
Analysis of the Competition Structure of Scrap Iron Buying and Selling Businesses (A Case Study in Kuin Cerucuk, Banjarmasin)

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ABSTRACT: This research project aims to analyze and identify the competitive structure that influences competitive advantage in the scrap metal sales market and formulates key success factors, or KSFs. This study seeks to explain the causal relationship between one variable and another, which is known as explanatory (causality) research (Sekaran & Bougie, 2017). Primary data was gathered through questionnaire instruments and in-person interviews with business owners, managers, employees, and customers who bought or sold scrap metal. Secondary data was gathered from publications, journals, the internet, libraries, and associated organizations like the Ministry of Industry and Trade and Indonesian Central Bureau of Statistics. Through the use of observation, interview, and literature study methodologies, data gathering procedures were obtained. Competitive industry analysis with models from Five Forces Porter, competitive advantage, and descriptive analysis with company profile analysis are the analysis methodologies employed in this study. The findings show that: substitute products in the market lessen the threat of replacement products for scrap metal; the level of rivalry among competitors in the scrap metal buying and selling industry is strong; the threat of new entrants into the used buying and selling industry is weak; suppliers have strong bargaining power; and buyers have strong bargaining positions. Key success factors are economies of scale, marketing systems and capacities, financial availability, raw material and technological access.

KEYWORDS: Five Forces Porter, Key Success Factor (KSFs), competitive advantage

INTRODUCTION

In the current economic climate, the scrap metal trade industry provides alternative employment options and benefits the community. One of the business hubs for small- and medium-sized enterprises buying and selling scrap metal is Banjarmasin area, particularly Kuin Cerucuk subdistrict area. In addition to buying and selling used iron, some businesses also recycle scrap iron to create items with higher market values, like wet sand pump systems. The materials are obtained by business owners from scrap metal collectors who visit multiple residential buildings or little alleys to purchase scrap iron from the general public, or from individuals who go straight to companies that buy and sell scrap iron in order to sell it.

The collected raw materials for scrap iron are sent to the production stage where they are either reprocessed or used as raw materials to be sold to larger collectors. Reusable scrap iron is gathered at the warehouse and sold back to the iron processing company so that it can be melted down and produced into iron suitable for the intended use, the goods that they market. In the meantime, recyclable raw materials for scrap iron will arrive at the production site and be converted into wet sand pump machines by many workers. Nearly identical services—buying and selling scrap iron—are offered by businesses in Kuin Cerucuk region. However, several of them also recycle scrap iron and make wet sand suction devices. Small businesses only deal with the purchase and selling of scrap metal. They also have basic equipment for transporting scrap metal, such as a pick-up truck and scales to weigh the metal that is being sold. Furthermore, records that conform to the current relevant financial reporting standards are not used in simple bookkeeping. Entrepreneurs that buy and sell old iron must have a competitive edge in order to thrive in the highly competitive market. Old iron is a commodity with its own market, and the consistent need for it attracts many interested parties.

Larger than small enterprises, scrap metal buying and selling companies have a competitive edge since they may offer larger storage spaces. In addition, big scrap metal buying and selling companies reprocess raw materials into goods with a better selling price, which small companies are unable to accomplish due to a lack of funding and production equipment. Small businesses do, however, also have a competitive advantage in that they offer their clients excellent customer service. This is done to keep clients flocking back to their business to buy and sell scrap metal.

LITERATURE REVIEW

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Competitive advantage

A competitive advantage is the ability of a business to function in one or more ways that competitors cannot or will not duplicate (Kotler, 2012). According to Richard L. Daft, (2010) claims that a company's competitive edge is what sets it apart from competitors and provides it with special qualities to cater to the needs of the consumer market. Furthermore, Kotler & Armstrong (2018) stated that providing customers with a better value than rivals give one a competitive advantage over them. A competitive advantage is a distinct position that a business establishes against rivals. The only way to attain excellence is to have a distinct strategy that sets it apart from its rivals. A company's competitive strategy affects whether it succeeds or fails in gaining a competitive edge.

According to Grant (2019), competitive advantage is the state in which one business has an edge over another when there is competition (for instance, when they serve the same clients and operate in the same market). This occurs when one business generates a certain amount of profit or has the potential to generate a larger profit than the other. Grant (2019) explains that a company's capacity to outperform rivals on what is thought to be the primary performance goal is its competitive advantage. It should be noted that a corporation may seek to trade profits for market share, which might ultimately harm rivals, rather than using more profitability to define its competitive edge. A corporation could also overlook significant earnings because of the actions of a wealthy proprietor, management perks, or employee presents.

