CORPORATE STRATEGY OF PT MIGA ORRICOM INDONESIA

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Abstract: PT. Miga Orricom Indonesia is a supply company for electrical measurement devices and wireless products. After grow up in the last 10 years, the company’s achievement was declined. Based on change in PLN market in 2011, the opportunity exists is becoming a threat for the company. After the e-procurement, the company lost the market significant The total sales fell to the lowest level in the last five years and total profit margin declined from 9.3% to 3.5%. However, there are no strategic plans which can minimize the threat and enhancing the opportunity exist, yet. So, the fundamental issue nowadays is how the company minimizing the strategic gap exists in between what the company offers and the market needs. The business issue has been explored by Strategic Management Model. As a result, strategic policy of the company to develop a product portfolio of services with YANTI brand in PLN DJBB has been implemented in first year. Dashboard monitoring program has been developed in accordance with the new corporate strategic planning.

Key Words: corporate strategy, differentiation focus, forward horizontal integration

1. Introduction

PT. Miga Orricom Indonesia (PT. MOI) is a company dedicated provision electrical measurement devices and wireless products which serves the PLN (State Electrical Company) and other private sectors and act as the advanced partner in providing latest holistic measurement solution. PT. MOI established in 17 December 1987 in Bandung as a family-owned company. Resembling the step of his father as a contractor in civil engineering and heavy appliances rental, Mr. Oktavianus Pandapatan Manurung started his business in trading and provisioning the accessories of electrical distribution network installation such as the Miniature Circuit Breaker trademark Merlin Gerin and electrical installation accessories such as Traves trademark Mahamotin for Perm Listrik Negara (State Electrical Company) in West Java regional. [Diagram of Business Line]
PT MOI has the mission “to supply various of electrical measurement and wireless products to serve electrical state company as a best partner in advanced metering solution” and vision “to be leading supplier of metering system in PLN West Java” with value: relationship, respect, familial, performance, tolerance. The company has some business line shown in figure 1 to reach its mission and vision.

There are several important business issues which arise in the company with the market condition nowadays. Those several issues encountered by the company in the end of year 2011 can be described as follows:

1. The PLN market has changed form closed to open market through e-procurement. This gave the opportunity for a company in distribution/regional level like PT. Miga Orricom Indonesia for market expansion as to join the appliances provision in PLN unit elsewhere nationally.
2. However, in fact it’s pretty different. The chance exists is becoming a threat for the company. After the e-procurement, the company lost the market significantly in 2011. The market share integrated APP panels is declining from 80% in 2010 to 16% in 2011. The total sales in 2011 was the lowest in the last five years. Net profit margin decreased from 9.3% in 2010 to 3.5% in 2011.

3. The company is still difficult in deciding the further steps for there are no strategic plans which can minimize the threat and enhancing the chances exist, yet.

The director of the company recently observe that there are some business goals which are relevant and those which are not. The company’s philosophy which is still relevant is, “Competence, Competitive, Creative, Difference and Exist all-Indonesia.” This motto reflects the mission and the existence of the company to keep growing and giving value for the share holders. The goal is to alter from the PLN market oriented company into a strong company in both PLN and non-PLN markets, and also altering from appliances wholesale to solution products.

![Figure 2. Business Goal](image)

The goal in figure 2 is based on the point of view that the profit margin will be bigger in solution products and PLN & non-PLN (private) markets.

2. Business Issue Exploration

A. PEST Analysis

The year 2011 turned out to be a favourable year for Indonesia’s economy. In this year, the economy grew by 6.5% up from the 6.2% growth recorded in 2010. New chance telecommunication industry is the broadband industry.
Table 1 show that the amount of data and broadband customers until the end of last year was 28% of total cellular customers in the country. The amount of the cellular customers is increasing 100% from the last year’s. By the end of 2011, the infrastructure growth seen at the total Base Transceiver Station (BTS) was 97,000. Around 22,000 BTS now have used BTS 3G.

B. Market Analysis

“An electricity market dominated by vertically integrated electricity companies. These companies are large because most sections of the industry were capital intensive and in line with typical characteristics of a natural monopoly”[3].

Figure 3. Electricity Market

Figure 3 show that the electric market in Indonesia consist of generation, transmission and distribution which is still dominated by the PLN. The dominant role of PLN is on the terms of generation as the single buyer and in distribution as the single seller. The high demand is also caused by the national economic rapid growth in 2011 that reached 6,5% which caused the electric sales rapid growth to 8% as figure 4.

