

Strategic Management Implementation Fred R. David Concept at PT Indofood Sukses Makmur, Tbk

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Abstract: *Food and beverage industry is the most promising businesses in the Indonesian business. With the largest population in the world and increased economic growth, making Indonesia as a potential market thus trigger the growth of new players in the competitive landscape in the food and beverage industry. This study was conducted to examine comprehensively application of strategic management concepts Fred R. David at PT. Indofood. By using three stages of strategic management from Fred. R David concluded that PT. Indofood is a company companies that are well positioned to continue to grow conduct business development. The QSPM matrix calculation results shows the 5.94 score for Horizontal Integration as the best alternative strategies that can be implemented by PT. Indofood with expansion and diversification.*

Keywords: QSPM, economic growth, strategic management

1. Introduction

Food and beverage industry is a very promising business opportunities in the current global era. With the increase in economic growth will ultimately improve society aggregate consumption level, in this sector of the food and beverage industry the most benefit. In a report published in mid-2012, McKinsey estimates that Indonesia would become the 7th largest economy in the world in 2030, up from his current position at No. 16, partly driven by domestic consumption continues to increase as rising income per capita, and rapid urbanization.

Economic prospect in the food and beverage sector in Indonesia is very promising for the increasing competition, both from existing players and new players. Not only that, increase in per capita income will increase society welfare and changing consumption patterns and consumer spending. Consumer will be inclined to choose a premium quality product at an affordable price. The players in the food and beverage industry tried to seize the opportunity by compiling a number of strategy establish business excellence to meet the challenges of an increasingly competitive market. No exception to the old player as well as PT. Indofood.

PT. Indofood Sukses Makmur was established in 1968 under the name of PT. Panganjaya Intikusuma and changed its name to PT Indofood in 1994. In recent decades, PT. Indofood has transformed into a Total Food Solutions company with operations covering all stages of the food production process, from production and processing of raw material to the final product available in the market. The company conducted an IPO in 1994 by issuing 763 million shares at par value of Rp. 1000 per share. In the 25 years of his business, many companies make acquisitions as a way to make the company's business development as the number one company in the food and beverage industry in Indonesia. Now, PT. Indofood known as an established and leading company in each business category. In carrying out its operation, Indofood gain benefit from business model

consisting of four Strategic Business Group which are complementary, namely Consumer Branded Product (CBP), Bogasari, Agribusiness Distribution.

As one of the largest food companies in Indonesia, Indofood are in a good position to be able to seize the opportunities and meet the challenges of the market. With a market capitalization more than 50 trillion at the end of 2012 makes the PT. Indofood Sukses Makmur the main player in the food and beverage industry with a market share of 75%. In accordance with company's vision "Total Food Solutions", PT. Indofood continue to develop and implement business strategies to be able to create long-term business success and as an effort to develop company's competitive position amid competition. Business strategy creation for the company done by score mapping for internal and external factors, score results will be mapped in a matrix that describes the position and alternative strategies that can be implemented in the company. Hajikani and Jafari (2013), strategy as it relates specifically to strategic planning as a management tool. It began by explaining the concept of strategy, and then strategic theories were presented.

This study was conducted to examine how strategic management implementation at PT. Indofood Sukses Makmur, Tbk in 2012 by using framework of strategic management analysis models Fred R. David (three stage), how business strategies are chosen and implemented by company in accordance based on each matrix analysis has been done and to to determine whether business strategy recommended from matrix analysis result relevant to business implementation conducted by PT. Indofood during 2012.

2. Literature

Search on Strategic Management literature suggests the occurrence of significant changes to what considered "strategic" in 1980s, 1990s and the first half of 2000s decade. Strategic management is a field of science that

rapidly growing directly proportional to the ever-changing environment. Changes to something that considered strategic indirectly has changed strategic management essence. Strategic can be interpreted as something which will determine the company survival in the midst of its environment (Kristamuljana, 2011:70). Strategic management by Fred R. David (2009) is art and knowledge in formulating, implementing and evaluating decision that enable cross functional organization achieve its goals. Wheelen and Hunger (2003), strategic management as a science on a set of managerial decision and action that determine company's performance in the long term.