Analysis of Porter's Five Forces of Competition

According to Porter (1994), the attractiveness of the industry is what determines a company's profitability. Five factors can be considered competitive in any industry: new competitors entering the market, the possibility of substitute products, buyer and supplier negotiating power, and competition between already-existing competitors. The industrial competition is not confined to the current participants, as the five forces discussed above demonstrate, additionally it includes replaced items, providers, and customers. Potential new entrants are all "competitors" to the firms in the industry. Competition in this broader sense can be referred to as extended competition (*extended rivalry*).

Porter's Five Forces (1994) is an analytical model used to understand the structure of a competitive industry or market. This model consists of five main forces that interact with each other in a competitive market or industry, namely:

1. Threat of existing competitors

The competition and financial performance of a business can be impacted by the presence of competitors in a market or industry. The level of competition increases with the number of competitors, and the profitability of the company decreases accordingly.

2. Threat of substitutes

Because substitute goods and services lower demand for original goods and services, they pose a threat to a certain market or industry. The threat level to a certain market or industry increases with the availability of substitute goods and services.

3. Bargaining power of suppliers

Suppliers can affect a company's inventory of raw materials and manufacturing expenses. The degree of bargaining power of suppliers increases with the number of suppliers in each industry or with their concentration within it.

4. Bargaining power of buyers

Buyers can affect the cost and quality of goods and services that a business provides. Buyers have greater bargaining power in industries where there are fewer buyers or when buyers have a greater preference in a certain industry.

5. Threat of new entrants

The competition and financial performance of a business might be impacted by the possibility of the entrance of new competitors. A given market or industry poses a greater danger to established corporations, so that it would be easier for new competitors to enter.

Companies may create strategies that are appropriate for the market and maintain a strong market position by using Porter's Five Forces model to help them understand the competitive structure of an industry or market. This industry structure will thereafter demonstrate the elements that are essential for a business to succeed in each sector. Key success factors (KSFs) are the frequently discussed factors. According to Thompson and Strickland (1996) the most crucially strategic components, product features, resources, competitive capabilities, and business outcomes that can determine a company's profit or loss are examples of key success factors that have the most impact on industry players' ability to flourish in the market. Since these KSFs are so crucial, every business in the sector needs to be aware of them. Businesses can gain a long-term competitive edge by having a solid understanding of industry KSFs.

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RESEARCH METHODS

This study employs a qualitative case study design. Sugiono (2015) defines qualitative research as inductive data analysis, combining data gathering methodologies, and the researcher as the primary instrument. According to Kristi Poerwandari (2005) descriptive data, such as transcriptions of interviews and observations, are generated and processed by qualitative research.

Site of research

The site of this research is Kuin Cerucuk Scrap Iron Buying and Selling Business area in Banjarmasin.

Research Population and Sample

The population, which is the focus of the researcher's attention since it is viewed as a research universe, is made up of all elements that take the shape of things, events, or individuals with comparable features (Ferdinand, 2014). The dealers that buy and sell used iron in Kuin Cerucuk Banjarmasin are participants of this study. Business owners who purchased and sold used iron, managers of businesses, employees, and customers who did the same served as the samples of study since they were able to provide the information the researchers needed. It is intended that, in order to conduct quality research, scientists would be able to gather accurate and comprehensive data.

RESULTS AND DISCUSSION

An organization cannot exist without the impact of its external surroundings, encompassing both the broader environment and the specific industry in which it functions. The industrial environment's features influence the company's approach. The goal of environmental analysis is to evaluate each competing force's proportionate impact on the business.

