STRATEGIC FORMULATION FOR FREE TRADE AGREEMENT CASE ON INDONESIAN CAR MANUFACTURE

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ABSTRACT

The aim of this study is to investigate business strategy employed by a leading car parts manufacturer in Indonesia, which intend to increase export among ASEAN economic community policy. The study focused on subjectivity of business management strategic formulation using SWOT, IE SWOT 4K and QSPM analysis in table, diagram and graphic. There are five respondents from each department as the top management who responsible for making strategy and giving decision for the department. There are five respondents from each following department: export import, production, business planning, marketing and finance. Results from EFE matrix analysis (total score 2.94) is 2.35 (opportunity) and 0.59 (threat), meaning that PT Denso Indonesia responds the opportunity and threat well because the company's opportunity could solve the outside threat. Results from IFE matrix analysis (3.15) is 2.69 (strength) and 0.46 (weaknessess), meaning that PT Denso Indonesia has strength more than weaknessess. Results from SWOT 4K analysis is 3.48 (opportunity), 3.28 (threat), 3.87 (strength) and 3.50 (weaknessess). It means that the company's performance could be determined by combination of internal and external factors because those two factors should be determined in SWOT analysis. QSPM Matrix shows the score of each strategies . For the first strategy is 8.31 and the second is 7.21 which means the most important of PT Denso business strategy is for making the product differentiation or knowing as diversification such as an innovation product among others OEM as the competitors or do differentiation from its previous product for competitive advantage by innovating the previous design, quality, price and others.

Keywords: strategic formulation; SWOT; free trade agreement; car manufacture

INTRODUCTION

According to data from Statistics Indonesia (BPS) 2016, Indonesia exported a total of USD $3.72 billion worth of cars and components in the first eight months of 2016, up 1.5 percent on a year-on-year (y/y) basis, these could become a chance to industry to pushing up the target and planning for export level. Indonesian government would like to transform Indonesia into a global car production center including the spare parts and invite the international large car manufacturers to set up their factories in Indonesia. There are a strong desire of the country to replace Thailand as the biggest car production center in Southeast Asia and ASEAN (Association of Southeast Asian Nations) region. In the long run, government's goal is to transform Indonesia into an independent car manufacturer country, meaning all cars produced in Indonesia using the components manufactured in Indonesia. The objective requires effective logistics system for domestic supply chain integration. It is absolutely essential for supporting the successful global manufacturing and marketing. Domestic logistics focuses on performing value- added services to support supply chain integration in a somewhat controllable environment. Global logistics must accommodate operations in a variety of different national, political and economic settings while also dealing with increased uncertainties associated with the distance, demand, diversity and documentation of international commerce. Currently, Thailand control approximately 43.5 percent of sales in the region within the context of ASEAN, while Indonesia was in second place with 34 percent market share. Thailand became a major market for an auto part from Indonesia due to the automotive industry in this country is already quite advanced. Selling automotive spare part in domestic fluctuates but the investment keep growth, government effort to make Indonesia as the automotive basic industry for export orientation. The effort to enhance export volume of vehicle that do by government is through balancing new investment with tightening local production competition through utilizing local component, that incoming investment used for local material so that we have competitive advantage, addition that later PT Krakatau Baja Steel Sumikin (KBSS) builds steel fabric for part automotive industrial. Given the business situation, this study aims at investigating business strategy employed by one of the leading car parts manufacturer, PT Denso Indonesia in order to increase export among ASEAN economic community policy.

