and limitations in utilizing digital technology. These findings confirm that market structure influences market conduct and ultimately market performance, consistent with the SCP paradigm in industrial economics.

This research has limitations in terms of geographic coverage and number of informants. Future research can expand the research area and use mixed-methods to obtain more comprehensive understanding. Additionally, comparative research between traditional and modern handicraft MSMEs can provide insights into industry transformation dynamics.

The practical implications of this research are the need for holistic policy interventions to address structural barriers and improve MSME competitiveness. MSME development programs need to be designed considering specific characteristics of market structure and business actor behavior in the handicraft sector.

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