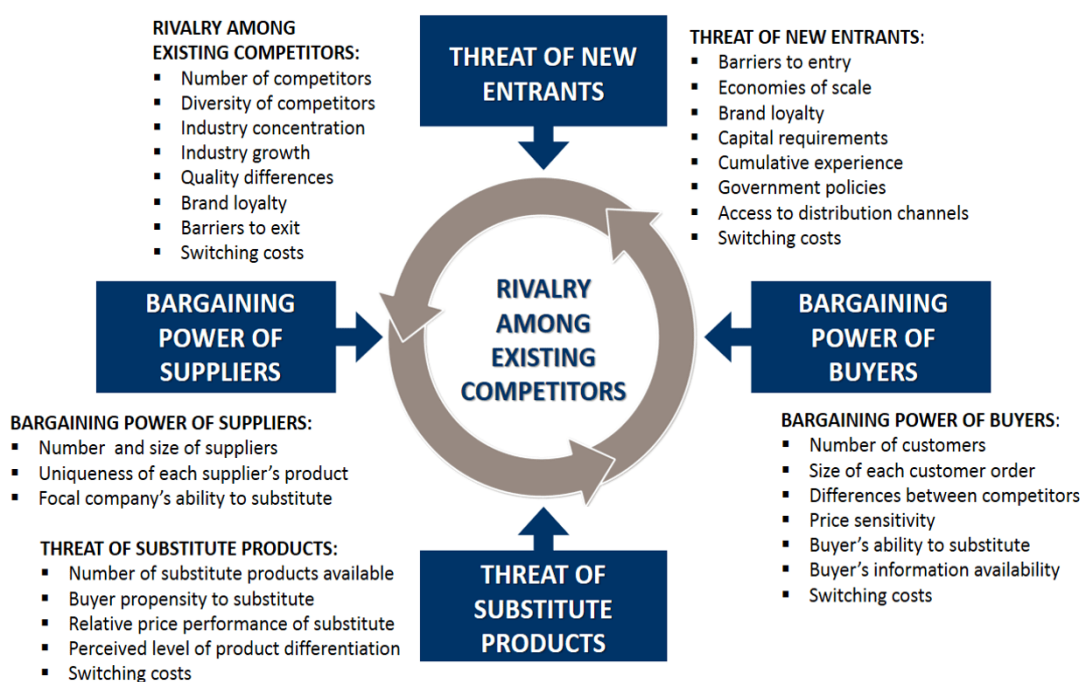


Figure 1. Model of Five Forces Porter

The used iron trading business environment in Kuin Cerucuk Village is characterized by five dynamics of competition, as identified by Porter (1998):

1. Threat of New Entrants

The threat of new entrants in the used buying and selling industry is weak. This can be seen from the factors below:

- a. Economies of scale are indirectly an obstacle for new entrants who will enter.

Due to the average company location's proximity to competitors in the same area in Kuin Cerucuk area, new entrants into the scrap iron industry will face competition in the same market. The economic scale of new competitors must be comparable, as a small economic scale will result in a loss of expenses for the company.

Apart from that, existing industry players will react, unless the new company brings in larger production capacities such as scrap metal storage and storage warehouses and targets a different market to that of existing companies.

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- b. Product differentiation; new businesses often aim to overtake established ones in an industry by gaining consumers or market share. Naturally, new businesses will want to set themselves apart from the competition in terms of product quality and pricing to draw customers to Kuin Cerucuk Village's scrap metal buying and selling sector. If there are significant economies of scale among the new competitors, this method will succeed.
- c. Capital requirements; obviously it takes a lot of money to get started in the large-scale buying and selling of scrap metal. In order to compete with established businesses, new entrants will need to raise a significant amount of capital, particularly for the purchase of warehouse space and scrap metal supplies. In addition, funds are needed for other crucial operations like developing distribution networks, marketing campaigns, and scrap metal procurement. If the newcomer gets his capital through a loan, this circumstance gets even tougher because he will have to pay hefty interest rates.
- d. Access to distribution channels; effective and dependable distribution channels are essential for new competitors to market their goods. In order to establish a relationship with an established distributor, a new business may have to pay the distributor more by raising the price at which scrap metal is purchased or by giving additional marketing funding, both of which may ultimately lower profitability. If the new business needs to create a whole new distribution channel, these entry barriers may increase even further.
- e. Government policy; business actors in Kuin Cerucuk area who buy and sell used iron are not given any assistance by the regional government, which is the regulating body, regarding management, financial report preparation, or sales-boosting tactics. Businesspeople find the buying and selling of scrap metal to be unappealing because it is not regarded as a prime industry.

2. Bargaining Power of Suppliers

The bargaining power of suppliers in the scrap metal buying and selling industry is strong. This can be seen from the factors below:

- a. The number of suppliers to the scrap metal buying and selling industry is rather moderate because these suppliers include scavengers who enter and exit villages or property industries, auto and truck repair shops, and contractors who sell scrap metal that is leftover from their operations and that is no longer needed.
- b. Availability of Substitutions; Products made from scrap iron substitutes are categorized as low because iron is typically purchased and sold in groups and names based on class. For example, class A scrap metal comprises scrap iron in this group that has a minimum thickness of 6 mm; class B has a minimum thickness of 3-5 mm; class C has a minimum thickness of 2-3 mm; and class D has a minimum thickness of 1-2 mm.
- c. Supplier Contribution in Quality; Suppliers have a significant role in the quality of scrap iron that is purchased and sold since they are aware of the type, class, and grouping of scrap iron that will be offered to businesses that buy and sell scrap iron.
- d. Switching Costs from Suppliers; As a result of the increased resale price of used iron, costs will accrue if business owners who buy and sell used iron decide to go to a different supplier.
- e. Integrity Threats from Suppliers; When a seller distributes scrap iron directly to companies that recycle scrap metal or to customers who require scrap iron, such a supplier may be problematic. This is a threat that is certain to materialize as demand for recycled scrap metal rises.