LITERATURE REVIEW

The ambition of ASEAN to make Asean Economic Community was triggered by external and internal development of many countries inside ASEAN region. From external point of view, Asia is predicted to be new economic power with the support from India, China and other ASEAN countries (Rifai et al., 2016). After the financial crisis that hit Asia from 1997-1998, it gives extra motivation to make solid agenda about regional integration in order to build stronger defense to overcome macro finance instability. ASEAN also has a vast growth of middle young business owner who can be source of new financial growth in that region. Through AEC there will be integration of “free trade area”, abolition of trade fees between countries who are member of ASEAN, work labor market and free capital market that will affect economic growth and development for every country. Unavoidable, implementation of ASEAN Economic Community will give positive and negative impact to these industries. One of the positive impacts that we can expect is larger international market that allowing many business performers earn higher profit, whereas one negative impact that certainly emerge is higher competition in small and medium Industry, sectors that grows inside the international market of ASEAN. International trade in automotive and auto parts has grown rapidly during the last two decades but Southeast Asia’s largest economy, Indonesia is lagging behind in its export performance. Indonesia is being left behind for a number of reasons, such as restrictive foreign investment policies, higher trade costs and remaining high protection in the automotive sector in terms of tariff and non-tariff measure and a low education level that hampers the absorption capacity in technology. (Soejachmoen, 2016)

RESEARCH METHODS

The study took place at the second plant of the parts automobile manufacturer in

Cikarang, Bekasi focused on subjectivity of business management strategic formulation using SWOT, IE SWOT 4K and QSPM analysis in table, diagram and graphic. There are 5 respondents from that each department as the top management whose taking strategy and decision for the department. The respondents are representatives from Export Import Department, Production Planning Department, Business Planning Department, Marketing Department and Finance Department.