Figure 4. Electric Sales

The market segmentation of the products provided by PT Miga Orricom Indonesia is to fulfil the electric measurement supply needs in measuring points network owned by PLN Regional Distribution, whether in extensification or network reinforcement. The issue of PLN as the main market is interconnected with implementation program of strategic plan of PLN in 2011-2015 ahead. The strategic plans of PLN up to 2015 is still affected by the Act on Electricity No 30 year 2009 on electricity which no longer put PLN as the Business Authority of Electricity, then the PLN’s strategy is directed to become the healthy corporation entity financially. the PLN also must fulfil the customers
needs in reliability and appropriate service and also supported by high competent human resources who behave in accordance to the good company management (GCG) in running the business.

The short term priority is to overcome the shortage of electric supply to decrease the shutdown in almost all parts of Indonesia. The long term aspiration of PLN is transforming into world class company, advantaging and becoming people’s favourites by its environment friendly and safe.

*PLN’s transformation*

There are two main things in PLN transformation; the soft skill and hard skill. The soft skill is related to high performance orientation, synergized and directed. Moreover, PLN must move into a strong performance management, delegating authority and empowering related units. The second transformation is related to physical factor to multiplying the powerhouse capacity, transmission and distribution to ensure sufficient electric supply with reasonable price.

While in supporting function like business process, the PLN as a world class company must apply the world class business process, such as in provisioning. PLN must take the benefit on the big amount of economic provision scale and the application of the principle on Total Cost of Ownership (TCO) to gain the better price. Also in asset management, optimizing the investment and the ability to run big scale projects.

*REVAS (Revenue Assurance)*

Beside the program of Metamorph, since 2010 the PLN has a new more program called REVAS (Revenue Assurance) which had launched in PLN Bekasi, in early December 2010. The implementation of the program in PLN DJBB in 2011 which has come into the process of TM energy decrease calculation in five areas of deployment of REVAS, was needed to be followed up by the implementation of the program by having the energy decrease repairment program and the evaluation on the benefits of the repairment.

This is the important part of PLN activity as a company to achieve the *World Class Services* to make sure that the system, process, field practices and procedures have minimized the leaks and optimizing the chances.

*Needs and Demands*

The needs on the equipments of kwh meter and its supports still growing in the market of PLN along with the growth of new installation and periodic needs (replacement, repairment) for efficency. The needs for replacing the old kwh meter periodically high because the old version of kwh meter had limitations in measurement accuracy, unsynchronization of reading, human error of meter reader agents, and data limitation in kwh meter in anticipating the electric stealing which has cost PLN great losses.

The needs of PLN DJBB nowadays is to own the database of energy transactions which enable to reconcile the kwh meter measurement data, whether buying or selling transactions which can be implemented in areas around DJBB distribution office in fast, accurate and complete. Because PLN DJBB usually be a center of excellence and benchmarking, so the need of other consumer other than PLN DJBB, included private need, sometime refers to the need of PLN DJBB with some minor differentiation on requirement.

*C. Competition Analysis*

M.E. Porter stated that companies are more concerned with the competitiveness in the industry. “The collective strength of such power determines the main potential profit in the industry, that the potential profit is calculated to the level of capital investment restitution.”
Table 2 show that nowadays the competitor, the buyer and new entrants stronger than last time. So that the the ability of PT MOI more limited to raise the price and gain bigger profits.

**Value Chain Analysis**

The observation and internal analysis using the Porter Value Chain Analysis that can also identify every business usually has main business activity and supporting activities. According to result of Value Chain analysis, it found that for year 2012, primary activities has 60.63% and secondary activities has 39.37% from total cost IDR 2.23 billion. Corporate activities dominated by customer intimacy/relational activities was 39.13% of total.

**Financial Statement Analysis**

Refers to liquidity, the company’s ability to pay its short-term liabilities for short term is very good, even its short-term obligations from current assets, excluding inventories. Cash ratio and net working capital ratio current year better than last year. So, the company's finance today is very liquid. Refers to profitability, the company’s net and gross profit margin all decrease than last year. The rate of return on the total asset utilized in the company only 6.7% in 2011, decrease from 20.7% last year. The rate of return on the book value of shareholders total investment in the company decrease from 75.2% last year to 21.5% this year. The after-tax earnings generated for each share of common stock is 215.439 IDR, decrease from 752.306 IDR last year. So, the profitability of company todays is lowest during last five year. Refers to activity, the average inventory of finished goods was turned over or sold during 1.79 times a year or 232 days worth of inventory has on hand. The net working capital is used to generate sales this year (2.6) less effective than last year (3.3). Fixed asset turnover this year decrease from previous. Accounts receivable are cycled 11.2 times during this year, better than last year. The company takes 4.6 days to pay its credit purchases. Cash on hand at 2011 sales is 2.9 days, similar with last year. The short-term financing portion versus that provided by owners is 12.4% this year, decrease from 121.4% last year. Refers to market ratio, Earning Per Share (EPS) this year decrease from 752.307 IDR last year to 215.440 IDR. Market to book ratio also decrease to 10.04. Dividend Payout Ratio increase from 64% last year to 279% this year. Finally, price earning growth this year is negative 153.743 IDR decrease from positive 12.026 IDR last year.

