

ANALYSIS OF STRENGTHENING STEEL DISTRIBUTION CHANNEL IN DOMESTIC AUTOMOTIVE INDUSTRY

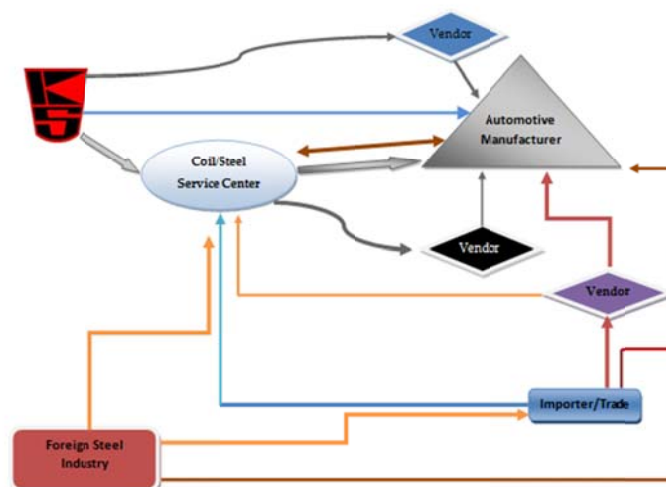
Sugeng Pangraksa and Surna Tjahja Djajadiningrat
School of Business and Management
Institut Teknologi Bandung, Indonesia
sugeng.pangraksa@sbm-itb.ac.id

Abstract—Distribution has strategic role to spread up product from manufacturer into end-user. Automotive industry needs distribution channel which has: excellent data management, timely delivery management, excellent quality management, and competitive reducing cost. Krakatau Steel (KS) distributors has weaknesses to enter automotive market current that require tight prerequisite such as: consistency of product quality, good cooperation, close relationship, continuously cost reduction, wide spread to many vendors in small quantity consumption. This analysis using primary data from KS' customers and secondary data which come up from internal KS document, literature, text book and other analysis which are still relevant for this topic. Selecting appropriate distributor which fit to automotive requirement is a must in order to strengthen market position in automotive industry. Developing own coil center is new strategic decision that can be used as new core competence of Krakatau Steel.

Keywords: consistency of quality product, excellent data management, timely delivery management, excellent quality management, and competitive reducing cost

1. Introduction

PT. Krakatau Steel (Persero), Tbk (PT. KS) is the one of many State-Owned Company (SOC) in Indonesia, the company has engaged business in steel industry for domestic or export market purposes. Currently, PT. Krakatau Steel is conducting many changes in all of organization structure both main operation department and support department. The changes is attempting to support new business landscape nowadays such as open market policy, tight competition in domestic steel market and any new market has emerged. The growth in automotive sector is the opportunity for PT. Krakatau Steel as steel maker in Indonesia as long as PT. KS has capability to fulfill for many conditions that required by automotive manufacturer.



Automotive market has unique character which means there is any mutual cooperation between automotive manufacturer and its vendors. Figure 1. shows that steel material sources is come up from domestic and overseas country to be used by automaker in Indonesia. In order to support automotive industry in Indonesia, PT. KS has initiated to focus on this industry especially for domestic production. Supplying steel material for automotive has several challenges which are consistency in quality of product, on time delivery schedule, prompt service in claim handling, flexibility in business process and good service in distribution channel.

Automaker prefers to use imported steel material rather than local steel material because of considering quality and service from the foreign steel mill instead of KS business conduct. The imported steel material for automotive mostly come up from Japan, South Korea, and Taiwan as origin country. Nowadays, steel market competition is not only limited in trading area but also has to be involved the steel cutting service, storing management of steel material, importation service, and distributing customized size of steel sheet to automaker vendors, those activities is core competence of foreign coil center. Therefore, steel center has strategic role in steel material business landscape especially in automotive industry; which means the coil center appointed as main distribution channel. This study has aim to analyze the effectiveness to involve steel center as strategic partner in order to focus on entering Indonesia automotive steel market.

