

CHAPTER 1 – Introduction

This chapter provides information regarding the research, such as the research background, research problem and question, research objectives, hypotheses, the justification for research, and research structure.

1.1 Research Background

Traditional medicine is defined as material or concoction in the form of plant or herbs material, animal material, mineral material, extracts material, or a mixture of materials mentioned that been used by our ancestors and can be used for treating a particular condition and approved by the social norm (BPOM,2019).

A business is defined as an organization or enterprising entity engages in commercial, industrial, or professional activities (Hayes,2020). In his publication Hayes also mention about the term “business” refers to organized efforts and activities of individuals to produce and sell goods and services for profit.

Indonesia is an archipelago that own 1,916,906.77 km² of geographic area, with up to 16 thousand different islands, and 34 provinces, with different ethnics group, culture, and tribes with the population of up to 270 million people in Indonesia (BPS,2020). In Indonesia, a business must stand with the norm or believe and the philosophy of the country. Indonesia has the ground belief of Pancasila and UUD 1945. Pancasila is the 5 points of belief that used as the base of UUD 1945. In the first points of Pancasila, the points are the norms based on the belief of GOD and religious belief. The second point stated about humanity. The third point of Pancasila is stating about unity. The fourth point of Pancasila mentions the civilized deliberation that needs to be the ground of every problem-solving. The fifth point of Pancasila stated about justice the fairness of social living in Indonesia. With the points mentioned in Pancasila, the business grounds must

follow the norm set by the country. Businesses must be following the spiritual ethics, not inhumane, not creating the separation between different groups of people, must be civilized to solve any issue, and lastly must be fair and justice unlike in some businesses believe that must put the profit above the healthy and fair competition, the Business in Indonesia need to be philosophically adjusted with Pancasila as the norm.

The traditional medicine industry is a growing industry in Indonesia. More than 2,848 species of plant can produce into 32,014 concoctions of traditional medicine (RISTOJA,2017). Traditional medicine itself in Indonesia is usually label as *Jamu*. *Jamu* itself has historically already been used by our ancestor's thousands of years ago to treat various illnesses.

Head of public relation of GP Jamu or "*Gabungan Pengusaha Jamu*" or Indonesia Herbal or Traditional Medicine Entrepreneur Association Basilianus (2020) stated that Herbal or Traditional Medicine industry forecasted to grow 6.7% each year, and the market value will surpass \$ 218.9 Billion USD by 2026. He also mention that from 45 thousands of different variety of medicinal plant; Indonesia own around 33 thousands of medicinal plant. From the fact that he stated; Basilianus (2020) has argued that these resources that Indonesia has is never being explored and utilized in the most optimize way.

National Agency of Drug and Food Control of the Republic of Indonesia or in Bahasa called (*Badan Pengawasan Obat dan Makanan*) or for short BPOM already set specific rules and qualifications for traditional products allowed to be produced and commercialized. The rules that BPOM sets is written following the CPOTB (*Cara Pembuatan Obat Tradisional Yang Baik & Benar*) or Standard of Producing Good Traditional Medicine; in terms of the herbal product to be distributed in the market, one must register the product to BPOM with the standard that the government sets.

Based on The BPOM regulation Traditional Medicine is set under Legislation of BPOM number 32 of the Year 2019. In the legislation, BPOM set around 25 points of things that can be approved as Traditional Medicine. In the legislation mention, there is also a particular specification of

traditional medicine and the standard that needs to be followed by the traditional medicine business owner.

Several regulatory bodies aside from BPOM in Indonesia affected the traditional medicine industry, which is the ministry of health, ministry of finance, ministry of industry, ministry of trade, and ministry of agriculture. Each of these regulatory bodies also sets various legislation that might affect the traditional medicine industry.

With various regulatory bodies that can affect the overall industry performance, several issues might affect the industry. The coordination between each regulatory body is still insufficient as some entrepreneurs face difficulties registering the traditional medicine product to be legally commercialized.

Socialization from the government about the benefit of consuming traditional medicine in Indonesia is significantly less due to the higher trust that some people have towards synthetic medicine. With significantly less socialization from Indonesia's government, Indonesian customers still have the stigma that Jamu is outdated treatment and consider the treatment that only can be taken by the older people. This stigma that customers had over Jamu considered the downside of this industry; However, many media put effort into educating the market about the benefit of consuming traditional medicine. Some companies are not putting effort into making their product perceived as modern medications. Many big pharmaceutical industries in Indonesia registered their product as Jamu; unknowingly, the customer not perceived their product as the Jamu itself due to the packaging of the product or the branding that the company put through social media or other advertisements. In contrast, small and medium enterprises still have a similar trend of producing similar traditional medicine products with minor to no product differences.

In the western world, traditional or alternative medicine product is the growing market. The market value of traditional or alternative medicine will surpass USD 192 Billion by 2023 and is predicted will overtake the synthetic drug market (Market Research Future, 2019). The difference

that the US market made is support by a particular movement made by their government, such as the vegan movement, go natural movement, and environmentally friendly movement. Traditional medicine in the western world is regulated by the authority as well. In the US, the traditional or alternative medicine product is regulated by the FDA under the CAM (Complementary and Alternative Medicine) with the authority of OAM (Office of Alternative Medicine) since 1992.

With good coordination between each regulatory body from the US, traditional medicine helps its industry growing faster in the US. The perception of the traditional medicine industry consumer in the US also different and positively impacted traditional medicine industry development in their region.