3. Bargaining power of buyers

Due to the continued importance of quality and price in the used buying and selling market, the buyer has a strong negotiating position. Naturally, consumers want high-quality products at competitive costs. Since switching from one seller to a scrap metal seller does not need significant out-of-pocket expenses, consumers are well-positioned as a result of lower buying prices. This is a result of the strong competitive nature of the used iron buying and selling activity region, which is the hub of the used iron buying and selling sector.

4. Threat of substitutive products

Concrete iron, fabricated waste iron, engine blocks, ship chains, truck axle iron, ship plates, angle iron, thin plates, automobile rims, coil cutting waste, factory zinc, used truck body plates, oil drums, zinc, and bicycle rims are among the goods produced by Kuin Cerucuk scrap metal buying and selling industry. Since there aren't many products that can replace scrap iron or substitute its function, the threat of replacement products for scrap iron is minimal due to their limited availability on the market.

5. The level of rivalry between existing competitors

Kuin Cerucuk scrap iron buying and selling activity area is the center of the used iron buying and selling industry, which results in increasingly tighter competition. This tight competition has an impact on the company's sales turnover. That is why there is a high level of rivalry among competitors in this industry. Six businesses have monthly sales turnovers of between 1 and 10

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million rupiah, three have monthly sales turnovers between 10 and 50 million rupiah, and two have monthly sales turnovers beyond 50 million rupiah. The intense competition is also brought about by the fact that the majority of the businesses are small-to medium-sized enterprises run by individuals. These businesses engage in similar activities, such as the buying and selling of scrap metal and cutting iron, which is done by nine companies, and the buying and selling of welding and reprocessing services, which is done by two companies.

Several key success factors play a role in the scrap metal buying and selling industry, namely:

1. Economies of scale.

For both current producers and upcoming players in the scrap metal purchasing and selling market, economies of scale are crucial. If new producers compete with established ones who enjoy economies of scale, they may suffer losses. Large-scale supplies of raw materials for various kinds and groups of scrap iron are required by established businesses in order to obtain supplies at reduced costs, allowing them to resell their goods at highly competitive pricing. These economies of scale shield established businesses from new competitors by serving as entry barriers.

2. Marketing systems and capabilities

The island of Kalimantan and a few abandoned iron management facilities in Surabaya are the only marketing locations currently using marketing methods and capabilities to pursue new market shares. Establishing new distribution channels in prospective new locations and growing current ones in accordance with the caliber of the products being supplied (access to national and worldwide markets).

3. Access to capital

The industry that buys and sells scrap metal requires a significant amount of fixed capital. Additional uses for this capital include funding business development and expansion, constructing a showroom, purchasing raw materials for scrap iron production from a dedicated warehouse, and financing company development and expansion.

4. Access to raw materials

The need to have control, authority, access to supply and price determination. Kuin Cerucuk's scrap iron business is heavily reliant on raw supplies. If the firm has a supply chain that reaches the raw materials, it will be more advantageous or profitable (backward linkage). Profits for the company may also be impacted by this raw material problem.

5. Technology

Gaining proficiency in computer technology is essential for handling financial databases and information systems, as it boosts output and fosters economies of scale. When a business intends to borrow money from banks, which necessitates corporate financial reporting, financial databases are crucial.

CONCLUSIONS

1. The likelihood of a firm entering an industry is determined by two primary factors: the level of entry barriers and the anticipated response from current industry participants. There is little risk of new competitors entering the used buying and selling market.
2. Suppliers have the power to affect the market by threatening to increase costs or lower the quality of their products. In the industry of buying and selling scrap metal, suppliers have significant bargaining power.
3. The strong bargaining position of the buyer stems from the fact that quality and price continue to play a major role in the used purchasing and selling market. Naturally, consumers seek out affordable, high-quality products. The reduced switching costs that purchasers have via lowering purchasing prices have given them a strong position.
4. Since scrap iron substitutes are hard to come by and other items that can serve the same purpose are scarce, the threat of replacement products for scrap iron is minimal due to their limited availability on the market.
5. Since Kuin Cerucuk is the hub of Banjarmasin's used iron buying and selling sector, there is intense competition amongst competitors in this market.

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