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Sustaining Local Industry: Linkages Between SME And Hotel Industries In Labuan Bajo Reynaldo Angga Siagian<sup>1</sup>, Yohanes Paulus Hanny Wadhi<sup>2</sup>, Katarina Noviming Sakura<sup>3</sup>, Togar Wiliater Soaloon Panjaitan<sup>4</sup> 1Manajemen Pemasaran Internasional, Politeknik eLBajo Commodus, Labuan Bajo, Indonesia, reynaldoangga@poltekelbajo.ac.id 2Manajemen Pemasaran Internasional, Politeknik eLBajo Commodus, Labuan Bajo, Indonesia, paulwadhi@poltekelbajo.ac.id 3Perhotelan, Politeknik eLBajo Commodus, Labuan bajo, Indonesia, katarina@poltekelbajo.ac.id 4Teknik Industri, Universitas Kristen Petra, Surabaya, Indonesia, togar@petra.ac.id Abstract Tourism has become an economic sector that contributes to the country. Labuan Bajo is currently one of the prima donna of new tourism in Indonesia where the main focus of consumers is foreign tourists. With the development of tourism like that, tourism seems to provide small benefit to the local community. Therefore, the current focus is how to build a relationship between tourism and local industry. This study analyzes the proportion of purchasing hotel products from MSMEs and also the economic opportunities available to MSMEs in the hotel industry in Labuan Bajo. The data is obtained from a survey conducted at 12 hotels to find out what opportunities have the most potential to be able to form cooperation between MSMEs and the hotel sector. From the analysis, it was found that the most potential cooperation is in the field of waste transportation, food supply, souvenirs as well as services related to maintenance and repair. This can have implications for the role of tourism to the growth of the local industry followed by an increase in the economy in the local community. Keywords: Tourism; MSMEs; Local industry; Supply chains INTRODUCTION Tourism can play a crucial role in being able to improve the local communities, the majority of which are low-income, especially in areas around tourism sectors. Tourism is the major economic center that absorbs labor, especially in the area of archipelagic countries (Ashley, 2006). The Indonesian government labelled Labuan Bajo in West Manggarai Regency, East Nusa Tenggara province as a super premium for tourism destination in 2019. Their natural reserve is considered one of the best in Indonesia for its originality and underwater activities. Meanwhile, Labuan Bajo stands as the access point to

**Komodo National Park, which** UNESCO announced **as a world heritage** site **in 1991**

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. But on the other side, East Nusa Tenggara Province's human development index in 2020 was measured at 65.19 percent, below almost all other provinces and the country's HDI. Besides this, there is a big gap in poverty between rural and urban areas, which is approximately 25.26 percent vs 8.76 percent (BPS, 2021). Many investors and entrepreneurs from outside the region are interested in Labuan Bajo because it is one of new Indonesia's top tourist destinations. The growth of hotels, restaurant places, and souvenir shops are a few examples of the new businesses that are now frequently recognized on Labuan Bajo's mainland. The development of lots of new industrial ventures also provides new jobs and opportunities for the locals of West Manggarai in specifically as well as the population of the neighboring

islands in general. There is no question that it has an impact on the level of the local economy. Although the tourism industry is sector is growing, the local economy in Labuan Bajo is still in very poor shape, which is also a consequence of the high cost of basic commodities there. One of the explanations is price competition with the rapidly growing tourism sector, which includes the hotel industry, that needs the same essential features as the local community. Since there is no proper distribution network between the village and tourist accommodations, it is challenging for many village products, especially agricultural products, to enter the tourism consumption chain, going to lead to a general view that the tourism industry has little impact on the local economy. especially in suburban areas like that in surrounding villages (Liu et.al, 2017). The supply chain is the subject of this research. The goal is to figure out how much of a percentage of hotel demands are purchased from local MSMEs and what hotel needs can be utilized by MSMEs to participate as suppliers of needs to these hotels. Hotels in the Labuan Bajo area with a minimum of 15 rooms participate as research location. There are several studies dealing with issues related to supply chains and agriculture, such as research on the condition of the supply chain of chocolate products in Indonesia, which is frequently problematic due to low productivity, quality that is far below standard, price and supply instability, environmental risks, and many other factors (Indah, 2021). Aspects such as production and distribution, complicated agricultural logistics, a lack of tools for distribution, a shortage of information about consumer demand, uneven food quality, and a lack of government support, especially in the form of subsidies for agricultural seeds and fertilizers, are also discovered (Liu et.al, 2017). The tourism industry can be a good opportunity for individuals to become supporters of the development of the tourism area. According to Ruegg's (2009) view, the tourism sector has the opportunity to stimulate regional agricultural growth through partnerships that provide an opportunity for

