

## **Business Strategy Formulation to Increase Profit of Agung Artomoro Company**

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### **Abstract**

Agung Artomoro is a service company operating since February 2012. The company was established because of the high number of migrants in Indonesia associated with the high demand for labor in the plantation industry. The company focuses on offering full package service in providing labor for plantation, providing goods for plantation labor, and providing transportation service. Since it was founded, the company continues to get a positive earning year to year, but the increase in revenue followed by an increase in the cost, and it causes profit stagnation. This research investigates what causes of the stagnation in company profit. The research question design method was used in this paper, which involves using a qualitative research interview in collecting data from 11 respondents, including internal and external parties. The external analysis results show that the pulp and paper industry is still growing, which supported by government regulation. The internal analysis results show that the company has resources and capabilities that have not been fully maximized. The conclusion of the internal and external analysis resulted in details of SWOT analysis tools and formulated into the Fishbone analysis to discover the root cause of the company's problem. This research aims to create a new business model by proposing a few strategies to increase business performance evaluation for internal development. The researcher selected two strategies obtained from Porter's Generic Strategy, which used a vertical integration strategy, both integrating backward and integrating forward. The results of the proposed strategies are mapped into Business Model Canvas and highlight how cost leadership strategy can maximize the use of resources and capabilities to make business performance more effective and efficient and create sustainability in competitive advantages.

**Keywords:** *Plantation Industry, Profit Stagnation, Porter's Generic Strategy, Business Model Canvas*



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### **INTRODUCTION**

The main scope of this research is the plantation industry in Indonesia, especially the pulp and paper industry. Agung Artomoro is a service company operating since February 2012. The company was established because of the high number of migrants in Indonesia associated with the high demand for labor in the plantation industry. The company focuses on offering full package service in providing labor for plantation, providing goods for plantation labor, and providing transportation service. Since it was founded, the company continues to get a positive earning year to year, but the increase in revenue followed by an increase in the cost, and it causes profit stagnation. This research investigates what causes of the stagnation in company profit. The research question design method was used in this paper, which involves using a qualitative research interview in collecting data from 11 respondents, including internal and external parties. The external analysis is used to elaborate on the threats and opportunities that currently occur in the industry by using PESTEL and Porter's Five Forces analytical tools. The external analysis results show that the pulp and paper industry is still growing, which supported by government regulation. The internal analysis composed of strength and weakness analysis by using Value Chain

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Analysis and VRIO framework. The internal analysis results show that the company has resources and capabilities that have not been fully maximized. The conclusion of the internal and external analysis resulted in details of SWOT analysis tools and formulated into the Fishbone analysis to discover the root cause of the company's problem. This study reveals that the major challenges in existing strategy implementation are the high workload caused by a lack of manpower, the price elasticity and change in demand from the client, and limited use of technology. This research aims to create a new business model by proposing a few strategies to increase business performance evaluation for internal development. The researcher selected two strategies obtained from Porter's Generic Strategy, which used a vertical integration strategy, both integrating backward and integrating forward. The results of the proposed strategies are mapped into the Business Model Canvas. Subsequently, recommendations were made to the company are expanding the warehouse to accommodate more goods, increasing the number of manpower to overcome the high workload, and developing a management information system to integrate all data. The results highlight how cost leadership strategy can build up a new business model, maximizing the use of resources and capabilities to make business performance more effective and efficient, and create sustainability in competitive advantages.