Strategic management process start with internal and external factors analyzing that affect in business company. Company's internal environment analysis known as a resource based approach by capabilities analyzing, namely company ability to exploit its resources so as to know the company strength and weakness factors. Capabilities are the company's business functions, such as marketing capability, operations capability, financial capability, and human resource management capabilities. External environment analysis by observing external condition and identify strategic factors external companies into opportunities and threats for the company. The external environment consists of macro environment (Political, Economic, Social and culture, Technology, and Natural) and microenvironment (Customers, Competitors, Collaborators, Creditors). Abdi et al (2013), analysis of opportunities and external threats, primarily used to evaluate examine the opportunities and minimize the threats and also this analysis of weak point is important to study the inner performance of companies (such as procedure and research and development effectiveness).

Throughout the 1980s and 1990s decade, tool and learning phenomena emerged as the analytical framework of management in order to maintain company viability in the midst of environmental change. Tool and learning phenomena as an analytical framework emerged in the midst of awareness about external environmental factors influence and stronger internal environment and affect company survival. Some tool and learning strategic management including the popular "three mainstream" (three stage) suggested by Fred R. David. Analytical framework with strategy formulation matrices as an analytical model has been adapted to all organization sizes and types, so it can be used to assist management companies in identifying and selecting strategies most appropriate and in accordance with company condition. The three stages are:

Input Stage, conducted an analysis to company internal and external factors. The matrix used as an analysis tool, namely:

- a) Industry and Company Strategic Environmental Analysis. Analysis using matrix EFE (External Factor Evaluation) as a tool to audit the company's external environment
- b) Company Internal Analysis. Analysis using matrix IFE (Internal Factor Evaluation) as a tool to audit the company's internal environment

Matching Stage, focuses on creation of alternative strategy through internal and external factors incorporation. The matrixes used as an analytical tool at this stage are:

- a) SWOT Matrix, which is an analysis tool to get some analysis of alternative strategies by using company strength and weakness to take opportunity advantage and avoid the threat
- b) Boston Consulting Group (BCG) Matrix, which is an analysis tool used to helps companies that have multiple divisions to determine company position on sales growth rate that can be formulated an alternative strategy that can be held by company
- c) Strategic Position and Action Evaluation (SPACE) Matrix, which is an analysis tool that uses using the company's financial strength (FS), the company's competitive advantage (CA), environmental stability (ES) and industry strength (IS) to determine which alternative strategies can be chosen company
- d) Internal External (IE) Matrix, an analysis tool that used to help companies that have multidivision with power measurement based on EFE and IFE total value were obtained from each division
- e) Grand Strategy Matrix, which is an analysis tool to formulating corporate strategy based on market growth with the current company competitive position
- f) Decision Stage, stages using the input stage to objectively evaluate alternative strategies matching stage result that can be company implemented. The technique in this stage namely Quantitative Strategic Planning Matrix (QSPM), which is an analysis tool that compares several alternative strategies are obtained in matching stage so as to obtain priority list of the various alternatives.

As for some alternative strategies that can be applied to a company as a decision result in the strategy formulation by Fred R. David (2009) can be grouped into four groups of generic strategies, namely:

1. Integration strategy, this strategy requires that companies conduct more oversight of distributor, supplier and competitor through merger, acquisition, or create their own company. This strategy shaped forward integration, backward integration and horizontal integration (vertical integration strategy).
2. Intensive strategy, require intensive efforts to improve the company's competitive position through existing product. This strategy can be done in the form of market penetration, market development and product development.
3. Diversification strategy, intended to add new product. This strategy in the form of related diversification, unrelated diversification, and horizontal diversification.
4. Defensive strategy, done to save the company that in spite of a greater loss or in other words to avoid the company bankruptcy. This strategy in the form of downsizing, divestiture, and liquidation.