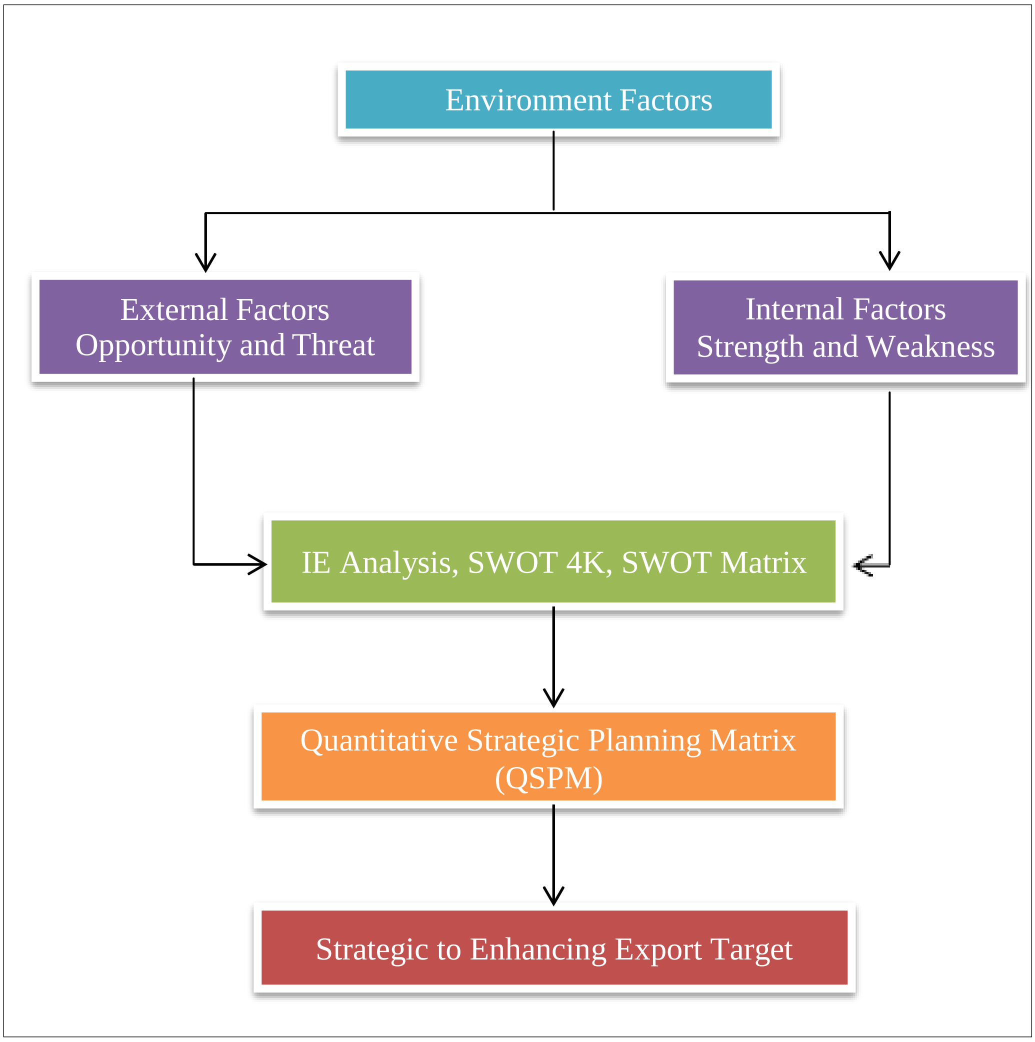


Figure 1 Flow Process of Strategic Formulation Steps

RESULTS AND DISCUSSION

SWOT analysis and all those related to this tool needs the basic information output that comes from environment factors, it could be from internal and external of the company that will need the steps to getting the result of strategic planning. Figure 1 shows the step of putting every factor and processes it on several tools. To identify the problems and make strategic formulation improved, the technique of data analysis is using matrix IFE, EFE, IE, SWOT 4K, SWOT and QSPM analysis. The IE Matrix is used to get the alternative strategic and for the present and then develop projected matrices to reflect expectations of the future. EFA-IFA matrix, SWOT 4k matrix, and QSPM matrix approaches are employed to have a thorough analysis on business strategy used by Denso Indonesia.