#### **LITERATURE REVIEW**

The main scope of this research is the plantation industry in Indonesia, especially the pulp and paper industry. Agung Artomoro is a service company operating since February 2012. The company was established because of the high number of migrants in Indonesia associated with the high demand for labor in the plantation industry. The company focuses on offering full package service in providing labor for plantation, providing goods for plantation labor, and providing transportation service. Since it was founded, the company continues to get a positive earning year to year, but the increase in revenue followed by an increase in the cost, and it causes profit stagnation. This research investigates what causes of the stagnation in company profit. The research question design method was used in this paper, which involves using a qualitative research interview in collecting data from 11 respondents, including internal and external parties. The external analysis is used to elaborate on the threats and opportunities that currently occur in the industry by using PESTEL and Porter's Five Forces analytical tools. The external analysis results show that the pulp and paper industry is still growing, which supported by government regulation. The internal analysis composed of strength and weakness analysis by using Value Chain Analysis and VRIO framework. The internal analysis results show that the company has resources and capabilities that have not been fully maximized. The conclusion of the internal and external analysis resulted in details of SWOT analysis tools and formulated into the Fishbone analysis to discover the root cause of the company's problem. This study reveals that the major challenges in existing strategy implementation are the high workload caused by a lack of manpower, the price elasticity and change in demand from the client, and limited use of technology. This research aims to create a new business model by proposing a few strategies to increase business performance evaluation for internal development. The researcher selected two strategies obtained from Porter's Generic Strategy, which used a vertical integration strategy, both integrating backward and integrating forward. The results of the proposed strategies are mapped into the Business Model Canvas. Subsequently, recommendations were made to the company are expanding the warehouse to accommodate more goods, increasing the number of manpower to overcome the high workload, and developing a management information system to integrate all data. The results highlight how cost leadership strategy can build up a new

business model, maximizing the use of resources and capabilities to make business performance more effective and efficient, and create sustainability in competitive advantages.

#### **METHODOLOGY**

This research use nonprobability sampling, which means the subjects of research do not know and predetermine being sample design. The sampling methodology used in this research is purposive sampling. The qualitative research purpose is providing an in-depth understanding of an event; therefore, qualitative research focuses on sampling techniques to reach the target group. Purposive sampling is confined to specific types of people who can provide the desired information (Sekaran, 2016). Cresswell (2009) mentioned that qualitative researchers tend to use open-ended questions so that the participants can share their views. The researcher conducts face to face interviews with participants, interviews participants by telephone, or engages in focus group interviews, with six to eight interviewees in each group. The interviews involve unstructured and generally open-ended questions that are few and intended to elicit views and opinions from the participants. In this research, the researcher will interview with seven internal company members. The respondents are employees from different divisions, at least who have been working at the company for 3-5 years, such as plantation division, logistics division, transportation division, and manager of the company. The first thing to do is started by looking for a business issue and doing a preliminary survey to get the "big picture" of Agung Artomoro Company. The preliminary survey collected by interviewing the top-level manager of the company "Mr. Aries Suseno" because of his capabilities in describing the real condition of the business. To reach data balanced, the researcher interviews with some of the external factors in this industry such as manager of estate Riau Fiber, manager of plantation Riau Fiber, The head of human resource development, and the manager of Talabu company which is a competitor who already in this plantation industry. Grady (1998:26) suggested that the new data tend to be redundant of data already collected. In interviews, when the researcher begins to hear the same comments again and again, data saturation is being reached. It is time to stop collecting information and to start analyzing what has been collected.

#### **FINDINGS AND DISCUSSION**

The SWOT analysis tool is used to identify the company's strengths and weaknesses, and the company opportunities and threats of the company. The strength and weaknesses of internal analysis obtained from the summary analysis of Value Chain Analysis and VRIO framework, which involves company resources, capabilities, core competencies, and competitive advantages, and using a functional approach to review infrastructure, procurement, production, distribution, marketing, reputational factors, and innovation. The opportunities and threats of external analysis are to identify market opportunities and threats by looking at the macroeconomic environment, industry, and competitors that affected the company business. The opportunities and threat of external analysis obtained from Porter's Five Forces and PESTEL Analysis. Porter's Five Forces uses to analyze the competitor and industry condition, which consists of other resources, functions of each rival firm, new entrants, suppliers, buyers, and product substitution. The external environment is analyzed in terms of political, economic, sociocultural, technological, ecological, demographic, ethical, and regulatory implications. The purpose of applies SWOT analysis is to use the company's strength and its environments and to formulate strategic decisions. As shown in the table below;