There are various attributes of selling Herbal or Traditional medicine product. Each attribute will affect the response of the existing or potential customer towards the Herbal or Traditional medicine product. When the customer buys the product, the first thing they will see is the product's external look, which is the product's packaging, and product labelling. Aside from that reason the other reason of customer to choose specific herbal or traditional product is the recommendation from their families and friend that already personal attachment or loyalty to certain herbal r medicine product; supported by the knowledge of the product about the efficacy and advantage of using the product, with the belief that the product that they use is consider as the best product. The customer preference of choosing type of herbal product form also affecting their purchase intention. Apart from that factor the exclusivity of the product also playing big role in this scenario.

With various growth factors of traditional medicine, there is evaluation and monitoring needed in the contribution of the optimization of herbal or traditional medicine business in Indonesia.

1.2 Research Problem

With this industry's growing market, the government is still facing several issues, such as the traditional product that's considered illegal and not following specific qualifications of traditional medicine.

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1.3 Research Objectives

This paper aims to answer the following questions:

1. What is the demographic profile of the respondents?
2. Is there a significant relationship between the Monthly Spending of existing or potential Traditional Medicine users in Indonesia and the following factors?
 - 2.1 Product knowledge
 - 2.2 Product Loyalty;
 - 2.3 Product Preference;
 - 2.4 Product Exclusivity;
 - 2.5 Product Packaging Safety
 - 2.6 Product Labeling

3. What is the level of Optimization of Herbal or Traditional Medicine Business in Indonesia?

1.4 Justification for Research

This research is conducted for the developmental purpose, as the traditional medicine market is a growing market, and predicted the future the value of the industry can be the leading market of the treatment, followed with the facts that Indonesia has various natural resources that can be utilized into traditional medicine, Indonesia has the advantage to be the leading market of traditional medicine product in the world.

The research that is conducted can be the preliminary research, that hopefully will motivate the other researchers to develop similar research about the traditional medicine business in Indonesia.

1.5 Structure of Research

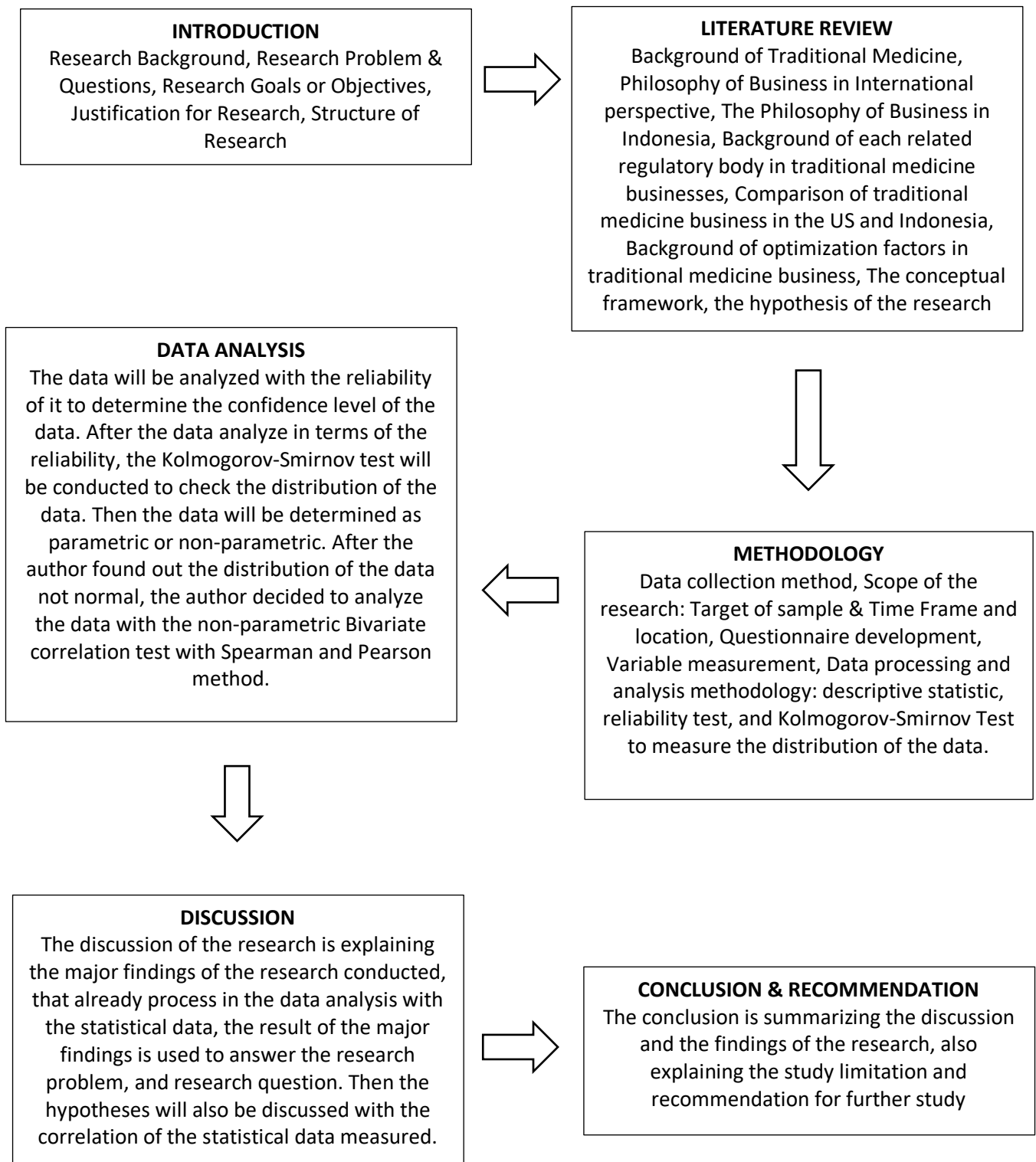


Figure 1. Research Workflow