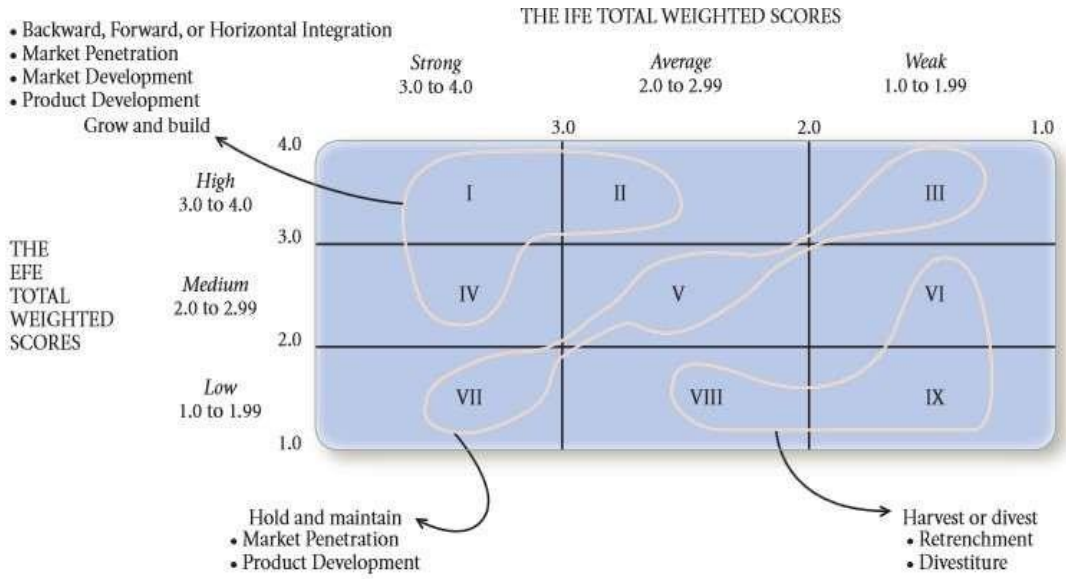


Figure 2 IE Matrix

A. External Factor Analysis

1. Opportunities

There are various conditions grouped into opportunities in regard to the company's position. The first is the growth of global potential market which nowadays becomes stronger by the increasing amount of vehicle selling for several years. In January until August 2016 period, Indonesian exports of CKD (completely knocked down) units grew around 51 percent while exports of car components rose by 12,5 percent parts over the same period. Indonesia's biggest export markets for cars and components are the Middle East and other Asian countries. Business and activity for logistics and supply is also one of the businesses that grow significantly and it will impact the flow process of production. The industry nowadays is also presented with new opportunities, such as the growing importance of intra-regional markets, the expansion of E-Commerce and in providing specialized services to a range of industry sectors. Asia Pacific Logistics Industry stood at US$ 2.8 trillion in 2012, where Indonesia are among the fastest growing logistics market in the region, estimated to reach up to US$ 4 trillion by 2016 at CGR of 8 until 9 percent. The Indonesia transport and logistics sector is facing a period of raising a demand in line with increased consumer and industry activity across the archipelago as a whole, as well as expanding external trade volumes. In addition, advanced technology and integrated system for customs declaration such as PIB (Pemberitahuan Impor Barang), PEB (Pemberitahuan Ekspor Barang) and CoO (Certificate of Origin) play an important role in helping the business efficient both in the company resources whereas preferential tariff—meaning the special facility for cost reduction of export that could be pressed down—cheaper even free for several types of material that include on criteria for having free tariff as facilitation for importer. ASEAN Free Trade Area signed on 28th January 1992, more than 99 percent of goods categories in this trade block are currently already free tariff. Government support is considered to be a major factor in determining the company strategic decision. Indonesia government in 2013 explained that they supported automotive industrial company for running the business in Indonesia especially become exporter for selling the product outside the country so that Indonesia not always become a supplier, maker and user. The product mostly should be selling for other countries. Indonesia targets to become the largest car and component manufacturer and exporter in the ASEAN region on the long term, surpassing Thailand (the Indonesian government selected the automotive industry as one of the nation's priority industries). In that context the Indonesian government prepared a tax allowance and tax holiday in order to attract (foreign) investment, specifically investment in the manufacturing of car components and spare parts. It will require the development of a domestic car component manufacturing industry in order to become the largest regional force in the automotive industry.

2. Threats

The followings are threats identified against PT Denso Indonesia which has become one of the most complete automotive spare part company that produce the component start from stick oil as the inside of vehicle part until air conditioner, but several products of Denso has competitor that stand almost in the same level of quality in market. The high logistics cost poses significant challenge to the industry. Even this factor has not become the main focus for company, but actually logistics cost for its rate still become higher day to day and company has to have best consideration and decision about choosing the best one.

Another aspect considered to be threat is labor strike from the neighboring industrial complex PT Denso Indonesia that contributes to business delay, this happened around 3 until 4 times a year. The last threat which has been increasing is traffic congestion from and to the airport caused by infrastructure work along Jakarta-Cibitung toll road. This creates a large amount of inefficiency of transport cost.

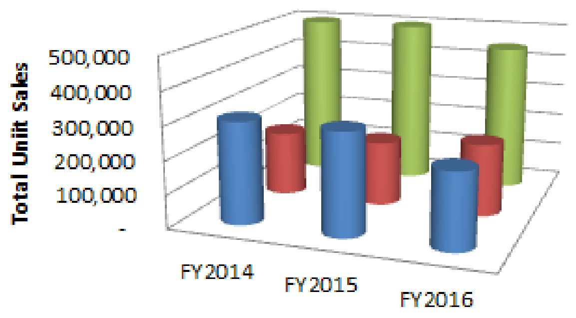
B. Internal Factors Analysis

1. Strength

Denso Corporation is spread globally around the world from Asia, Europe, United States and others. There are 220 Denso corporate companies in 38 countries. In ASEAN, this could be the strength for PT Denso Indonesia to tightening the corporation among subsidiaries and do helping each other to strengthening the cooperation especially to support the product selling that only produce in Indonesia. In global partnership in domestic and international addition of PT Denso Indonesia trust by its partner as a customer domestic and international. Already have cooperation among global customers for long time such as Honda, Toyota, Daihatsu and many more. The next strength the company retains in the sophisticated technology and its machinery become the most strength too for this company in competitive advantage. PT Denso Indonesia always try to continue developing unique production equipment, computer networks, software and others information system that link order through to delivery and even Denso own robust high precision robots. To increase the automation, at the same time they are aiming to create ideal plants in which people and machines work together to deliver high quality products, on time and without fail to customer around the world. Beside sophisticated software and machines, human resources with good potential skills could become the factor for strength. There are several competitions to identify how strong the employee skill for maintenance and technician, by following those several competition and getting award, then PT Denso Indonesia has proved that their employee are strong enough for having the skill that company need. PT Denso Indonesia has become the automotive component company that produces the most products in many types of vehicles and its different function. The quality of Denso parts is guaranteed because every component that leaves a Denso factory has been designed with precision, manufactured to the strictest OE (original equipment) standards or above and subjected to rigorous safety and performance tests. In the end, it all comes down to quality, that's what the Denso name stands for. Supported by several government departments, it is the strength to ensure government that the business could help the country realize the target for increasing the export volume for automotive and its spare part product.

