

DEFINING STRATEGIC POSITION AND BUSINESS MODEL OF CV. ENERGI SELARAS ALAM

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Abstract - Fuel –addictive industry is a growing industry in Indonesia. With potential market of 80 million vehicles in Indonesia where most modern car use a subsidized –low quality fuel, market opportunity of this industry is very big. Although this industry is very influenced by world oil price and government regulation about subsidized fuel. CV.Energy Selaras Alam is the new comer in this industry. Founded in 2011, this firm provides a low price and highly efficient octane booster product to the society. Along the decreased issue of subsidized fuel price, this firm difficult to maintain their sales growth and expand to broader market that leads to significant decrease on its profit. If this condition allowed for the next couple month, this will lead company to bankruptcy.To understanding company’s condition better, this research use methods of observation, literature survey and interview. Resource analysis and value chain analysis are used for internal analysis. PESTEL, Porter’s 5 forces, and strategic group are used for external analysis. By using interrelationship diagram, it known that the root cause of this company’s issue is the un-clarity of its strategic positioning.To formulate the solution, SWOT, IFAS, EFAS and SFAS matrix used to find CV.ESA new strategic position. Alternative strategy is generated from TOWS Matrix, result 13 strategies. Every strategy is integrated and mapped back into a new business model to create more integrated result for this company. The conclusion from this proposed strategy is the new strategy of CV ESA will be based on cost focus strategic position. This new strategy proposed to diversify product and marketing channel that focus on car and motorcycle user and also local industry that located only in West Java. Action Plan is derived from business model formulation, and prepared for 3 year implementation Plan. The implementation plan of those strategies is suggested to adjust the number of marketing and sales armada. This armada will be focused on creating new alliances and partnership that will be a success foundation of strategy proposed. Strategic Implementation will be implemented in the next 3 years and will start in 2013. Hopefully, this Research result would contribute a better understanding related with the importance of Strategic position and business Model in Startup Company

Key Words: Startup Company, strategic positioning, business model, Fuel addictive, Octane Booster.

1. Introduction

From 2004, Indonesia has become is one of the biggest net importer oil and and oil-consuming countries in the world. Since the status change from net exporter to net importer, Indonesia must purchase oil in order to meet its own domestic needs. Along with the rise of population and economic development in this nation, the domestic demand for fuel has been increasing every year. Majority fuel in Indonesia is used for industrial sector and especially transportation sector. There are four main fuel that produced and supply by Pertamina; Premium (Gasoline RON 88), Pertamina (Gasoline RON 92), Pertamina Plus (Gasoline RON 95), and Solar (for diesel).

And since the price on non-subsidized fuel (Pertamax/Pertadex) is getting higher, many people choose to buy subsidized-fuel. No wonder there are many long queue at subsidized fuel pump. This phenomenon occurs almost in every gas station in Indonesia. Unfortunately, both of the subsidized fuels, Premium and Solar, are low-grade fuels that do not allow vehicles to comply with the Euro 2

vehicle emissions standards proposed by the government for adoption in 2007. Most modern cars run on RON 92 or higher octane fuel, but subsidies for Premium are encouraging Indonesian motorists to use lower-grade fuels which, in addition to creating higher pollutants, can damage vehicle engines, particularly more modern engines (Braithwaite et.al. 2012:1). The increase of subsidized fuel consumption in Indonesia, give a big burden to government’s budget. Every changes on world oil prices can make national budget becomes more vulnerable. Besides, environmental problems will also haunt in the future due inefficient use of low-quality fuel. Nevertheless, there is no better choice left for the people of Indonesia to get a good fuel with a good price

That's why, the fuel additive industry began to grow in Indonesia. Additives are considered as good solution for people who want to get a high-quality gasoline with affordable prices. With the potential of more than 80 million vehicles circulating in Indonesia and a substantial increase of new vehicles each year, this industry has a big opportunity to grow. Realizing this big potential, some Bandung’s young entrepreneurs, incorporated in CV Energi Selaras Alam, take this business opportunity by entering the fuel-additive industry. With their unique fuel-additive products, CV. ESA hopes the product can be accept by the market and also able to compete with the existing products.

