



## **Growing Inclusive Markets**

Business Works for Development • Development Works for Business

CASE STUDY

East and South East Asia • Indonesia

### **PPKT: Working With The Community To Grow The Business**

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Sector • Biofuels/Biomass; Fuel Efficient Stoves; Consumer  
Products

Enterprise Class • MSME

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## Executive Summary

CV Pusat Penelitian Kelapa Terpadu (Center for Integrated Coconut Research – PPKT) is a medium-sized company based in Yogyakarta, Indonesia. The company was founded in 2004 by Mr. Imam Nurhidayat, Mr. Arif Nur Wahyudi, and Mr. Mahmud Yunus.

The company's business philosophy is to develop and commercialize coconut-based products, while at the same time empowering local communities through integrating local communities' business activities into the company's processes. In this regard, the company provides training and technical assistance to rural community groups that usually rely only on rice and/or vegetable planting for their livelihood in processing coconuts into products such as virgin coconut oil and liquid smoke and quality control and then integrates their activities into the company's production processes. In essence, PPKT provides these communities with an opportunity to earn additional income by turning them into the company's production facilities.

PPKT produces and sells products such as premium cooking oil, virgin coconut oil, liquid smoke and cosmetics. In addition, the company also produces 'E-stove' that uses ethanol as fuel, and conducts public training on processing coconuts into high value added products. The company also sells coconut-processing equipment.

PPKT earned about US\$60,000 of revenue in 2009 and most of its revenue came from its cosmetics products, public training program and coconut processing equipment.

The company currently employs 15 full time staff and has ongoing partnerships with about 140 community groups thus benefiting about 14,000 people living in rural areas around Indonesia. In addition, the company has business relationships with about 17 companies in and around Yogyakarta that supply it with various goods such as packaging materials and office supplies.



## Introduction

CV Pusat Penelitian Kelapa Terpadu (Center for Integrated Coconut Research – PPKT) is a medium-sized company based in Yogyakarta, Indonesia that works with community groups to produce and sell coconut-based products such as premium cooking oil, virgin coconut oil, liquid smoke and cosmetics. In addition, the company also produces ‘E-stove’ and conducts public training on processing coconuts into high value added products. The company also sells coconut-processing equipment.



Community Training - Jambi (Source: Arif Nurwahyudi)

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PPKT provides these communities with an opportunity to earn additional income by turning them into the company’s production facilities. Currently, the company has partnerships with about 140 community groups around Indonesia.

PPKT was founded by Imam Nurhidayat, Arif Nur Wahyudi, and Mahmud Yunus in 2004. Through PPKT, they believe that they can help local communities to improve their livelihood by providing them with an additional source of income through integrating their activities into the company’s business processes and focusing on the development of high value coconut-based products. They believe that by applying this philosophy they can build PPKT to become a successful and profitable business. They also believe that coconut trees, through the development of various high value coconut-based products, should be seen as one of the tools that can be used to reduce poverty and spur local economic development. This is because the coconut tree is fairly easy to grow, relatively quick to mature (between three to five years), compared to other hardwood plants it has long productive life (up to 30 years), is available in abundance in almost all parts of the country, and all parts of the tree can potentially be developed into commercially valuable products.

The company started the business with one product: virgin coconut oil, which is a popular food supplement product in Indonesia. Subsequently, it developed coconut-based cosmetics products, premium cooking oil and liquid smoke, which is used as a natural food preservative to replace formaldehyde, conducted public training on processing coconuts into high value added products and sold coconut-processing equipment. Recently, the company has



developed the 'E-stove', which is a stove that uses bioethanol as fuel. The company promotes the product as an environmentally friendly stove and an alternative to kerosene and firewood stoves that are widely used by rural communities throughout Indonesia.

## **Market and Location Context**

PPKT is located in Yogyakarta, Indonesia. Yogyakarta, one of the oldest cities in Indonesia, is the capital city of the Yogyakarta province in Java Island, which is the smallest of the five main islands in Indonesia but the most populous one. Indonesia is the world's fourth most populous country with a population of around 250 million people and also the country with the world's largest Muslim population. Indonesia is the largest economy in Southeast Asia and had an estimated Gross Domestic Product (GDP) per capita of US\$2,200 in 2008. Based on 2006 estimates, almost half of the population was living on less than US\$2 per day.