2. Weaknesses

There are some weaknesses identified internally in the company. The first identified weaknesses is lack of international focus most multinational company set their target to focus on how the product could easily buy by customer, yet each department and staff still mainly focuses on local customers. The next weaknesses is having no own vehicles needed for manufacture company at least truck to ensure if there is something important and urgent. The other thing the lack of intensive communication among staff, third party and customer which may lead to, for example, misunderstanding of the shipment schedule. Therefore, the ability for communicating in foreign language especially English is very important.



	FY2014	FY2015	FY2016
DOM	306,119	306,119	227,900
EXP	192,985	192,985	216,117
TOTAL	499,104	499,104	444,017

Figure 3 Domestic against Export

C. SWOT 4K Analysis

The result from external and internal analysis are evaluated and sum up in the IE matrix (Fig. 2). Mapping position of PT Denso Indonesia seen from overall approach of analysis tool. The result of analysis based on weighted scoring, rating and total score for each external and internal factor as same as map position provided on the table and picture with analysis tool as Analysis base on Internal-External Matrix. IE Matrix could be divided in three parts that having different strategy implementation such as the strategy of build and growth, strategy of keeping and staying on the strategy to harvest or devastation.

Table 1 EFE Matrix Analysis

No.	Key External Factors	Weight	Rating	Weight Score
	Opportunity			
1	The growth of global potential market	0.12	4	0.48
2	Logistics and supply chain business growth significantly	0.06	3	0.18
3	High technology and integrated system (EDI) for PIB, PEB and COO process	0.09	4	0.36
4	Preferential tariff facilitation for export import (COO, IJEPA)	0.12	4	0.48
5	Supported by government policy to automotive industry for export development	0.10	4	0.4
6	Increase level of customer demand for automotive	0.15	3	0.45
	Sub Total of Opportunity	**0.64**		**2.35**
	Threat			
1	Same strong of brand and quality among competitor	0.11	2	0.22
2	Logistics cost still in high level	0.07	2	0.14
3	Labor strike around industrial area	0.05	2	0.1
4	Land and port infrastructure does not support (traffic along factory to port)	0.13	1	0.13
	Sub Total of Threat	**0.36**		**0.59**
	TOTAL	**1.00**		**2.94**

Source: Arranged by writer, 2016

From the Table 1 it can be concluded that total score of evaluation factor of PT Denso Indonesia is 2.94 comes from accumulation between opportunity 2.35 and threat 0.59. It can be indicated that PT Denso Indonesia responds the opportunity and threat well because the company opportunity could solve the threat outside.

Table 2 IFE Matrix Analysis

No.	Key Internal Factors	Weight	Rating	Weighted Score
	Strengths			
1	International global network of corporate company	0.12	4	0.48
2	Global partnership in domestic and	0.15	4	0.6
3	High technology of software and machinery	0.07	3	0.21
4	Strong skills of technician and maintenance personel	0.08	4	0.32
5	The most complete automotive component production with the best quality	0.10	4	0.4
6	Good relationship with government,	0.07	4	0.28
7	Company that issued tariff preferential document (COO in FTA)	0.10	4	0.4
	Sub Total of Strength	**0.69**		**2.69**
	Weaknesses			
1	Each department mostly focus on local customers	0.10	2	0.2
2	Having no own vehicle	0.05	2	0.1
3	Less communication among third party and customer	0.08	1	0.08
4	Less ability of communication in foreign language	0.08	1	0.08
	Sub Total of Weakness	**0.31**		**0.46**
	TOTAL	**1.00**		**3.15**

The total score of evaluation factor of PT Denso Indonesia is 3.15 which comes from accumulation between strength 2.69 and weakness 0.46. It can be said that PT Denso Indonesia has the strength more than the weakness that's why company could handle the weakness by its strength. Based on the score total of each factors, it has already known that the strategic position of PT Denso Indonesia on Internal-External matrix based on SWOT analysis such as in Fig. 3.