But as a start up company, it’s not easy to introduce their new product to the market with their limited resources and budget. Since CV. ESA stil not has a clear business strategy and strategic positioning, it making harder for to the company to expand its market and achieve above average returns. Among the big opportunities that Indonesia's domestic market offered and also a challenging political and government regulation complexity, it takes a very good business strategy and good business model to make every company able to maximize their competencies to gain competitive advantage.

Almost one and half year, entering the fuel-additive industry, CV. ESA is difficult to increase their sales and expand their market. With number of products sold declining in second quarter Of 2012, compared with the increasing potential customer, it has impacted on company's profit. If compared with the number of vehicle only in West Java in 2012 that reach out more than ten million unit vehicles, the highest sales of CV. ESA products (10.000 bottles per month) even cannot grab 1% of potential market. And as show in picture, 1.1 there is a significant sales declining from middle until the end of the year

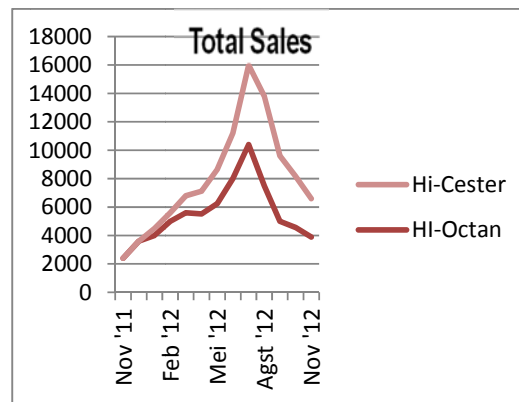


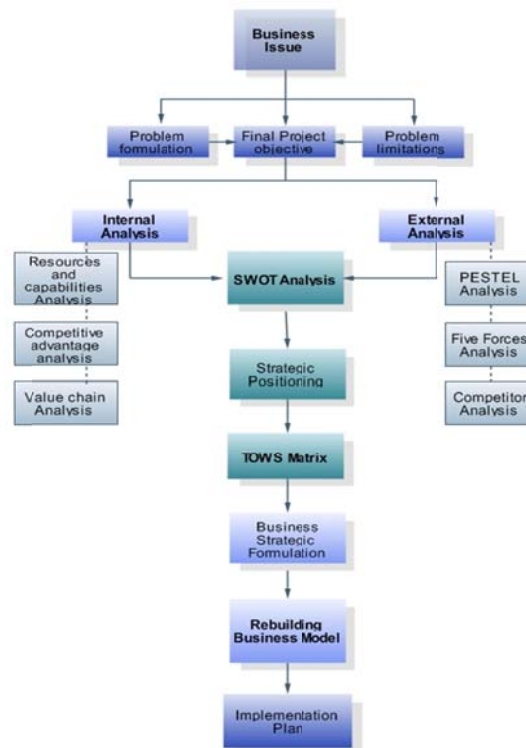
Figure 1.5 Total Sales Graphic
Source: Internal data

Since the firm's product is a fuel-addictive, which needs a non subsidized fuel as its basis, every change on a subsidized fuel regulation will also influence CV.ESA and its products. In one side, this issue makes people more aware to the importance of high quality fuel and concern about saving fuel consumption, which is a potential market for the firm. In other hand if the regulation comes in wrong direction, the company will risk a big loss profit even bankruptcy.

The increased in sales from February to June, due to succeed of company to exploit a moment in the market. With its online marketing strategy, the company has able to utilized the issue of subsidized fuel price raise and deploy promotion and campaign massively over the internet. But after the fuel issue have been subsidized, the company has a difficulty to maintain the growth of the company and expand its market into offline market. This caused sales and profit continually declined along the fuel rising prices issue and the hype of people to save fuel have become gradually disappeared in the market. With the explanation above, the business issue nowadays is the difficulty to maintain the growth marked by the decreased of sales and profit and the difficulty to expand to a broader market. To find the root of the problems of this business issue, the further analyze will be conduct in next chapter

2. Business Issue Exploration

A. Conceptual Framework



B. Method of Data Collection and Analysis

Data knows by the methods of observation, literature and interview. The approach that will be used is literature's survey and field's survey. The Respondents in the interview that using in this interview are Ir. Moch Ridwan Saleh as Director of Addictive Addiction and Ir. Hedy Octaviano (President Director of CV. ESA). Secondary data taken from literature, internet and field survey. All data is free from bias, because is have been checked by the firm and also the researcher.