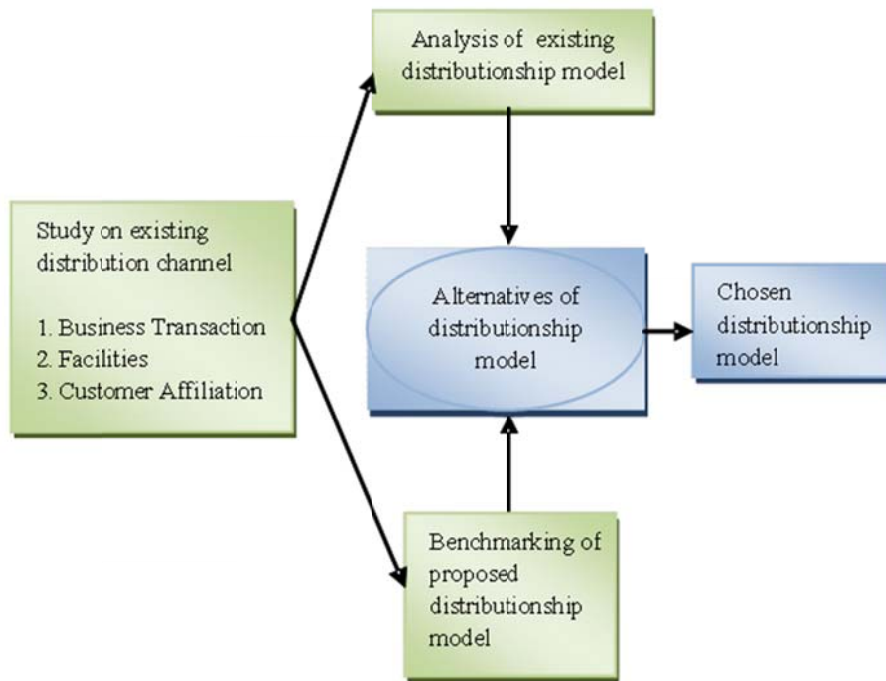
2. Business Issue Exploration

The challenges of PT. KS to enter automotive industry as below reasons:

1. Automotive industry has shifted requirement of size of steel material; before is mill standard change to be processed size (such as cut or blanked size), and which means ready to be used to next process in automaker in-house production line, such as stamping, or drawing purpose.
2. Different character between PT. KS as steel manufacturer compare to automaker, in which PT. KS has mass production characteristic and continuous process due to facility design for construction industry, meanwhile automaker has character in discontinue production system and has small consumption compare to construction or infrastructure industry
3. Shifting in government policy to open market competition, this condition open chance for any business entity to import steel material from foreign steel manufacturer as Japan, Vietnam, Korea, India or even Europe, in which foreign steel manufacturers have competitive advantage in term of production cost, material pricing, quality of product and business model flexibility and supported by government policy to facilitate the import regulation such as free import duty under government to government agreement. This policy affects significantly the rule of competition in domestic market, especially in automotive industry. The consequences for those condition is the imported steel material more competitive in term of price and quality compare to local steel material in the domestic market.
4. Changing in automotive business landscape that enforce automotive industry to use global sourcing to mitigate material availability shortage risk in term of providing raw material for them, reducing cost for raw material by choosing more steel mill as alternative sources, and changing in standardization for quality of product base on market condition.

By using coil center as strategic partner has opened opportunity to develop new business model to distribute steel sheet into end-user instead of trading activity with no cutting service and warehousing; quality and cutting management. The business model will represent the company feature, value, special activities inside of company and distinguish the company from the others as competitive advantage that hard to be imitated by competitors. Strategy effectiveness analysis can be done by using five element of strategy as tools (Hambrick and Fredrickson. 2005) which is consisted: business arena, the vehicle to achieve business goal, differentiator that will be selected, staging process to reach the target and economic logic as mindset that business will be undertaken..