Nationally, the agriculture sector accounts for about 14% of the GDP. That makes it the third largest sector after the services and industry sectors, which account for about 45% and 40% of the GDP, respectively. However, the agriculture sector employs about 44% of the nearly 100 million people work force.

The population of Yogyakarta province is about 3.2 million while the population of the city of Yogyakarta itself is about 400,000. Yogyakarta city is located around 276 miles south east of Indonesia's capital city, Jakarta, well connected to other major cities in Java and has international direct flight to Singapore and Kuala Lumpur in Malaysia. Most of the population lives in rural areas and the majority is active in the trade, agricultural, handicraft, and tourism sectors. The major contributor to Yogyakarta's economy is the tourism sector, although the agricultural sector employs the most people.

In general, the economic situation in Yogyakarta is relatively stable but is still lagging behind the five other provinces in Java. In 2007, it achieved a growth rate of about 4%, which was below the other five provinces in Java and below the national growth of about 6%.

Due to the abundance and ubiquity of coconut trees and plantations in Indonesia it seems that there is potentially enormous social and commercial benefits that can be gained from integrating local communities in the production of high value coconut-based products. Indonesia has about 3.7 million hectare of coconut plantations of which 96% are categorized as community plantations while the rest are owned by the private sector (2.7%) and the government (less than 1%).



## Description of the Business Model

### BACKGROUND HISTORY

PPKT started out in 2004 as a non-profit organization that provided training and technical assistance to local communities on how to produce virgin coconut oil, which is commonly consumed in Indonesia as food supplement. Almost immediately, the company's founders realized that the company could provide more value to local communities if they could also help distribute the communities' products to the market. The best way to do that was to convert the organization into a commercial entity.

*"Being a commercial entity provides us with a certain amount of business credibility. In our case, we found out that it was easier for us to talk about the business potential of the sector to stakeholders and potential partners as a commercial organization rather than as a non-profit one,"* says PPKT's founder Imam Nurhidayat.

### THE BUSINESS MODEL

PPKT started its operations as a commercial entity in 2005. It was founded with the basic idea that community-based industry, if properly managed, can serve as the driver for local economic development. PPKT chose to focus on developing coconut-based products due to the relative abundance of coconut plantations and that based on their observations most coconut farmers had no substantial knowledge on how to properly process the coconuts into products with high added value.

To ensure the availability of raw materials, i.e. coconuts, PPKT has developed some basic indicators as the basis for selecting potential community group partners. One of the most important indicators is that the location must have a minimum of 1,000 hectare of existing coconut plantation. Usually the plantation belongs to members of the community group. In addition, the company only works with community groups that clearly indicate their understanding of the benefits in becoming part of the company's processes.

*"There were instances where some communities told us that they are doing fine and are not interested in becoming our partner,"* according to Imam Nurhidayat.

The company's business model put coconut farmers and community groups as an integral part of its operations. Based on this model, the community groups serve as the company's production facilities and the company's main role is (1) to train these groups on how to produce high-value coconut-based products, (2) organize them into fully functioning production facilities, and (3) to link these groups to potential business partners.

In general, during the training process, which is free, the company's trainers would train the groups on how to select high quality coconut fruits, grind and press the coconut meat, and filter it. In the case of virgin coconut oil, the groups are trained on how to properly cook the coconut liquid. Usually the training process takes about one to two weeks. At the same time, the company also trains the group to organize themselves into a business unit, locally known



by its acronym KUB (Kelompok Usaha Bersama–Joint Business Unit) which involves helping the group to select key people to manage the business unit. Since the production activities are done by each member of the community group then part of the job of the manager of the KUB is to make sure that all members adhere to the production procedures to maintain the quality. In addition, KUB manager is also responsible in fair allocation of the production quota. This is usually done through *musyawarah* or consensus among members of the group. KUB manager is also responsible in making sure that group members deliver the products to KUB’s warehouse or collection point in a timely manner. To enable them to do their job properly, PPKT provides KUB managers with additional training on basic production management, quality control, and accounting.