**Economic Value Added**

Value-Based Management (VBM) is instills a mind-set where everyone in the organization learns to prioritize decisions based on their understanding of how those decisions contribute to corporate value. Young said this means that all key processes and systems in a company must be oriented to the creation of value. A comprehensive VBM program should consider each of the following elements strategic planning, capital allocation, operation budgets, performance measurement, management compensation, internal communication, and external communication (with the capital market).
EVA, economic value added, is based on the notion of economic profit (also known as residual income), which states that wealth is created only when a company covers all operating costs and the cost of capital. EVA can help companies to implement a comprehensive VBM program. EVA is the solution to achieve the measure of performance that can be calculated at divisional levels, thus providing line of sight for divisional managers and that are flows, not stocks, and thus are amenable to performance evaluation over periods of time than that Promote the creation of shareholder wealth.

3. Business Solution

A. Strategy Formulation

In this case, the sweet spot or niche of the metering industry is to get metering, wireless & assessories product with the lowest price on a large scale of quality products and excellent services by experienced vendors.

![Image of Tracy's Diagram](image)

Figure 5. Tracy’s Diagram


By tracy’s diagram in figure 5, it can be proposed that the strategic sweet spot as the best strategic position for the company in the future. Strategic position must shift from its previous position customer intimacy and product leadership oriented to a new positionin between cost leadership or operational excellence and product leadership. According to intermediate and long duration of internal and external factors in previous SWOT analysis, it can obtained SFAS for next 3-5 years:

Strength: Quality Product & Technology Competence
Weak: Strategic Management
Opportunity: Revenue Assurance PLN
Threat: PLN as Buyers use Total Cost Ownership principal in Procurement, Infrastructure, Value Added Tax

According RUPTL PLN 2012 - 2021, plans for distribution system development Java Bali system and projected electricity demand forecasts for the period 2012-2021 are shown in Figure 6.

![Image of Electricity Demand Forecast](image)

Figure 6. Forecast Elect Demand 2012-2021
Figure 6 shows that the Java-Bali system industrial customer group has a very large portion, ie 39% of total sales. Meanwhile, in eastern Indonesia and western Indonesian portion is quite small industrial customers, respectively only 15% and 17%. Residential customers are still dominated sales until 2021. So, it proposed new vision for PT MOI in 10 years “as limited public corporation dedicated to integrated metering solution provider for revenue assurance 21 TWh of customerelectricity sales in 2021”

Generating Alternative Strategies
According to new of company differentiate to revenue assurance customer electricity sales, and new positioning in between operation excellence to product leadership, with new vision above, it can develop TOWS Matrix as follow:

![TOWS Matrix](image)

Figure 7. Alternative Strategies

Figure 7 shows that one mixed possible SO-ST strategy is differentiate competitive advantage from product supplier to integrated metering solution provider dedicated to customer revenue assurance as entry barrier for new entrant. Its competitive scope should choose a narrow target (that is, aim at a market niche) namely differentiation focus. A narrow target is the Java-Bali system industrial customer group of electrical state company (PLN) and private companies.

![Business Strategy](image)

Figure 8. Business Strategy

Figure 8 shows that in using differentiation focus, company seeks differentiation in industrial customer group of electrical company as targeted market segment. This strategy is valued by those who believe that company that focuses its efforts is better able to serve the special needs of a narrow strategic target more effectively than can its competition. To avoid risk of differentiation, company should protect from competitors imitate, cost proximity and bases for it become less important to buyers, also from achieve even greater differentiation in segments.

According to the government electricity policy in standardization, security, safety and surveillance, it’s important to focus on two or three dimension of quality such as reliability, conformance and perceived quality of company products or services. Supply metering and wireless products in PLN market todays was a fragmented industry, an industry in which no single enterprise has large enough share of the market to be able to influence the industry’s direction. Many small and medium-sized
local companies compete for relatively small shares of the total market, so that focus strategy will likely predominate.

Some of the commonly required skills and resources, as well as organizational requirement for differentiation focus strategy. Company should give more attention to commercial competence weakness, because Porter said differentiation require strong marketing abilities, product engineering, corporate reputation for quality or technological leadership and strong cooperation from channels. Company also should solve strategic management weakness to meet common organizational requirements who using differentiation, because it need strong coordination among functions in R&D, product development and marketing, than subjective measurement and incentives instead of quantitative measures, and amenities to attract highly skilled labor, scientists or creative people.