In this final project, there are some theories and concepts that will be the basis for finding the best solution for the company. One framework that will be use, is a resource-based model of Above-Average returns. Within this framework, the company will know its resources and capabilities, as a basis for the formation of competitive strategies. Therefore, it is very important to know the company's core competencies that can become **sustainable competitive advantage**; an ability of a firm to outperform its rival (Ireland, Hoskisson & Hitt, 2011 p.17). This model is also useful to know the critical internal strengths and weaknesses that are likely to determine whether a firm will be able or not to take advantage of opportunities, while avoiding threat (Wheelen & Hunger, 2010: 186).



Figure 2.2 Resources Based Model of Above Average Returns
Source: Ireland, Hoskisson & Hitt, 2011 p.17

The theory that will be used next is theory of strategic positioning. Determining strategic positioning is very important, especially for start-up companies such as CV.ESA. According to Kotler “ the essence of strategic positioning is to choose activities that are different from rivals” and “by clearly choosing to compete in one way and not another, senior management make organization priorities clear. Companies that try to be all things to all customer, in contrast, risk confusion in the trenches as employees attempts to make day to day operating decision without a clear framework” (1996 : 68-69). Strategic positioning is essential for every company, to find the right field for companies to compete in accordance with its limited capabilities and advantages.

Another important theory is concept about business model. Business model is a tool that useful for describing the rationale of how an organization creates, delivers and captures value (Osterwalder & Pigneur, 2010 : 14). Business Model Business help management to see the connectedness nine building blocks that represent the function of customers, offer, infrastructure and financial, in order to making money for the company. Building a unique business model will determine how long the company can survive and grow in its industry.

C. Analysis of Business Situation

Business analysis includes analysis of external factors and internal factors. Analysis of the external environment is intended to identify opportunities and threats to CV.ESA. While an internal analysis conducted to determine the strengths and weaknesses of the firm

External Analysis

Analysis of general environment, conducted using PESTLE analysis is focused on environmental trend. While an analysis of the industry environment, conducted using porter’s 5 forces analysis, is focused on the factor and conditions influencing an industry’s profitability potential. And the last, analysis of competitor, conducted using competitor’s comparison analysis, is focused to know competitor strength and weakness, that useful to predicting competitor’s action, responses, and intentions. In combination the result of these three analyses will influence the firm strategic formulation and action.

- **Pestel Analysis**

Politic

From Political situation analysis it can be found that the dependency of fuel in this country is very high. This situation make our national resilience is vulnerable to political condition of oil exporter country. In other hand is still difficult for Government to raised the price of subsidized fuel because of the pressure from public and politics. Sudden imposition to rise subsidized fuel prize, will cause political and security instability in this country.

Legal

From Legal situation analysis it can be found that talthough many regulations have made by the government to regulate energy policy, but only a few that can be implemented. The regulation about restriction of subsidized fuel based on engine capacity is still not applied until the end of 2012. And

Government efforts to reduce subsidies and raise the price of oil also have failed over the past few years. It caused by many factors, some of them are; Government indecisiveness and great domestic political pressures

Technological

From technological situation analysis it can be concluded that although energy substitute for oil fuel is there but to be applied as the primary fuel in Indonesia is still very hard to do. It takes time and need a lot of money to lower people’s dependency on fossil fuels.