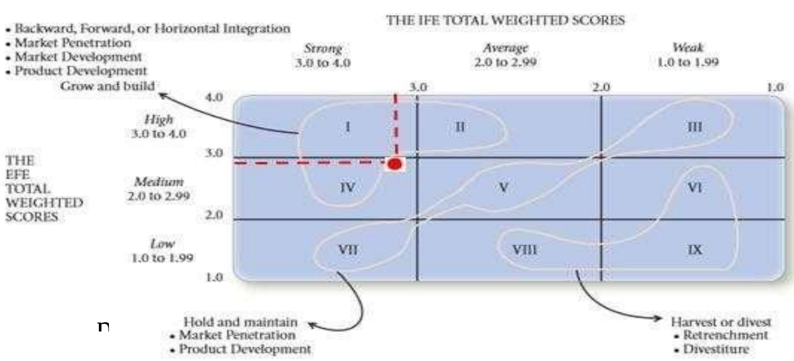


Figure 4 IE Matrix Analysis

PT Denso Indonesia is there in position 4, meaning as growth and build strategy. For doing business, PT Denso Indonesia could use intensive strategy, could be market penetration, market development and or product development and also could use integration strategy such as backward, forward and horizontal.

No.	Key External Factors	Weight	Rating	Weight Score
	Opportunity			
1	The growth of global potential market	0.20	3	0.6
2	Logistics and supply chain business growth significantly	0.10	3	0.3
3	High technology and integrated system (EDI) for PIB, PEB and COO process	0.15	4	0.6
4	Preferential tariff facilitation for export import (COO, IJEPA)	0.18	4	0.72
5	Supported by government policy to automotive industry for export development	0.15	4	0.6
6	Increase level of customer demand for automotive	0.22	3	0.66
	Sub Total of Opportunity	**1.00**		**3.48**
	Threat			
1	Same strong of brand and quality among competitor	0.26	3	0.78
2	Logistics cost still in high level	0.24	3	0.72
3	Labor strike around industrial area	0.22	3	0.66
4	Land and port infrastructure does not support (traffic along factory to port)	0.28	4	1.12
	Sub Total of Threat	**1.00**		**3.28**

Source: Arranged by writer, 2016

After the IFE matrix is completed, it is continued with SWOT 4 K analysis (external and internal) presented in Table 3 and 4.

Table 3 External Calculation Analysis SWOT 4K

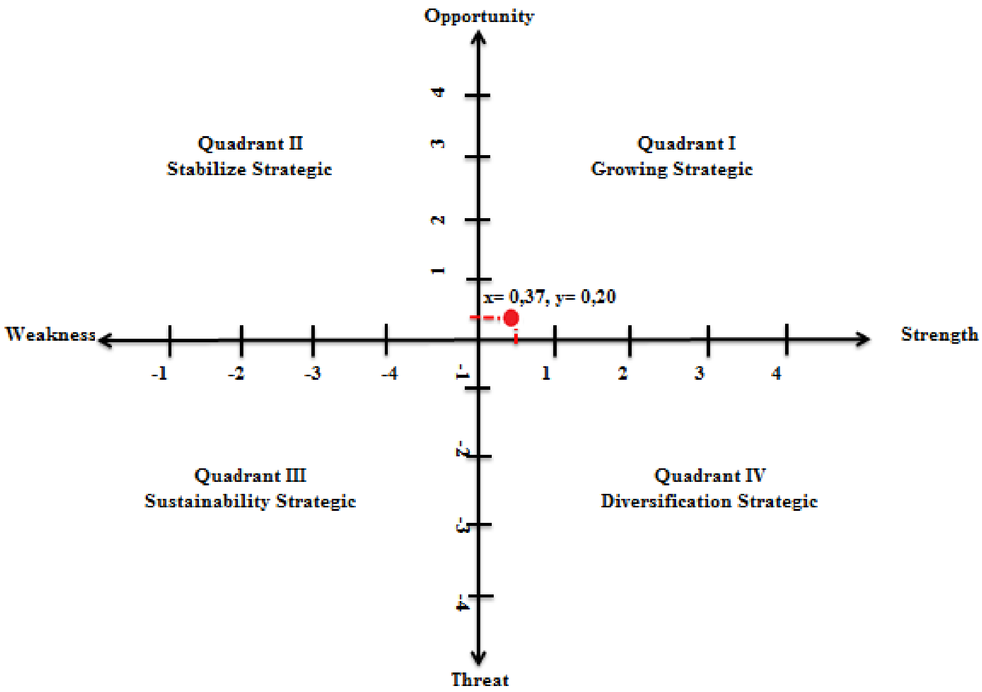
The total score analysis from opportunity is 3.48 while total score of threat variable is 3.28.