According to the company, the decision to form a KUB rests solely with the community groups. As a result some community groups function without a manager. PPKT’s General Manager Mahmud Yunus says that: *“Usually, community groups without KUB do not perform well in the long run. Although this is only based on casual observation and we never conduct any comparative study on this”*.

The whole process usually takes about two to three months to finish and when the company deems the group as business-ready, it will start contacting local traders and/or distributors to inform them about the group. The company sees its efforts in linking up the community groups to other partners as a crucial part of its business model especially in terms of community empowerment and local economic development.

Although the groups serve as the company’s production facilities, the company does not claim a monopoly on the groups’ output and commercial activities and strongly encourages the groups to do business with other parties. This is to ensure that the groups can get the best price for their products as well as to ensure the groups’ survival in the event that PPKT goes bankrupt.

As Imam Nurhidayat puts it, *“We set out to prove that community-based businesses have a great potential to be one of the main drivers for local economic development. So, it is important for us to make sure that the groups can survive and grow on their own. We don’t want the groups to depend on PPKT for their survival”*.

### ***Stakeholders support***

Prior to working with the communities, the company engages in dialogue and discussion with local chiefs and informal community leaders to ensure that the relationship will be mutually beneficial. At the same time, PPKT also seek to form a partnership with local governments to ensure that they can provide financial support for the company’s training activities. Since these community groups serve as the company’s production facilities, the company spends a considerable amount of time training them. The company’s standard procedure is to provide the community groups with intensive training and technical assistance on product processing and quality control for about three months.





### ***Products and Services***

At the moment, the company is producing and selling cosmetics, premium cooking oil, virgin coconut oil, liquid smoke (natural food preservative) and the E-stove throughout Indonesia. The company derives a large part of its revenue from its cosmetics products. The company sells its products through individual agents for cosmetics products and virgin coconut oil, through distributors for premium cooking oil and E-stove; and directly to end users for liquid smoke and E-stove.



Community Training - East Nusatenggara  
(Source: Arif Nurwahyudi)

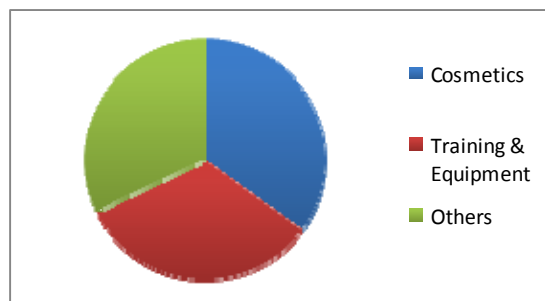
PPKT also provides one week, fee-based training services open for the general public with interest in developing coconut-based products (premium cooking oil, virgin coconut oil, and liquid smoke). During the training, participants receive practical training on how to produce premium cooking oil, virgin coconut oil and liquid smoke as well as instructions on making the necessary equipments, such as boiler, cooker and filtration systems. The company uses the term general public to describe individuals residing in non-rural areas. In contrast, community groups that

the company has a working relationship with are rural based. The fee for the training for the general public ranges from US\$100 to US\$110.

The company sees this commercial activity as beneficial to its business model, especially the community empowerment part. According to PPKT's General Manager Mahmud Yunus: *"The training activity for the general public is important for us because most people who seek to produce and sell premium cooking oil, virgin coconut oil and liquid smoke will need to work with community groups to ensure the supply of raw and/or half-processed material. In addition, it also provides us with a good source of revenue"*.

The company also sells coconut-processing equipment, such as filtration system, boiler and cooker.

**Figure 1: Revenue structure**





### ***E-Stove***

With regards to the E-stove, the company came up with the idea to develop the product in early 2008 when the government decided to abolish subsidizing kerosene. This led to people in rural areas having difficulty in buying kerosene due to the high price. The company quickly saw a business opportunity that was compatible with its business model.