Socioculture

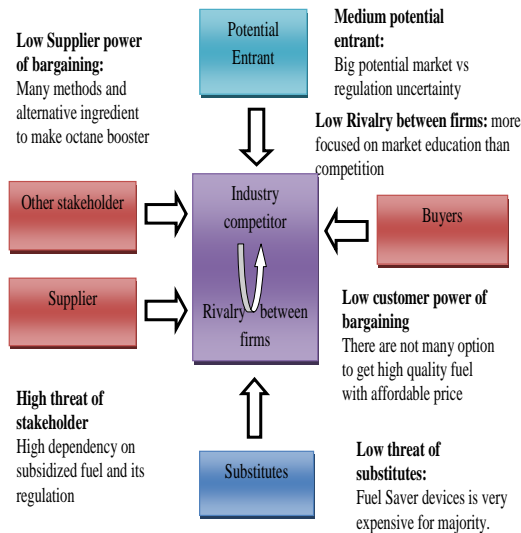
From Socioculture situation analysis it can be concluded that the higher population growth, the higher energy consumption. The demand for energy will increase along with population increase in Indonesia

Environmental

From environmental situation analysis it can be concluded that oil fuel has a bad effect for environment, greenhouse effect began to felt everywhere. Eco-friendly energy resource is likely to be a new trend in the future

• **Industry Environment**

Industry environment can be analysis use Five Forces Porter, as follows



• **Competitor Analysis**

This analysis needs to be done to map the strength of the CV.ESA competitors. Analysis that conducted will only focus on fuel-addictive for Gasoline; well known as octane booster; represented by Hi-Octan and its competitor’s product on the market. The reasons are Hi-Octan is the main product from CV. ESA and sensitive with government regulation changes and also competitor’s maneuver. A mistake on Hi-Octan product’s strategy could hurt most company’s finance stability. The situation is different from its product sister Hi-Cester (Addictive for diesel), which have a more stable market.

Actually, there are still no one dominated octane booster products in the national fuel-addictive industry. Because fuel-addictive is still growing market. Besides, adding octane booster while refill the engine’s fuel, is still not common and used for most vehicle’s owner in Indonesia. Many octane boosters found in the market, have a bad effect for the engine in long term use. In that sense,

currently there is no formal research to ensure market share and brand awareness among consumers in Indonesia

The analysis done with strategic groups:.



Internal Analysis :

- **Core Competencies Analysis**

Capabilities	Valuable	Rareness	Costly to imitate	Non-substitutable	Competitive Consequences	Performance Implication
Effective organizational structure	Yes	No	Yes	No	Parity	Average Return
Unique production methods	Yes	Yes	Yes	Yes	Sustainable	Above Average Return
Low-cost Production	Yes	Yes	Yes	No	Temporary	Average to above average Return
Online based marketing	Yes	No	No	No	Parity	Average Return
Superior product	Yes	Yes	Yes	No	Temporary	Average to above average Return
Strong research And innovation culture	Yes	Yes	Yes	Yes	Sustainable	Above Average Return

For building core competences, there are two tools to help firms identify and build their core competencies. The first consist of four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are core competencies (explained in the table above) The second tool is the value chain analyses that will be explain later

- **Value Chain Analysis (Porter)**

Value chain analysis which was devised by porter, is a technique which help to assess an organization resources and in so doing determine it strength and possible weaknesses. Value chain allows the firm to understand the parts of its operation that create value and those that do not. Understanding these issues is important because the firm earns above average returns only when the value its

create greater than the costs incurred to create the value. Firm use this tool to select the value-creating competencies that should be maintained, upgraded, or developed and those that should be outsourced (Ireland, Hoskisson & Hitt, 2011:333)

Firm Infrastructure <ul style="list-style-type: none"> • Traditional management system • Effective management structure
HR Management <ul style="list-style-type: none"> • No HR department • Remuneration based on target
Technology development <ul style="list-style-type: none"> • Simple,unique, easy-to use, cheap and homemade technology
Procurement <ul style="list-style-type: none"> • Just In Time method • Minimum inventory • Cost efficient and space efficient

