

# CHAPTER I

## INTRODUCTION

### 1.1 Background

Indonesia is the 14th largest country and the largest archipelago in the world with an area of 1,910,931 km<sup>2</sup>, and the 6th largest island country in the world, with 17,504 islands. Bengkalis Island is one of the small outermost islands in Riau province and this island is separated from the island of Sumatra. Bengkalis island is the main island in Bengkalis regency, there are two sub-districts on this island, Bengkalis sub-district with an area of 514 km<sup>2</sup> and Bantan sub-district with an area of 424.40 km<sup>2</sup>. The island has 11 sub-districts, 19 urban villages and 136 villages.

In the era of self-government, more emphasis is placed on values that are conducive to achieving community welfare and creating regional independence in the economic, social, and political fields, so as to increase the village's original income and improve a better life. In the era of self-government, policies are also needed to provide access and opportunities for villages to utilize natural and human resources within the village boundaries and use them as a source of village income.

Article 87 of Law Number 6 Year 2014 on Villages (paragraph 1) villages can establish village-owned enterprises called BUMDes, (paragraph 2) BUMDes is managed with a spirit of kinship and mutual cooperation, and (paragraph 3) BUMDes can conduct business in the economic sector and public services in accordance with the provisions of laws and regulations.

BUMDes can conduct business in the economic sector and public services in accordance with statutory provisions. the community and village government, aims to strengthen the economy at the village level, and is formed in accordance with the needs and potential of the community at the village level. BUMDes is a form of village institution that conducts economic or business activities for the benefit of the welfare of the village community. The establishment of BUMDes in the village is not only for economic benefits or advantages, but also social benefits

and other non-economic benefits. The economic benefits that will be obtained from BUMDes businesses are financial gains or profits, an increase in PADes, new employment opportunities for village communities and other BUMDes economic business activities.

Villages are agents of the government and are at the forefront of development that is directly related to the community. In the process of encouraging village-level infrastructure development, the government empowers villages to manage land independently. One of them is through village economic institutions known as Village-Owned Enterprises (BUMDes). The village economic system is one of the projects run by the village as a means of increasing the village's main income PADes. BUMDes functions as a supporting tool for the village government, which means that it encourages the village government as a means of community welfare, encourages economic progress and lowers the standard of living in the village.

According to Sagita, et al (2017) Village-Owned Enterprises (BUMDes) are village business institutions managed by the community and village government in an effort to strengthen the village economy and are formed based on the needs and potential of the village and the management of business units under BUMDes is more appropriate management than management under cooperatives.

Every BUMDes decision must follow the approval mechanism of the village deliberation. Changes in BUMDes are based on the strength of the village itself, such as plantations, trade, savings and loans, and management. The existence of BUMDes can be a forum for village communities to improve the welfare and economy of the village.

As a village institution that runs BUMDes financial operations, the principles of efficiency, effectiveness and prudence must be considered in the management of the company. Therefore, before starting a business, it is necessary to consider whether the type of business to be run is feasible. Decision to choose as a village institution that runs BUMDes financial operations, the principles of efficiency, effectiveness and prudence must be considered in the management of the company. Therefore, before starting a business, it is necessary to consider

whether the type of business to be run is feasible. The decision to choose BUMDes as a commercial area is not an easy matter, the planned industry must be feasible. The usual way to assess the profitability of a company is to conduct a business profitability study. Because to start a business, it is not enough to rely only on a sense of security and instinct.

Pre-business research analysis is an activity carried out in depth to determine the extent to which a business idea can be useful by analyzing whether or not the business idea is feasible. In principle, a business feasibility study can be conducted for the establishment of a new business or as part of the development of an existing business. Business viability is not only required at the beginning of business establishment, but must also be done if BUMDes wants to develop its business further.

The purpose of business benefit analysis is to take the internal and external conditions of the village as a reference in planning village economic businesses, strengthening economic business ideas, planning human resources, calculating opportunities and risks, and determining profitable business forms. The aspects assessed to determine commercial viability are as follows: Market and marketing aspects, technical and technological aspects, administrative and personal aspects, financial aspects, economic, socio-cultural, political and ecological aspects and legal aspects (legal).

BUMDes Kuala Alam was formed through village deliberations on November 17, 2015 regarding the formation of BUMDes Kuala Alam and ratified by perdes no 3 of 2015. The research was conducted in Kuala Alam, Bengkalis Regency and this research examined several products in BUMDesKualaAlam such as Rice Crackers, Bilis Fish Crackers, Lomek Fish Crackers, Terasi Crackers, Wet Sago, Sago Noodles, Spicy Crackers, Bottle Practical Terasi, LomekSalai, Ilik-ilik, Belgian Chocolate, and Baskets.