Originally, the plan was for the company to develop and sell coconut-based bioethanol. However, the company later found out that due to government regulations that restrict the transportation and distribution of alcohol-based liquid, including ethanol, there was little economic sense for the company to produce bioethanol in large quantities.

*“It was one of our big mistakes. We didn’t know about the regulations and we didn’t even try to find out if there’s any government regulation on this issue,”* admits Arif Nur Wahyudi, one of PPKT’s founders.

The company then came up with the idea of developing a stove that used bioethanol as a fuel to replace kerosene and firewood. Further, since the E-stove would be sold to local communities with the ability to produce its own bioethanol then there would be no transportation problem to be worried about. The company internally designs and develops the E-stove but due to its limited financial resources it does not have its own production facility to produce the E-stove. To solve this problem the company has formed a loose partnership with a number of local workshops in Yogyakarta with experience in producing similar products to produce the E-stove. The company provides these workshops with the schematic design of the E-stove and some basic manufacturing and production guidance but it does not provide these workshops with any formal training.

The company started to sell the product in late 2008. In order to increase market penetration, in 2009 the company formed a partnership with a number of local distributors to sell the E-stove. The company sells environmentally friendly E-stoves to rural communities at a price comparable to that of kerosene stoves, which is about US\$19 per unit. However, the company claims that its E-stove can produce higher level of heat and burn fuel more efficiently compared to the kerosene stoves. As a result, an E-stove using a litre of bioethanol (priced at about US\$0.88 ) can be used for continuous cooking for up to 17 hours compared to four to five hours by a stove using a litre of kerosene (priced at about US\$0.99). On top of this, the users do not necessarily have to buy the fuel as they could produce it themselves.

One of the main challenges that the company is currently facing is that it claims that it cannot keep up with the demand. Based on the company’s own estimates, current market demand for the E-stove can be more than 1,000 units per month while the company can only produce between 50 and 100 units per month. According to Mahmud Yunus, *“When we started we sort of knew that the potential demand for E-stove could be big but we just don’t have the necessary working capital to build our own production facility and pursue this opportunity further”*.





According to the company, one of the main reasons for this is because the company is outsourcing the production of its E-stoves to local workshops rather than producing them in house. Thus it is not easy for the company to adjust the production level of the E-stoves. In general, the company sets the production level once every three months. In addition, maintaining quality also proves to be a real challenge, because the local workshops do not always adhere to production guidelines and product specifications set by the company.

*“We tell them to just follow the specifications but they always seem to think that our design is not good enough,”* says Mahmud Yunus.

As a result, the company is now scaling back the production of the E-stoves to avoid accidents caused by possible product defects. Another problem that the company has to deal with is imitators. Since the design of its E-stove, especially the head burner, is not patented, the company cannot stop others from copying its product. Adding to the problem is that these imitators often tell customers that their products are PPKT’s products. This makes the company potentially vulnerable to customers’ complaints and possible legal issues caused by defective products sold by those people. At the moment, the company does not seem to have been able to find a solution to effectively overcome these problems other than trying to find investors to help building the production facility for the E-stove.

## **FINANCIAL MODEL**

The company is mostly self-financed. Although the company declined to provide full information about its finances, it claimed to earn revenue of about US\$60,000 in 2009. Most of its revenue came from cosmetics products on the one hand, and the training program and coconut processing equipment on the other hand, which was about 35% and 33% of the revenue, respectively. In 2009, the sales of E-stoves contributed about 14% to the company’s revenue. The fee for the training for the general public ranges from US\$100 to US\$110.

PPKT engages partners, usually local governments, in sharing and/or subsidizing the cost of training the community groups and, in some cases, building a small production facility and warehouse to be used by these groups.

One of the internal challenges that the company is currently facing is in managing its cash flow. Currently, PPKT pays cash for products it buys from community groups but the company does not receive cash payment from its agents and/or distributors as part of its trading terms. In addition, the company acknowledges that it does not have a solid financial management system in place yet. The company also does not seem to have formal business planning processes. As a result it is not clear whether the company has any formal action plan that allows it to be proactive rather than reactive.