Table 4 Internal Calculation Analysis SWOT 4K

No.	Key Internal Factors	Weight	Rating	Weighted Score
	Strengths			
1	International global network of corporate company	0.18	4	0.72
2	Global partnership in domestic and	0.20	4	0.80
3	High technology of software and machinery	0.13	3	0.39
4	Strong skills of technician and maintenance personel	0.12	4	0.48
5	The most complete automotive component production with the best quality	0.14	4	0.56
6	Good relationship with government, association and logistics partner	0.10	4	0.40
7	Company that issued tariff preferential document (COO in FTA)	0.13	4	0.52
	Sub Total of Strength	**1.00**		**3.87**
	Weaknesses			
1	Each department mostly focus on local customers	0.28	3	0.84
2	Having no own vehicle	0.22	3	0.66
3	Less communication among third party and customer	0.24	4	0.96
4	Less ability of communication in foreign language	0.26	4	1.04
	Sub Total of Weakness	**1.00**		**3.50**

It shows that the table of total score analysis from strength is 3.87 while total score of weakness variable is 3.50 that come from multiplying between weights and rating average. It means that the company performance could be determined by combination factor of internal and external because those two factors should be determine on SWOT analysis. This analysis applied on the diagram that divided into four quadrants. The purpose is to knowing the company position and its growth by totaling the strength and opportunity factor that have positive score (+) while weakness and threat that have negative score (-). After analyzed the internal and external factor, strategy analysis continue with looking for the gap of PT Denso Indonesia from the total score of each internal and external factor which shows in Fig. 5.

Figure 5 SWOT 4K Diagram Analysis



Source: Arranged by writer, 2016

The final decision strategy is made in QSPM, there are two option strategies come from SO in SWOT matrix, such as product diversification and create new product.

D. Strategic Formulation on QSPM Matrix

There are two scores, such as attractiveness and total attractiveness. Give the score from 1 until 4, where 1 not attracting, 2 is less attracting, 3 attracting enough and 4 is very attracting. The QSPM Matrix shows in Table 5.