A. Conceptual Framework



The frame work in figure 2 is started to study on existing distribution channel which is consisted of (1) Business transaction of customers; (2) Facilities of customer and (3) Customer affiliation to automotive industry. Analysis of existing distributionship model will address main questions regarding compliance rate of customer’s requirement such as quality, on time delivery schedule, rejection rate and price competitiveness that has been done by existing distribution channel. Benchmarking for new distribution ship model will be conducted to compare the effectiveness of distribution flow from steel manufacturer to end user. Alternative solution needs to be prepared to facilitate the gap between existing distributionship model compared to proposed distributionship model.

B. Method of Data Collection and Analysis

The question regarding customer’s prerequisite are: (1) which is distribution channel that can be treated as key partner to assist in conducting re-inspection, good material storing and handling system? (2) what are the programs that can be developed together between distribution channel and PT. KS as steel manufacturer?

To answer the first questions, the author will conduct observation and interview with the stakeholders to ensure customer’s facility, capability and resources can assist PT. KS as key partner to enter domestic automotive market. The second question will use analytical and benchmarking methods to know the compatibility of cooperating between customer and PT. KS to develop program together.

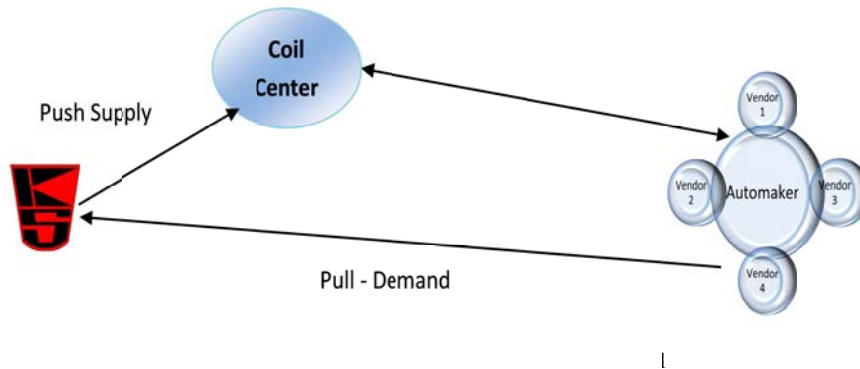
C. Analysis of Business Situation

Automotive industry is often influenced by government policy, population growth, energy policy, infrastructure, lifestyle, and purchasing power level of country population. Business opportunity in automotive industry will increase in line with the market trend of automotive industry growth.

Selecting foreign coil center as intermediary between PT. KS and automotive manufacturer is one of solution to mitigate risk during transaction. Coil center has strategic position to deliver steel material by adding cutting, slitting and recoiling service to customer. Customization of cutting is favored by automotive industry which means increase process efficiency inside of their production line also aligning to *Kanban* system or Just in Time (JIT) such as warehousing; those reasons are core competence of coil center.

3. Business Solution

In order to select foreign coil center as key partner to enter automotive market. First step is about scanning and monitoring which customers that have *cutting* facilities also dedicated to supply into automotive. Second step, measuring the proportion of business type, which means the own sales and job order to automotive manufacturer and vendors. Measuring coil center capability is very important to their capability, business engagement and future prospect.



After selecting the firm coil center that chosen as key partner, then has to be followed by strategic action, in which the “push – pull strategy” is the proposed business model in order to strengthen role of distribution channel to supply automotive market. Push strategy is about making business program to push supply of steel material supply to coil center. The program of push-strategy as follow:

- a. Consignment program
- b. Customizing of payment term
- c. Joint re-inspection to finished product

Pull demand will be conducted as education program (steel knowledge) to customer; this program has aim to ensure that all customer know and care about steel in deep understanding.