Currently, the company has no plan to seek commercial loans from local banks.



## SUMMARY OF CONSTRAINTS AND SOLUTIONS

**Table 1: Description of the Constraints faced by PPKT**

Type of constraints	Description
Financial resources	<ul style="list-style-type: none"> <li>• Production centre set up cost</li> <li>• Lack of access to financial services at low interest rate and minimum collateral</li> </ul>
Knowledge and skills	<ul style="list-style-type: none"> <li>• Lack of appropriate coconut-processing skills amongst community groups members</li> <li>• Lack of managerial and financial skills among PPKT's employees</li> </ul>
Physical infrastructure	<ul style="list-style-type: none"> <li>• Availability of coconut-processing facilities</li> <li>• Availability of E-stove production facility</li> </ul>
Production materials	<ul style="list-style-type: none"> <li>• Lack of access to raw materials (coconuts)</li> </ul>

**Table 2: Description of the Solution Strategies**

Constraints	Strategies	Description
Financial Resources	Combine resources and capabilities with others	<ul style="list-style-type: none"> <li>• A considerable part of the production centre set up costs and community groups' training costs are shared with local governments.</li> <li>• Engage in partnership with New Ventures Indonesia to access non-bank financial institution</li> </ul>
Knowledge and Skills	Invest in removing constraints	<ul style="list-style-type: none"> <li>• Organize training programs on coconut processing, quality control for members of community groups</li> </ul>
	Combine resources and capabilities	<ul style="list-style-type: none"> <li>• Engage with partner such as New Ventures Indonesia to develop business plan and business strategies</li> </ul>
Physical Infrastructure	Leverage the strength of the poor	<ul style="list-style-type: none"> <li>• Community groups serve as the production facilities for the company</li> </ul>
	Combine resources and capabilities	<ul style="list-style-type: none"> <li>• Partnering with local workshops to produce E-stove for the company</li> </ul>
Production Materials	Leverage the strength of the poor	<ul style="list-style-type: none"> <li>• Organize community groups into production facilities and integrate them into the company's process</li> </ul>

## The Business and its Relationships

Three men, Imam Nurhidayat, Arif Nur Wahyudi, and Mahmud Yunus founded PPKT in 2004 and all of them are still active in managing the company and can be considered as the main actors that have shaped the business. Imam Nurhidayat and Mahmud Yunus are currently the director and general manager of the company, respectively, while Arif Nur Wahyudi is responsible for the research and development areas. These three individuals have long experience in community training and local economic development. Prior to PPKT, they were all active as community development specialists working for various NGOs and were involved in various projects throughout Indonesia, mainly in rural capacity building and local



economic development projects. Also, prior to PPKT, Imam Nurhidayat, Arif Nur Wahyudi and Mahmud Yunus founded a company called Repindo that provides vocational training to the general public. All three are still active in Repindo.

### **COMMUNITY GROUPS**

Actors with significant roles are the community groups that the company has relationships with. These community groups are an integral part of the company's business processes, namely in the production of premium cooking oil, virgin coconut oil, liquid smoke and bioethanol. Due to its limited resources, the company chooses its community group partners selectively. In this regard, the company has developed three main indicators as the basis for selecting potential community group partners, namely (1) the location has a minimum of 1,000 hectares of existing coconut plantation, (2) community's familiarity with basic coconut processing, and (3) the availability of basic infrastructure such as roads.

### **INDIVIDUAL AGENTS AND DISTRIBUTORS**

Individual agents and distributors also play a quite significant role for the company. Individual agents play a significant role in the distribution of its cosmetics products because PPKT is positioning its cosmetics products as natural and 'Halal' products. In general, 'Halal' products can be described as products that do not contain ingredients that are forbidden by and are being processed according to Islamic law. Based on this positioning strategy, the company only advertises its cosmetics through printed monthly magazines and radio that cater to middle-income Muslim communities.

*"At first we were not sure if direct selling targeting the Muslim community was a good strategy simply because we didn't have any ideas about the commercial potential of this community. Now we wish we had done it from the beginning,"* says Mahmud Yunus.