**local farmers to supply food** for tourists **needs such hotels and** lodging **in**

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the community. Businesses engaged in tourism can support the MSMEs and the national economy by using local products and accomplishing this without the necessity of mediators. The number of studies investigating the effects of tourism, especially hotels, on the local economy, specifically MSMEs, is limited. Furthermore, it is not commonly recognised how vital it is for MSMEs to participate in supporting the growth of hotels they are able to supply. Therefore, the goal of this study is to raise these issues so that there is may a mutually beneficial for supply chain between hotels and regional MSMEs that benefits both parties. LITERATURE REVIEW The tourism industry should continue to meet each customer's increasing expectations in order to keep its competitiveness regarding the sector's dynamic development. Tourism is an effective tool for economic growth since it provides local communities the opportunity to produce and sell goods and services to tourists as they visited tourist attractions (Honeck, 2008). There is a paradigm shift existing in the tourism industry global from a linear to a circular economy, which could have a "multiplier effect" on both customers and suppliers and boost the possibilities for creating new business models (Schroeder et.al, 2019). The challenge for all of the tourism business is to develop new products that are readily available in the quantities needed and on continuous basis to fulfill every tourism service operated. A significant determinant of a performance of the product in the tourist market and an element in business optimization is cooperation between partners and stakeholders in the tourism supply chain (Szpilko, 2017). Because it offers opportunities for local MSMEs to gain from the sale of goods and services such food, crafts, building materials, and other tourism services, the tourism sector has the ability to boost economic growth, especially among the lower classes (Boyd and Goodwin, 2000). According

Regerson (2012), farming communities can develop their skills without having to change their livelihoods in order to gain a larger income if tourism businesses become suppliers of food products. Using the agricultural communities products also makes use of other productive assets such labor and land. As a consequence, maintaining a collaborative business relationship between the hospitality industry and MSMEs is necessary for expansion of small and medium-sized businesses. But this is possible if there exist opportunities, good communication between the parties, and the required level of capacity and quality (Thomas, 2004). cooperation in especially for horticultural products, because it is predicted that about 30% of tourist spending is on food products related to agriculture (Torres, 2003). The existence of the tourism sector may stimulate the growth of the local agricultural ecosystem, which serves food for hotels and other tourist industry business (Abdalla & Bengesi, 2018). Buy Local MSMEs such as: food Tourism Accommodation products, beverages, furniture, services, etc. Sell Figure 1. Relationship between Tourism and MSMEs The gap between Indonesia's upper middle and lower income groups will be reduced by multidisciplinary improvement of the local economy, specifically the tourist industry. In in order to bring forward economic change in the community and reduce inequality, the role of the government and other institutions is needed. These institutions has to be capable of making use of existing resources and local skills (Amir et.al, 2015). METHOD This exploratory research uses a field survey as element from its research design. The research was conducted in the Kampung Ujung area because it is the center of Labuan Bajo's tourism activities. 10 hotels with a room supply of 12 or greater and hotels that received a large amount of visitor in the Kampung Ujung Labuan Bajo made up the overall sample for this research. Based on the findings of observations, a hotel has already been identified and it was given permission to conduct interviews. Given that they have the responsibility and capacity to make decisions at the hotel, hotel leaders who can be represented by deputy managers and HRD are chosen to provide information. After recognizing the respondents in each hotel, a semi-structured questionnaire was used to collect data, this was supported with in interviews to answer multiple questions that had been provided. RESULT AND DISCUSSION Percentage of Purchase of MSME Products by Hotels A survey of 10 hotels, the majority of which have been running for a long time—the oldest started since 1993, and the most recent in 2017, resulted in a number of findings. First, each of the sample hotels has more than 12 rooms and has been owned by Indonesian entrepreneurs. The Covid-19 virus caused a dramatic decline in hotel bookings where during the pandemic the majority of hotel visitors were domestic tourists, which was previously dominated by foreign tourists. Second, it was found that raw food products such vegetables, chicken, and fish were the most frequently traded products by hotels in Labuan Bajo based on the ratio of purchases of hotel products between local MSMEs and large or imported corporate networks. Table 1 below shows the percentage comparison between purchases from MSMEs and other locations. Table 1. Percentage of Product Purchases by Hotel products purchased by hotels Average percentage from Average percentage from large/imported local MSMEs purchased (%) company items purchased (%) Fruit 87 2 Vegetables 100 0 Red Meat 67 11 Eggs 78 22 Chicken 98 2 Bread/Cake 47 31 Milk 11 78 Fish 89 0 Flowers 33 11 Room Furniture 8 92 Kitchenware 24 76 Security Service 33 22 Hygiene products 6 94 Other items 17 28 Due to Labuan Bajo's coastline location, in which marine resources such fish and other types of seafood are easily available and relatively cheaper to sell, the area has a high demand in local agricultural products. Furthermore, the hotels require more farm products. Rice crops and plantation products including vegetables and fruits grow in the eastern part of Labuan Bajo, mainly in the Lembor area—the main rice barn in NTT—and Ruteng, which has a cool climate and fertile soil. There are differences in the food supply chain between local market SMEs and large, imported chain companies, and the conceptual model is illustrated in Figure 2 below. In addition to purchasing processed goods at minimarkets, the hotel also makes purchases from major or import companies and from suppliers which sell and distribute products to the hotel. Moreover, several