3. Method

The object in this research is PT. Indofood Sukses Makmur, Tbk. The method in this research is descriptive method to comprehensively examine the strategic management implementation at PT Indofood Sukses Makmur, Tbk in 2012. Data collected through literature study with further examine the books, journals, and articles on strategic management. This study uses secondary data analysis

obtained from PT. Indofood Sukses Makmur, Tbk annual report in 2012 and information relevant to research on the company website. Variable used in the research analysis tool of Fred. R. David concept namely external variables (opportunity and threat) and internal variables (strength and weakness). Analytical tool in this study using analytical framework of strategic management by Fred R. David model (three stage) which are IFE & EFE matrix, SWOT matrix, BCG matrix, SPACE matrix, IE matrix, Grand Strategy matrix, and QSPM analysis.

4. Result and Data Analysis

4.1 Input Stage

In the first stage identifies external variables (opportunity and threat indicator) and internal variables (strength and weakness indicator) owned by company as part of the critical success factors. The next steps determine the weight and rating of critical success factor. After that is done the multiplication between weight and rank values to obtain a total score. Score of external variables and internal variables can be calculated from the sum of all company scores.

External Factor Evaluation (EFE) Matrix

| No | Critical Success Factors | Weight | Rating | Total Score |
|----------------------|---|--------|--------|-------------|
| Opportunities | | | | |
| 1 | Sound investment climate | 4 | 0,07 | 0,28 |
| 2 | Deregulation of government restrictions on wheat flour import | 4 | 0,10 | 0,40 |
| 3 | Increase income per capita | 4 | 0,07 | 0,28 |
| 4 | Increase society aggregate consumption | 3 | 0,07 | 0,21 |
| 5 | High public response to the product | 4 | 0,10 | 0,40 |
| 6 | Instant paced lifestyle | 3 | 0,07 | 0,21 |
| 7 | Overseas expansion | 3 | 0,07 | 0,21 |
| Threats | | | | |
| 1 | Fluctuation risk commodity price of raw materials | 3 | 0,09 | 0,27 |
| 2 | Reputational risk issues related to food safety | 2 | 0,05 | 0,10 |
| 3 | Increase in Minimum Wage | 3 | 0,06 | 0,18 |
| 4 | Competitors quantity | 3 | 0,07 | 0,21 |
| 5 | Sabotage experts | 3 | 0,08 | 0,24 |
| 6 | Negative effect of hazardous substances HSE using | 2 | 0,05 | 0,10 |
| 7 | Strategic issues of environmental pollution | 2 | 0,05 | 0,10 |
| Total | | | 1,00 | 3,19 |

Based on the EFE Matrix obtained a total score = 3.19 which indicates that PT. Indofood has had a good strategy to anticipate external threats external to maximize the opportunities that exist.

Internal Factor Evaluation (IFE) Matrix

| No | Critical Success Factors | Weight | Rating | Total Score |
|-------------------|--|--------|--------|-------------|
| Strength | | | | |
| 1 | Good financial performance | 3 | 0,07 | 0,21 |
| 2 | Company value increasing | 4 | 0,07 | 0,28 |
| 3 | Wide market share | 4 | 0,08 | 0,32 |
| 4 | Good brand equity | 4 | 0,10 | 0,40 |
| 5 | Extensive distribution network and quickly | 4 | 0,07 | 0,28 |
| 6 | Integrated supply chain and superior | 4 | 0,09 | 0,36 |
| 7 | Research and Development | 3 | 0,07 | 0,21 |
| Weaknesses | | | | |
| 1 | Require large capital | 0,08 | 0,24 | 0,08 |
| 2 | High operational cost | 0,07 | 0,21 | 0,07 |
| 3 | High leverage ratio | 0,06 | 0,18 | 0,06 |
| 4 | Lack of internal control | 0,05 | 0,10 | 0,05 |
| 5 | Too many brands | 0,05 | 0,10 | 0,05 |
| 6 | Products are easily imitated (mass product) | 0,09 | 0,27 | 0,09 |
| 7 | Certain products contain ingredients that are harmful to HSE | 0,05 | 0,10 | 0,05 |
| Total | | | 1,00 | 3,26 |