Product feasibility testing is an important process in product development and marketing, including products produced by Village-Owned Enterprises (BUMDes). Product due diligence helps ensure that the product meets quality, safety and customer satisfaction standards before it is sold to the market. This

includes checking whether the product is free from defects, durable, and performs well according to customer needs and expectations. By thoroughly testing product feasibility, BUMDes can ensure that their products are worth selling and provide satisfaction to customers. In addition, product feasibility testing helps build customer trust in BUMDes' products. When customers know that the product has gone through a series of tests and meets quality standards, they will be more likely to purchase and use the product. Customer trust is an important factor in building long-term relationships and gaining support from the market.

## **1.2 Formulation of a Problem**

Based on the research, the problem can be identified, so that the research problem can be formulated as follows:

1. How is the business feasibility level of BUMDes product development if tested using the payback period?
2. How is the business feasibility level of BUMDes product development if tested using the Benefit Cost Ratio (B/C Ratio)?
3. How is the business feasibility level of BUMDes product development if tested using the Net present Value (NPV)?
4. How is the business feasibility level of BUMDes product development if tested using the Profitability Index (PI)?
5. How is the business feasibility level of BUMDes product development if tested using the Internal Rate of Return (IRR)?

## **1.3 Purpose of the Research**

Based on the background above, it can be concluded that the purpose of this research is:

1. Determine the feasibility of developing BUMDes product business in Kuala Alam using the payback period.
2. Determine the feasibility of developing BUMDes product business in Kuala Alam using the Benefit Cost Ratio (B/C Ratio)

3. Determine the feasibility of developing BUMDes product business in Kuala Alam using the Net Present Value (NPV).
4. Determine the feasibility of developing BUMDes product business in Kuala Alam using the Profitability Index (PI).
5. Determine the feasibility of developing BUMDes product business in Kuala Alam using the Internal Rate of Return (IRR).

#### **1.4 Significance of the Study**

The benefits obtained from this study based on the objectives of this study are as follows:

1. Academic Benefits

This research is expected to be used as a reference for efforts to develop educational science and is useful for being a reference for students who study the feasibility analysis of BUMDes Kuala Alam Products in Bengkalis sub-district.

2. Practical Benefits

This research is expected to provide an understanding for the author regarding the analysis of the feasibility of BUMDes Kuala Alam products in Bengkalis District, this study is expected to be a reference for other studies related to this matter.

#### **1.5 Scope of the Problem**

In order for this research to be more focused, it is necessary to limit the problem. This research is only focused on the feasibility of all products that have been created by BUMDes Kuala Alam.

#### **1.6 Writing System**

The research systematics that the author does for the feasibility study of several products that have been produced by BUMDes Kuala Alam, namely: sells Ikan lomek salai, Sick pineapple, fish sticks, Krupuk lomek frozen, Nipah vinegar, Stik lomek, Nipah sugar, Krupuk ready to eat, Lomek kering, Herbal tea,

Pineapple juice, Fish powder, Nipah coffee, Nipah sap, Nans moris, Pineapple juice, Pineapple jam, Pineapple dodol, Rice crackers, Durian crackers, Practical trasi, Krupuk bilis, Manisancermai, Recyclable bags and Fiber bags.

**CHAPTER I: INTRODUCTION**

In this chapter, the researcher describes the background, problem formulation, research benefits, scope and limitations of the problem, as well as writing systematics.

**CHAPTER II: LITERATURE REVIEW**

This chapter describes previous research as well as a literature review and framework.

**CHAPTER III: METHODOLOGY OF RESEARCH**

In this chapter the researcher will explain various things, including: location and object of research, types and sources of data, population and data samples, sampling techniques, data collection techniques, data processing techniques, measurement scales, validity and reliability tests, data analysis. methods, research hypotheses, research models, types of research, definitions of concepts and operational variables, research schedules and budgets.

**CHAPTER IV: RESULTS AND DISCUSSION**

In this chapter the author will explain the results and discussion after the author conducted research based on the data obtained.

**CHAPTER V: CONCLUSIONS AND SUGGESTIONS**

In this chapter the author will describe the conclusions obtained from the discussion and suggestions that will be submitted by the author.