**Table 1. SWOT Analysis**

No.	Aspect	Summarize
1.	<b>Strengths</b>	<ul style="list-style-type: none"> <li>• The company has a legal business entity</li> <li>• The company offers full package services</li> <li>• The company has good relation among supplier and client</li> <li>• The company has a good reputation compared to competitors</li> <li>• The company vehicles and equipment are well maintained</li> <li>• The company has trained and experienced labor in the plantation industry</li> <li>• The company has unused capital</li> <li>• The barrier to entry for new entrants in this industry is high</li> </ul>
2.	<b>Weaknesses</b>	<ul style="list-style-type: none"> <li>• The company has a high workload</li> <li>• The company has delayed work for several times</li> <li>• The company cannot handle the quality of materials</li> <li>• Several back-office processes in the company are done by one person</li> <li>• The company still use manual payroll and attendance system</li> <li>• The company still use manual data recording and reporting</li> <li>• The company still use financial auditing</li> </ul>
3.	<b>Opportunities</b>	<ul style="list-style-type: none"> <li>• The Government Regulation No.7 of 1990 on Industrial timber plantations (Hutan Tanaman Industri, HTI).</li> <li>• The government is eager to expand the production capacity of the national pulp and paper industry to increase the export volume.</li> <li>• The government approval 12 new pulp mills, one of that is RAPP, to support the production capacity.</li> <li>• The government introduced a special transmigration program (HTI-trans) to mobilize plantation labor.</li> <li>• The high number of migrants in Pelalawan regency associated with employment absorption in the plantation sector.</li> <li>• The gross regional domestic product of forestry industry growth at 4 percent.</li> </ul>
4.	<b>Threats</b>	<ul style="list-style-type: none"> <li>• The company forges a strategic partnership with a few select suppliers, so the power of suppliers to bargain is high.</li> <li>• The threat of substitute products and services It is high because the product or services can have not differentiated, so be easily copied.</li> <li>• Unpredictable raw material quality</li> <li>• Unpredictable external factor (weather and demographic land)</li> </ul>