**Corporate Strategy**

To make company profits grow in future, we propose MOI to choose corporate strategy that deals with three key issues facing the corporation as a whole are directional, portfolio and parenting strategy. Based on historical sales and profits and according to forecast electrical sales 2012-2021, they showed that given some product line such as wireless and panel still has the potential to grow in the market PLN and electronic kwh meter market is expected to grow in non-PLN, the Growth Strategy can be selected with a concentration on the horizontal growth in customer areas are familiar (good customer relations), and is committed to product quality.

Table 3. Directional strategy

<table>
<thead>
<tr>
<th>Platform</th>
<th>Exposur e’s</th>
<th>Valu e’s</th>
<th>Portfolio’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internally</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(expanding its</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>operation)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Globally</td>
<td>10%</td>
<td></td>
<td>Product-Modul After Market (MAM)</td>
</tr>
<tr>
<td>Locally</td>
<td>50%</td>
<td></td>
<td>Meter,Modem,Panel,Solution (IMSP)</td>
</tr>
<tr>
<td>Externally</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Merger</td>
<td>10%</td>
<td></td>
<td>New entrant modem (ST3)</td>
</tr>
<tr>
<td>Acquisition</td>
<td>10%</td>
<td></td>
<td>New entrant modem (ST3)</td>
</tr>
<tr>
<td>Strategic alliances</td>
<td>20%</td>
<td></td>
<td>Solution (IMSP)&amp; MAM &amp; Meter</td>
</tr>
<tr>
<td>Concentration</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vertical</td>
<td>5%</td>
<td></td>
<td>Product-Panel (WT1,WT2)</td>
</tr>
<tr>
<td>Horizontal</td>
<td>25%</td>
<td></td>
<td>Product-Modem (ST1,WT1,WT2,WT3)</td>
</tr>
<tr>
<td>Diversification</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Concentric</td>
<td>45%</td>
<td></td>
<td>Solution/IMSP (SO1,2,WO1,ST2,ST4)</td>
</tr>
<tr>
<td>Conglomerate</td>
<td>25%</td>
<td></td>
<td>Product-Trafo, Asesoris,etc (WO1,ST5)</td>
</tr>
</tbody>
</table>

Table 3 shows that Growth Strategy with product diversification in related industry such as two SO strategies should be prioritized are Metering Integrated Solution Provider (IMSP) dedicated to PLN Revenue Assurance and Develop new and after market product manufactured by a supplier as ref /
standard for PLN. Conglomerate (unrelated) diversification can be considered if the earnings trend in three major product companies continued to fall in the coming years, to strengthen the company's competence in consideration financial or cash flow by reducing the risk, or to apply best practice of knowledge and telemetry technology in other fields or Machine to Machine (M2M) markets. So that, it proposed the formulation of growth strategy to make profitability in future. Market share of modem for PLN DJBB in 2011 actually reached 40%, but in PLN Nationally not reached 15%, so that the total market share of the modem into product sales driver in 2011 only 25%, below market-leading Fulindo AMR modem for PLN to market share 60% up to 70%. Likewise with Integrated APP panel, which until 2010 the company had become the market leader with a market share of 80%, in 2011 had plummeted to 16% in PLN DJBB and only 10% nationally.

Table 4. Portfolio Strategy

<table>
<thead>
<tr>
<th>No</th>
<th>Business Line</th>
<th>New</th>
<th>Need</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Product (70% sales in 2014)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Meter</td>
<td>Cash Cows</td>
<td>Maintain market share</td>
</tr>
<tr>
<td>2</td>
<td>Modern (sale’s driver)</td>
<td>Stars</td>
<td>Market Development</td>
</tr>
<tr>
<td>3</td>
<td>Panel &amp; Assemblies</td>
<td>Cash Cows</td>
<td>Maintain market share</td>
</tr>
<tr>
<td>4</td>
<td>New resale</td>
<td>Cash Cows</td>
<td>Market Penetration</td>
</tr>
<tr>
<td>5</td>
<td>New product</td>
<td>Question Mark</td>
<td>Need cash for product development</td>
</tr>
<tr>
<td>B. Service (30% sales in 2014)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Integrated Metering Solution Provider for Revenue Assurance</td>
<td>Stars</td>
<td>Market Penetration, Product Development, Market Development</td>
</tr>
<tr>
<td>2</td>
<td>Other M2M Solution</td>
<td>Question Mark</td>
<td>Need cash for product development</td>
</tr>
</tbody>
</table>