Following this strategy, PPKT does not work with distributors and retailers but rather with middle-income individuals with interests in selling the company's line of cosmetics. At the moment, the company is working with about 66 individual agents. These agents usually call the company directly and express their interest in becoming a distributor after seeing the company's advertisement. Most, if not all, of these agents are women. These agents are compensated based on sales only. On average, the retail prices of PPKT's cosmetic products are 30% higher than wholesale price (i.e. price from PPKT to agents).

PPKT's cosmetics are sold under the brand name 'Virgin Natural'. In addition to cosmetics, individual agents also sell PPKT's virgin coconut oil product. As for distributors, the company works closely with them to distribute its premium cooking oil product. The company is currently selling its premium cooking oil product both under its own brand name 'Bio Virgin', as well as in bulk and under the distributors' brand name. PPKT does not see this dual approach of market penetration as detrimental to its business model since any increase in demand will translate into increase in production by community groups, thus increase in their income. Currently, the company is working with five distributors.



In general, individual agents and distributors do not have direct relationships with community groups that are partnering with PPKT.

### **NEW VENTURES<sup>1</sup>**

PPKT participated in New Ventures Indonesia's call for business plan in 2007 and was selected as one of the companies to participate in New Ventures Indonesia's annual Investor Forum event. With New Ventures Indonesia's assistance, the company established a business relationship with a local venture capital company, PT Sosial Entrepreneur Indonesia (SEI).

### **CHALLENGING ACTORS**

Actors that may hinder the success of the business are mainly producers/distributors of products that the company aims to replace, in this case the E-stove and liquid smoke, and producers/distributors of similar products, namely cosmetics, premium cooking oil and virgin coconut oil. For these actors, PPKT's products are considered as real threats that can endanger their performance and growth. As for PPKT, the company acknowledges that they cannot always compete with these actors, who are mostly companies larger than PPKT. Nevertheless, the company believes that they could achieve better results in terms of market penetration, consumer awareness, and sales if they had adequate financial resources to compete with these actors.

The other actors that may potentially hinder the company's activities are chiefs of local communities and local government officials. The company needs permission and support from local chiefs and other informal leaders of the community before it can start working with the community. Chiefs of local communities are usually worried that the company would exploit the community and leave little or no benefits to them. To overcome this notion, the company engages in dialogues and discussions with the chiefs to convince them that they truly want to develop and engage in a mutually beneficial relationship and do not have any hidden agendas to exploit the community.



Local government equipment grant to KUB Galur-Yogyakarta (Source: Arif Nurwahyudi)

*"In the past, it took us quite some time to convince local communities about the benefits of our partnership program. Now that we have been able to build positive track records we no longer have to deal with this problem,"* says Imam Nurhidayat.

Similarly, the company also sees the importance of getting the support from local government officials. The main reason for this is because the company needs the financial commitment from local government to share and/or subsidize the

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<sup>1</sup> New Ventures is a global network of enterprise acceleration centers that spur the growth of entrepreneurial approaches to the challenges of sustainable development (<http://www.wri.org/project/new-ventures>)



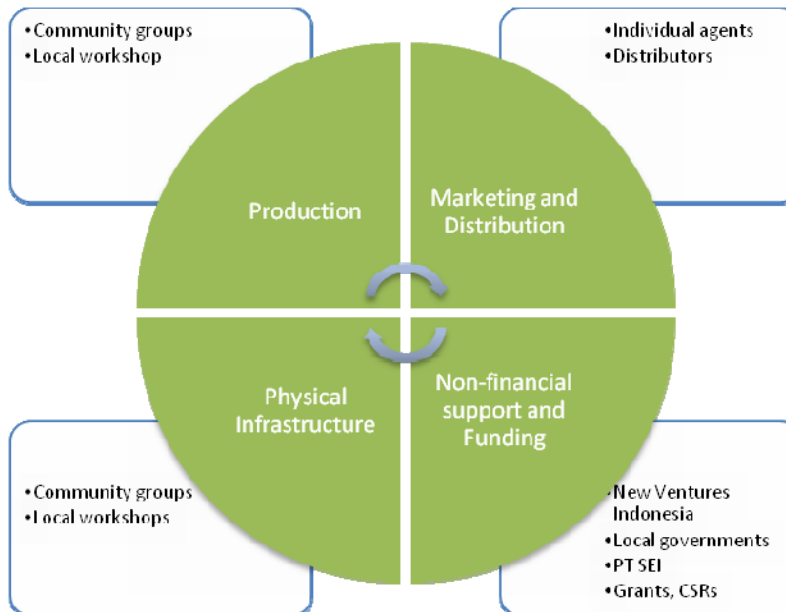
costs of the training that the company provides to community groups. In general, due to its positive track records in working with community groups the company does not experience major difficulties in convincing local government to provide financial support for its activities. In some cases, local government also provides financial support to build a small production facility and/or warehouse for the communities.