Table 5 QSPM Matrix

No.	Formulation Strategy		Product Differentiation		Create New Product	
	Key Factors	Weight	A	TA	A	TA
	Opportunity					
1	The growth of global potential market	0.12	4	0.48	3	0.36
2	Logistics and supply chain business growth significantly	0.06	3	0.18	3	0.18
3	High technology and integrated system (EDI) for PIB, PEB and COO process	0.09	4	0.36	2	0.18
4	Preferential tariff facilitation for export import (COO, IJEPA)	0.12	4	0.48	3	0.36
5	Supported by government policy to automotive industry for export development	0.10	3	0.30	3	0.3
6	Increase level of customer demand for automotive	0.15	4	0.60	3	0.45
	Threat					
1	Same strong of brand and quality among competitor	0.11	4	0.44	2	0.22
2	Logistics cost still in high level	0.07	2	0.14	1	0.07
3	Labor strike around industrial	0.05	1	0.05	2	0.1
4	Land and port infrastructure does not support (traffic along factory to port)	0.13	1	0.13	1	0.13
	Total	1.00				
	Strength					
1	International global network of corporate company	0.18	4	0.72	2	0.36
2	Global partnership in domestic and international	0.20	4	0.80	3	0.6
3	High technology of software and machinery	0.13	3	0.39	3	0.39
4	Strong skills of technician and maintenance personel	0.12	4	0.48	3	0.36
5	The most complete automotive component production with the best quality	0.14	3	0.42	3	0.42
6	Good relationship with government, association and	0.10	3	0.30	3	0.3
7	Company that issued tariff preferential document (COO in FTA)	0.13	4	0.52	3	0.39
	Weakness					
1	Each department mostly focus on local customers	0.28	2	0.56	3	0.84
2	Having no own vehicle	0.22	1	0.22	2	0.44
3	Less communication among third party and customer	0.24	2	0.48	1	0.24
4	Less ability of communication in foreign language	0.26	1	0.26	2	0.52
	Total	1.00		8.31		7.21

Source: Arranged by writer, 2016

QSPM Matrix shows that the score of each strategy for the first strategy is 8.31 and the second is 7.21 so that the most important for PT Denso business strategy is for making the product differentiation or knowing as diversification such as make an innovation product among others OEM as the competitors or do differentiation from its previous product for competitive advantage by innovating the previous design, quality, price and others. Thus the marketing mix of PT Denso Indonesia based on Porter Generic Strategy for cost leadership (1 and 2) is that PT Denso Indonesia has strategy to focus on efficiency of every flow or production and operational so that the cost of the product is competitive especially for the loyal customer then for the new customer also they offered the proper price in line with the design, innovation and the quality of the product.

PT Denso Indonesia should do more product differentiation, the strategy of rebuild the product by decreasing the unimportant material and increasing the function also quality. In addition, the strategy implemented based on product differentiation and marketing mix is through networking for PT Denso Indonesia to sell their product more in abroad but actually PT Denso Indonesia have to get more new customer and get the old customer back that has already finished their agreement or move to the competitors by showing the competitive advantage of Denso product. In addition, PT Denso Indonesia have to give the proper price depend on the market, demand and economic condition. Alliances with third party logistics for distribution channel such as trucking, container and mail express delivery is also important.

Focus should also be emphasized on human resources. Every new employee must be trained first to enhance the professionalism before go through the real job so that the quality of the employee is reliable. Product warranty plays an important role to ensure customer satisfaction. The company must also develop their staff business skills to increase sales by export with more sealed negotiation among international customers while focusing on international market expansion and retain and maintain good communication with loyal customers. For strategy focus, PT Denso Indonesia should emphasize on OEM and aftermarket level of marketing.

The company has close cooperation with majority car and motorcycle manufacture thus the target of PT Denso Indonesia is to increase market not covered with the company's products. So far, the company has loyal customers and trusted by others for some agreement for several products. It shows that PT Denso Indonesia market segment is in upper class for OEM and upper-middle class for aftermarket.

CONCLUSION

This study conclusion is: 1) Total score from EFE matrix analysis is 2.94 which opportunity is 2.35 and threat 0.59. It means that PT Denso Indonesia responds the opportunity and threat well because the company opportunity could solve the threat outside; 2) Total score from IFE matrix analysis is 3.15 which strength is 2.69 and weaknessess is 0.46. It means that PT Denso Indonesia has strength more than weaknessess; 3) Results from SWOT 4K analysis is 3.48 (opportunity), 3.28 (threat), 3.87 (strength) and 3.50 (weaknessess). It means that the company performance could be determined by combination factor of internal and external because those two factors should be determine on SWOT analysis; and 4) QSPM Matrix shows that the score of each strategy for the first strategy is 8.31 and the second is 7.21 so that the most important for PT Denso business strategy is for making the product differentiation (diversification) such as make an innovation product among others OEM as the competitors or do differentiation from its previous product for competitive advantage by innovating the previous design, quality, price and others.

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