Table 4 shows that if the current state is mapped on Growth-Share Matrix will be visible condition of the company who is in QUESTION MARK area, meaning that the portfolio company has a low market share while its high business growth. BCG said that QUESTION MARK are new products with the potential for success, but they need a lot of cash for development. Refers to the company’s new business strategy and new corporate strategy above, so it proposed eight function strategies as follows:
Figure 9. Functional Strategy

Figure 9 shows that in marketing, market development for standard solutions and product development for custom solutions. It proposed policy material of service must using internal product as non-direct selling program, branding IMSP with PLN Taste (called YANTI – Pelayanan Titik Transaksi) is strategic policy, and a portfolio of service/solution developed as a part of technical division. In finance, because solution is related diversification, so it proposed equity financing with policy debt to equity ratio must lower than 20%. In operation, I propose to use mass customization for integrated metering solution provider in term of differences scope of IMSP/YANTI in between area’s of PLN.

B. Strategy Implementation

According to four perspectives below, here’s strategy map developed for PT Miga Orricom Indonesia:

- **Process**: Operation Excellence
- **Theme**: Grow up profit with high sales and high productivity

![Strategy Map](image)

Figure 10. Strategy Map

Figure 9 shows that in financial perspective profitability generated by high sales growth and high productivity. High sales growth generated by expand revenue opportunity and enhance customer value. High productivity generated by improve cost structure, improve inventory and increase asset utilization. Expand revenue opportunities reached by price, functionality and service. In customer perspective, enhanced customer value reached by price, service and partnership. Improve cost structured reached by price, quality, and availability. Improve inventory reached by availability. Increase asset utilization reached by service and partnership.
Figure 11. Strategic Initiatives

**Milestone**

Figure 13 show that beside main performance measurement that refers to business goal, there are other performance measurement. In term of operation : first year, maybe do the service with reactive is OK, but next year should be planned, than improved precision and finally world class. Rewards, drivers and behaviour of organization should directed to achieve best in class, growth and organization learning in 2017.

**Dashboard**

It propose dashboard of monitoring to control implementation of new corporate strategy of PT Miga Orricom Indonesia, that already implement in PLN Bekasi since first March 2013.
Table 5. Dashboard Monitoring

<table>
<thead>
<tr>
<th>Jumlah</th>
<th>Kriteria Internal YANTI</th>
<th>Update</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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</tr>
</tbody>
</table>

Table 5 shows that there are two integrated performance control, external control side and internal control side. External performance control consist of on going service or solution that has been operating in specific clients in current date and time. Internal performance control consist of three internal function of YANTI. They are operation, finance and sales/marketing.

**Recommendation**

We recommend to CEO of PT MOI:

1. To propose new vision of PT Miga Orricom Indonesia for 2021: "limited public corporation dedicated to integrated metering solution provider for revenue assurance 21 TWh customer electricity sales in 2021".

2. To propose new corporate strategy to CEO that remembering exposure for Integrated Metering Solution Provider and wireless modem reaches 70% of the total exposure growth strategy, then the were qualitatively matrix BCG for company within 3-6 years to forward proposed for shifted from area question mark nowadays to area stars with improve the competitive position portfolio product and solutions. The heart of the corporation's future are on the modem and Integrated Metering Solution Provider.

3. To propose differentiation as business strategy. Differentiate from product supplier to integrated metering solution provider as competitive advantage that dedicated to customer revenue assurance as entry barrier for new entrant. Its competitive scope should choose a narrow target (differentiation focus) to the Java-Bali system industrial customer group of electrical state company (PLN) and private company.

4. To propose new three functional strategy.
   a. In marketing, market development for standard solutions and product development for custom solutions. We proposed policy material of service must using internal product as non-
direct selling program, branding IMSP with PLN Taste (called YANTI – Pelayanan Titik Transaksi) is strategic policy, and a portfolio of service/solution developed as a part of technical division.
b. In finance, because solution is related diversification, so we proposed equity financing with policy debt to equity ratio must lower than 20%
c. In operation, I propose to use mass customization for integrated metering solution provider in term of differences scope of IMSP/YANTI in between area’s of PLN. So, it propose policy likes PLN can access to reconfigure people, process, units & technology by themselves to give customers exactly what they want, when they want it. policy acting and doing YANTI with operational excellence and best practice in project management.
5. Because there are two orientation of corporation strategy in between products orientations (likes modems, panel and module) with service or solutions orientation, so it need more flexibility to create policy or program and when using resources for strategy to be leading integrated metering solution provider for Commercial & Industrial revenue assurance in Java-Bali.

References