Nevertheless, dealing with the government is not always an easy thing to do for the company especially when it comes to getting licenses for its cosmetics and liquid smoke. This is mostly due to bureaucracy, changes in policies and regulations, and corruption. The company currently produces eight types of cosmetic products but only seven have received a license from the government so far.

*“We have been waiting for the license for our hair care products for almost five years. We followed all the government’s guidelines and fulfilled all the requirements but they still can’t tell us when we will get the license. It’s frustrating,”* says Mahmud Yunus.

The company has no major difficulties in getting licenses to produce, sell and distribute premium cooking oil and virgin coconut oil. The company currently has business relationships with about 17 companies in and around Yogyakarta that supply it with various goods such as packaging materials and office supplies.

**Figure 2: Actors involved in PPKT**





## Results Created by the Business

The company currently has 15 full time employees, five of whom are women. The company develops its own marketing and advertising strategies and seems to have the ability to develop products with real market potential. In addition to designing the E-stove in-house, the company also develops its own formulas for its cosmetic, premium cooking oil, and liquid smoke products. The company is proud of the fact that the salary for its low level staff is above the government's mandated minimum regional remuneration level, locally known by its acronym UMR, which is about US\$65 per month for Yogyakarta.

### COMPANY PERFORMANCE

In terms of its financial performance, the company was in red from 2005 to 2007. In late 2007, it received business mentoring from New Ventures Indonesia that provided the company with training on financial and strategic management. The company became more disciplined with its cash flow and financial management and adjusted its business strategy, focusing more on producing and selling cosmetics and premium cooking oil rather than virgin coconut oil, and as a result managed to break even in 2008.

*"We have come a long way since our inception in 2005 in terms of our financial management system and business strategy but we are nowhere near solid,"* admits Mahmud Yunus.

The company experienced its first year of profitability in 2009. However, the company does not seem to have a solid financial management system in place yet and is currently struggling to manage its cash flow. This is because PPKT pays cash to community groups (its suppliers) but does not receive cash payment from its agents and/or distributors. The weak financial management system seems to further hinder the growth of the company since it may prevent the company to allocate its already limited financial resources in an efficient manner.

The company had total revenue of about US\$60,000 in 2009 with cosmetic products contributing about 35% of the revenue, and training and selling equipment contributing about 33%. PPKT managed to sell about 500 E-stoves in 2009, which contributed to about 14% of its revenue.

### SOURCE OF FUNDS

The company is mostly self-financed and currently has no plan to seek loans from local banks. This is mainly because Indonesian banks require collateral in the form of fixed asset with value equal to or higher than that of the loan for any commercial loans, which the company claims it does not currently have the capacity for.

However, through the assistance of New Ventures Indonesia, in 2008 it was able to secure a US\$25,000 working capital loan from a local venture capital company and is currently in the process of applying for an additional US\$10,000. In addition, PPKT participated in a call for proposal from Ford Motor Company's Conservation and Environmental Grant program in 2008 and succeeded in receiving a US\$10,700 grant. The fund was used to develop coconut-





based bioethanol and to train community groups on how to produce coconut-based bioethanol.

The company also managed to establish good relationships with various local governments that provided the company with financial assistance in delivering training to community groups. In some cases, the local government also provided grants to community groups to build small warehouses and/or production facilities.