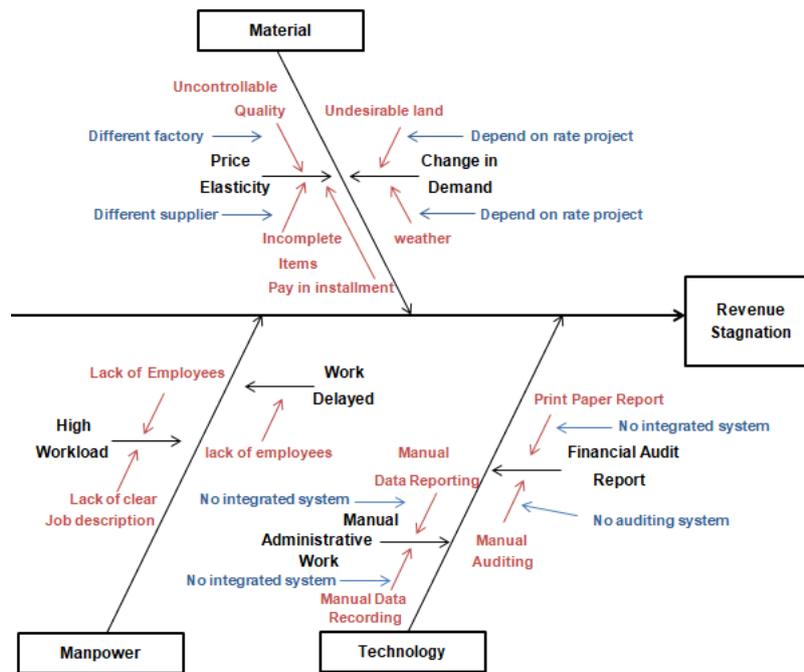


Fig. 1 Root Cause Analysis

From the fishbone diagram above can be concluded that to increase company revenue and become outstanding rather than the competitors, the company should improve its resources and capabilities. To increase the company's resources and capabilities, the company has to identify the root causes first. There are three aspects of the company that become root causes of the company problem, among others are; (1) The company's existing strategy is forging a partnership with select few suppliers to reduce inventory and logistics costs (through just in time deliveries). Also, the payment system in the installment is deemed beneficial using this strategic partnership. But, further attention, the price that the supplier offer is very elastic. The change in demand occurs this lately for 2 years because the quality of the material is not the same. (2)The company existing staff work in the office is relatively small, only consists of 10 employees to handle the whole data recapitulation in the company. This causes a high workload and delayed work because of most of the tasks done by one person. (3) The company data ordering, reporting, and recording are still manual. When the process order arrived, the logistic division checks the order list and record the data in excel. After the company delivering the ordered item, the company issues a bill of payment and record the data into excel again. This also applies to plantation and transportation division, the data from one division to another division should be mutually integrated.

## CONCLUSION

The elaborated issues in the first chapter affect the Agung Artomoro current and future business performance to compete in competitive advantages. Based on the captured issues, and consequently, business solutions are generated. The internal factor of the company was analyzed using Value Chain Analysis and VRIO framework. The company's existing strategy is forging a partnership with a few select suppliers to reduce inventory and logistics costs (through just in time deliveries). Also, the payment system in the installment is deemed beneficial using this strategic partnership. But, further attention, the

price that the supplier offers is very elastic and it makes the change in demand. Besides, the price elasticity occurs in the product; the change in demand occurs because the quality of the material is not the same. The company existing staff work in the office is relatively small. There are only 10 employees to handle the whole data recapitulation in the company. This causes a high workload and delayed work because most of the tasks done by one person. The company data ordering, reporting, and recording are still manual. When the process order arrived, the logistic division checks the order list and record the data in excel. After the company delivering the ordered item, the company issues a bill of payment and record the data into excel again. This also applies to plantation and transportation division, the data from one division to other division should be mutually integrated.

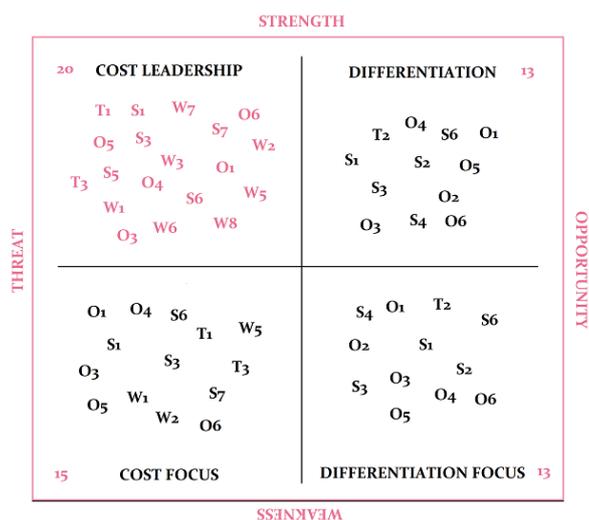


Fig. 2 Porter's Generic Strategy

The several strategies that were chosen are expanding the warehouse (in building size and amount of inventory) because received from the first-hand supplier. This strategy can help a company providing material and logistics at a given price, besides it also helps the company minimalizing the unpredictable quality of material that caused a change in demand for labor. Increasing frequent and detail of track the inventory turnover (amount, price, and quality). All this time, the company tracks the inventory manually by making a note in the paper. And the last is building an inventory management system to simplify the monitoring processes. This system is intended to be able to minimize losses that occur in the operation process. The strategy solution that can be implemented to maximize the revenue is integrating forward strategy to enhance competitiveness by increasing efficiency and bargaining power to improve market visibility so that the company must be able to achieve a more scale economy compared to the competitor to maximizing the service demand with always maintain the service quality to meet clients rate expectation. Therefore, several strategies that were chosen are adding some employees in the office to reduce the high workload, so that the company can maximize the business performance. Increasing the number of labor to maximize the plantation area, increasing the intense supervision of labor, and building a management information system for recording and integrating all of the data, so it helps the company to manage the value chain process

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