Table 1.a Business Model Needs Analysis

Value Proposition			
Elements	Movement		
Price	Premium	→	Premium Competitive
Features	Customized – Basic	→	Customized
Quality	Average	→	Average - Excellent
Support	Standard	→	Comprehensive
Availability	Selective - Universal	→	Selective - Restricted
Reputation	Functional	→	Respected

Table 1.b Business Model Needs Analysis

Business Model	
Elements	Business Imperatives
Cost	·Reducing Unnecessary Activities ·Improving SAP system to be more effective and reliable
Innovation	·Develop product which is required by automotive industry ·Product customization (OEM's Engineering Standard)
Reliability	·Continuing improvement quality standard especially for automotive customers ·Need to improve the consistency of quality for each product specification
Relationship	·Delivering excellent service for customer in term of payment term and evaluate every period ·Work as partner, not only buyer and seller in term of develop automotive market
Channel	· PT. KS needs to involve the foreign coil center as distribution channel due to quality, delivery, and management alignment to automaker (OEM) rather than using local distributor
Brand	· Serving customer by delivering appropriate function of material in term of quality, and after sales service will improve brand image for PT. KS itself · Promoting material by involving big customer which has been using PT. KS's steel material.

In Table 1a. It shows the movement of value proposition that needed by customer in term of price, features (product feature), quality of product, support (technical assistance), product availability and reputation of corporate brand. Table 1.b is about business imperative that need to be conducted as soon as possible.

Value added that can be obtained if PT. KS makes collaboration with coil center as follows:

- 1. Quality Issues:** Foreign coil center will do re-inspection by their experts who have experience as specialist quality for automotive industry especially for Japanese automotive manufacturer
- 2. On Time Delivery:** In order to improve delivery schedule for automotive industry that applying Just in Time (JIT) and *Kanban* system; foreign coil center as facilitator to be "second warehouse" for automotive manufacturer, and deliver steel material in customized cutting size.
- 3. Price:** PT. KS needs to change price policy from premium price policy for automotive to be premium – competitive depend on the sub-segment market and competitor's price.

4. Conclusion and Recommendation

The three key factors to supply automotive industry which requesting the consistency in material quality, affordable material cost; then on time delivery that has to be in line with Just in Time policy of automaker. The urgent issues of internal changes in PT. KS in current condition as follow:

1. Organization transformation from production oriented to be market oriented
2. Business model which changed from distribution ship (using distributor) move to end user oriented and stockiest as retailer in the market.
3. Develop steel center which owned by PT. KS or by involving other party as partner.

The strategy has to be implemented step by step, as follows:

1. Conducting internal consolidation and vision alignment of automotive team force
2. Improving internal production process by focusing on automotive material function
3. Develop new customized product specification for automotive industry as long as align to PT. KS plant capability to obtain captive market in automotive industry
4. Increase quality standard which means reducing defect and product claim conditions by improving the people capability (discipline, working style, and inspection)
5. Do prompt service and flexible regulation for handling customer claim, especially for quality rejection

References

- BPS, Perkembangan Jumlah Kendaraan Bermotor Menurut Jenis tahun 1987-2009(2011)
www.bps.go.id, 15-09-2011
- Gaikindo, Domestic Auto Production (2011) www.gaikindo.org, 22 – 02 - 2012
- Hambrick, Donald C and Fredrickson, James W. (2005) Are you sure you have a strategy?, *Academy of Management Executive*, Vol. 19, No. 4
- Irawati, Dessy (2010) Challenges for the Indonesian Automotive Cluster, *Regional Insights*, 1: 1, 6 — 8
- Irawati, Dessy (2008) Emerging Multinationals: Outward Foreign Direct Investment from Emerging and Developing Economies
- Ireland, R.D, Hoskisson, R.E and Hitt, MA (2011) *The Management of Strategy: Concepts and Cases, South-Western*
- Manurung, Adler. H (2010) www.finansialbisnis.com. Company Focus
- M.E. Porter (1980) *Competitive strategy: techniques for analyzing industries and competitors*
- Nag, Biswajit, Banerjee, Saikat and Chatterjee, Rittwik (2007) *Changing Features of the Automobile Industry in Asia: Comparison of Production, Trade and Market Structures in Selected Countries, Asia Pacific – Research and Training Network*