Based on the IFE Matrix obtained a total score = 3.26 which indicates that PT. Indofood has had a good strategy in anticipation of internal weaknesses by maximizing existing internal strength.

4.2 Matching Stage

Based on internal and external factors combination, there are some strategic steps that can be applied PT. Indofood in supporting business growth and development as follow:

1. Vertical Integration
 - a. Backward Integration (acquire supplier)
 - b. Forward Integration (adding distribution channels and retailers)
2. Horizontal Integration
 - a. Aquisition (acquired companies both horizontally)
 - b. Joint Venture
3. Product Development (innovation products and add new variant)
4. Diversification
 - a. Concentrated Diversification (establishing a new company and add new business lines similar)
 - b. Conglomerate Diversification (adding new business lines which are not similar)

4.3 Decision Stage

The last stage is decision making by using matrix QSPM as decision making tools. QSPM is a technique that objectively determines alternative strategies. QSPM matrix will determine which alternative strategies that will be used PT. Indofood Sukses Makmur, namely by multiplying weight from each key factors to value attractiveness (attractiveness score) strategy called TAS (Total Attractiveness Score). Multiplication results are then summed. TAS result is the largest alternative strategy chosen by company. Based on the calculation result can be seen that PT. Indofood prefer a strategy 2 that is Horizontal Integration Strategy. In this strategy PT. Indofood expands its business activities and increases its product range by expansion (acquisition and

joint ventures) and diversification (concentration and conglomeration).

5. Conclusion

After calculation and analysis on the matrix determination of alternative strategies by Fred R. David concept, it can be concluded based on research purpose that has been formulated, as follows:

- a. Analysis of five matrices are SWOT Matrix, BCG Matrix, Space Matrix, IE Matrix and Grand Matrix, provide consistent result that companies are a stage to be able to grow and continue to expand its business, both horizontally and vertically. Based on the BCG Matrix result known that PT. Indofood position is in quadrant "Stars", from the SPACE matrix indicator calculation obtained coordinates $X=3,4$ and $Y=2,8$ known PT. Indofood located on the upper right quadrant "Aggressive". From analysis known that IFES total value of 3.26 and EFAS total value of 3.19 known strategic position PT. Indofood located in Quadrant I (Grow and Build) and from Grand Strategy Matrix mapping result known that PT. Indofood strategic position located in Quadrant I (Grow and Build).
- b. The best alternative strategies that can be applied to the company based on QSPM matrix calculation that is Horizontal Integration Strategy with 5.94. Horizontal integration strategy that can be chosen are expansion and diversification. Analysis result show consistency with steps taken by PT. Indofood to expand its business. PT. Indofood expand by companies acquisition in single line or new line and also joint venture with companies that supply inputs for the company's core business. PT. Indofood diversification step concentrate on the business that has been established to continue innovate and conglomerate with setting up a new business which is very different from the company's business at the moment.
- c. Recommended business strategy from QSPM matrix analysis, namely Horizontal Integration Strategy. Throughout the year 2012, PT. Indofood many acquisitions as a way of business development, including acquiring China Minzhong Food Corporation Limited ("CMFC"), acquired shares Filifina Roxas Holdings Inc., acquired PT. Pepsi-cola Indobeverages and a joint-venture with Tsukishima Sukses Makmur Indonesia. Based on three stage of strategic management Fred. R. David concept can be seen that strategy alternative recommendation relevant to business implementation that has been done by PT. Indofood during period of 2012.

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