hotels use online shopping for products outside Labuan Bajo and also have direct relations with corporate parties to bargain lower prices. Local markets act as a place for purchasing and selling of local products for hotels and SMEs. Local products like raw food, such as vegetables and chicken meat, can be found there. Some hotels also have connections with local farmers. When the crop is ready for harvest, the farmers will usually get in contact with the hotel, and the hotel will look at the logistics requirements on food and supplies before making a purchase with the local farmers. Usually, these farmers have transportation available to bring their products to the city, which is located 2-4 hours from their place. Hotels require products that are difficult to find in Labuan Bajo. Dairy products such milk and cheese are the basic ingredients that are frequently used for serving since many hotel customers in Labuan Bajo are from outside the country. Where there are very few farms with a specialization in cattle in the Flores area. Although beef is traded in local markets, the majority of hotels buy packaged milk and cheese from big shop chain, and the majority of the meat is imported from outside the area considering quality and quantity. Only 6% of the hotel's chairs and 24% of its kitchenware were purchased from MSMEs. The majority of furniture products are bought from places outside the area, such as Jakarta and Surabaya, where the price is also significantly less expensive even after shipping costs are taken into account. There aren't many local businesses that sell furniture, and even if there are, the price is quite high and the quality is poor. Barriers and Opportunities for Cooperation for MSMEs MSMEs have not been handled well enough, especially in Labuan Bajo, especially in terms of production, distribution, product prices, or marketing, which are obstacles to being able to compete with big businesses. Some of the obstacles found include the following: MSMEs have a limited amount of inventory, which is not enough for hotel demand. Farmers only plant on a small scale especially in the agricultural sector, and they have lack knowledge and experience of production management. Meanwhile, Despite the fact that there is substantial amount of farmland in the West Manggarai region, local suppliers still struggle to collect all agricultural products and deliver them to the city. On the other hand, hotels which not only act as a place to stay, but also as a place to hold big events, sometimes require an amount that is adjusted to the number of guests and sometimes uncertain. This causes make the hotel to have to look for logistics from other places, including from outside Labuan Bajo to meet the daily needs of the hotel. The quality and price are not comparable. Generally, the items required from hotels should be have great quality and be suitable in term both in price and quality. However, up until now, local MSMEs in Labuan Bajo have often demanded quite high prices for their products which are not as high-quality as the hotel might want. This is a factor why hotels look from outside Labuan Bajo for product suppliers who really can provide the needed quality at competitive prices. The seller keeps the stock until until the product's price is high. Due to the large number of tourists visiting Labuan Bajo, MSMEs' production stock is often lacking to meet hotel expectations, creating a significant need for local products. Some products are stored or made into stock so that they become scarce and have high selling prices. Generally, people cannot buy it because of the high price or switch to other similar products. "seasonal" products. While the hotel wants to serve meal based on the requests of guests who want to taste local foodstuffs, some plantation products, such as local fruits and some types of vegetables, are often not available in the market because they are not in season. Along with difficulties, MSMEs still have a number of opportunities to partner with hotels in terms of improving hotel operations. The number of needs and the opportunities for cooperation are described in table below. Table 2. Opportunities for Partnership Between Hotels and Local MSMEs Opportunity Currently available Food Supply 4 Laundry 2 garbage service 9 Maintenance and repair 7 Craft Products 4 childcare service 0 Public transportation 3 Security Service 5 Cleaning Service 3 The table above reveals that partnership with local industry in waste collection is almost totally necessary for sample hotels that are currently operating. Some hotels usually dispose of their trash by gathering it all in one day and placing it in the dumpsters that is

located in front of the hotel. The city's garbage collector then goes around routinely every morning clearing up the garbage that has been left out front. The hotel thinks that this plan is less effective because of the many activities in the hotel, especially when there are big events. as a waste cleaning company that can be contracted. Furthermore, cooperation in the field of electricity is essential for hotels. Hotels need experts who can be called upon to undertake maintenance at any time, especially in the power system, since there are so many electronic systems and sensitive infrastructure in hotels. The demand for such proper number of security personnel in the Labuan Bajo is needed because as hotel operates continuously with alternating guard rotations offers another potential for cooperation. Finally, in need to improve the rooms and public areas of the hotel and to promote local culture, handicraft products are needed. The hotel also wants a variety of items that reflect unique local culture.

**CONCLUSIONS** Tourism is one of the economic sectors that is currently a new mainstay to bring economic opportunities in Indonesia, not only for state income but also the largest for local communities in which these tourist attractions are developing. The tourism industry cannot act individually. For that to develop and contribute to the community, the tourism industry requires the support of other areas of the economy. This study uses hotels in the Labuan Bajo area, one of Indonesia's most developed places, as research samples. The results revealed that the hotel obtained the majority of its food ingredients, such fruit, vegetables, eggs, chicken, and fish, from local suppliers. This shows that the agricultural and animal husbandry businesses have the most potential of providing hotels with their products. The demand for smes in the service sector, including waste removal, which offers the opportunities, as well as maintenance and security services, can be viewed in relation to the opportunities for cooperation between MSMEs and hotels. In addition, this was found that some hotels required more support with supply of food and handcrafted items. On the other hand, MSMEs also must make improvements in order to establish better relationships with hotels, especially in terms of volume of supply required by hotels, affordable price, and quality that satisfies hotel standards.

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