### **SOCIAL AND ENVIRONMENTAL IMPACT**

The company does not measure its environmental and social impact; therefore it is difficult to calculate the company's impact on community groups in terms of livelihood and standard of living. Similarly, it is also difficult to quantify the environmental impact (reduced carbon emissions) and social impact (saving on fuel expenditure) on the use of the E-stove by community groups. However, based on anecdotal evidence, the company claims that people in villages where PPKT's community groups exist tend to have more livestock and own motorcycles and colour televisions compared to villages with no PPKT-organized community group.

According to Mrs. Tantriana Herawati, a KUB member in Mulyodadi village, near Yogyakarta, *"PPKT taught us how to properly process coconut fruits and made high value added products. That allows me to earn some nice additional income"*.

The company works with about 140 community groups around Indonesia that supply the company with premium cooking oil, virgin coconut oil and liquid smoke. On average, each community group has 20 members, which represent 20 households with an average of five family members per household. In this regard, the company has a total of about 14,000 beneficiaries.

The company also helps these community groups to organize and manage themselves into a joint business unit locally known by its acronym KUB (Kelompok Usaha Bersama). Since its inception, the company has formed about 40 KUBs. Although there is no fundamental difference between community groups without KUB and the ones with KUBs, usually forming a KUB is seen by third parties as a sign of the groups' commercial readiness. Thus, third parties tend to do business with community groups with KUBs. In general, after the community groups have been operating for at least 12 months, PPKT usually encourages the groups to form KUBs, but in the end the decision to do so rests with the community groups.

Mr. Yanto, an informal leader in Kranggan village, near Bantul, Yogyakarta says: *"PPKT has been good to our community. They taught us how to become business people and the importance of maintaining product quality. They also connect us to potential business partners"*.

As previously described, the company spends a considerable amount of time and resources training these community groups and prior to that they needed to have the buy-in from local



chiefs and informal leaders. Sometimes this process can be lengthy. Learning from past experiences the company claims that they are now able to speed up the process and as a result getting the support of local chiefs and informal leaders is no longer a critical issue for the company. Due to its positive track records, the local government, in general, view the company in a positive light in terms of its contributions to local economic development.

At the moment, the company has no plan to measure its social and environmental impact.

## **Growth Strategy and Future Outlook**

Going forward, it is expected that PPKT will still be adhering to its business philosophy of developing coconut-based products and partnering with community groups. The company still sees growth opportunities for all of its product lines and although the company expects the competition will become fiercer, it is quite confident about its ability to innovate and compete.

The company plans to continue further market penetration for its cosmetic products using its current market strategy. It is also expecting to get more sales from its premium cooking oil, liquid smoke and virgin coconut oil.

*“We still see a lot of growth opportunities especially for our cosmetic, premium cooking oil, and liquid smoke products. We think virgin coconut oil will still be a profitable product for us. As for E-stove, we don’t expect to see significant increase in sales unless we can do the production in house”,* says Imam Nurhidayat.

In the near future, the company may find that it will need to seriously strengthen its business management processes, such as human resources, quality control, strategic planning, and most importantly their financial management system. Without taking the time to tend to these issues it is unlikely for the company to be able to deploy resources effectively and efficiently to grow further especially taking into account its cash flow problem.

As Mahmud Yunus puts it: *“Managing a business is not as easy as we thought it would be”*.

That is unfortunate since all of PPKT’s products seem to have quite a lot of commercial potential if the company can continue to develop and refine its products. For PPKT, it would be beneficial if they can get assistance from business coaches that can provide the company some objective business suggestions. Ideally this should be followed by the company getting access to an alternative source of financing.

Although it seems that the company generates quite significant social and environmental impacts, it is unfortunate that it currently does not seem to have a good understanding of the potential value in collecting and measuring them.



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## Growing Inclusive Markets

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The case was completed in September 2010 and released in 2011.

The information presented in this case study has been reviewed by the company to ensure its accuracy. The views expressed in the case study are the ones of the author and do not necessarily reflect those of the UN, UNDP or their Member States.

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