Inbound Logistic	Operations	Outbound Logistic	Marketing & sales	Service
<ul style="list-style-type: none"> • Use supplier near plant site for time efficiency and cost efficiency delivery 	<ul style="list-style-type: none"> • 5 simple step production • Very fast and efficient production 	<ul style="list-style-type: none"> • local delivery handled by internal resource • Selection of low cost carrier for out of town delivery • Limited distribution network • Red flag products for intercity or inter island delivery 	<ul style="list-style-type: none"> • Online based marketing • Scattered customer • Lack outlet • Lack of resources on sales • Inconsistent and unfocused Promotion activity 	<ul style="list-style-type: none"> • Customer service line • Discount for loyal customer • Fast & save delivery

Root cause Analysis

Root cause analysis is conducted by using interrelationship diagram. This is an analysis tool that allows a firm to identify the cause-and-effect relationships among critical issues (appendix 1)

From the analysis, showed that “the unclear strategic positioning” of CV.ESA (7 outgoing arrows) as possible root cause why sales and profit have declining nowadays. Since the firm is not defining their strategic positioning yet, the firm has not clear priorities how the firm competes and serves customers in its markets. Hence the company cannot maximize their advantage to perform their unique activities and get the expected result from the customer who should value it.

By having a clear strategic positioning the company have a clear priorities, which customer they serve, which value they deliver, which channel they choose, which competitor they compete and which are not. The firm will not try to serve and be all thing customer want, and focus to deliver their best value uniquely to some selected market, based on their limited capabilities and their advantage.

3. Business Solution

Determining CV.ESA Strategic Positioning

Through analysis of IFAS,EFAS and SFAS matrix, it was found that the most appropriate positioning strategy for this company is **Cost focus**. The reasons are: Differentiation and differentiation focus strategy is not align with CV. ESA's vision and mission and the spirit of the company to provide innovative affordable products for the society.

The other reason: CV. ESA's most important weaknesses factors; limited distribution network and product characteristic which is liquid and flammable, make CV. ESA only able to serve and distribute the product to limited area. Those factors only fit with cost focus strategic. As additional consideration new entrepreneurial firm like CV. ESA have a better chance of surviving if they follow a narrow-scope market than a broad scope market

With limited resources, CV. ESA still able taking full advantage from this narrow market. And With very large potential of West Java region, the right implementation of business strategy and strategic positioning will bring great benefits for this startup companies and save company from losses and even bankruptcy.

Business strategy CV. ESA formulated using the TOWS Matrix. From this analysis, there were 13 alternative business strategies for this Company. 13 Strategy is mapped back into a new business model for CV.ESA. For competitive strategy, CV. ESA is recommended to use a Flanking maneuver strategy. For cooperate strategy, CV. ESA is urged to use Strategic Alliance to leverage company's strength.

Business Model

Innovation of new business models of CV. ESA uses a **multi epicenter driven**, where the business model changes came from more than one building block; its customer segments, value proposition and key partnerships (appendix 3) Customer segment is more focus to middle class with below 1500cc car in West Java Region. The Segment also expand to local industry, where opportunity for large buying from the industry is very high and potential. The value proposition is expand to three different product package (bottle, sachet and barrel) for more specific target market; car user, motorcycle user, and industry. While the innovation of key partnership building block, proposed a new mutual cooperation block in alliance with marketing affiliate and distribution company, will increase the reach and sales of the product. The combination of three of it, will make CV. ESA's profit of the company will rise again.

4. Conclusion and Implementation Plan

Implementation plan are the final step that developed from strategy proposed for this company. Every factor in implementation plan is the essence to build strategy in previous chapter. The implementation plan will be implemented for 3 year ahead. The implementation will start with strengthening marketing and sales armada. This armada will be focused on creating new alliances and partnership with the company. This action plan is the bases of the success of propose strategy. With a good collaboration between distribution company, marketing affiliate company, and CV.ESA, this firm will be able to reach its strategic competitiveness and able to dominate fuel industry market in West Java Region.

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Exhibit 1 Interrelationship diagram (root cause analysis)

THE CAUSE OF CV ESA DIFFICULT TO MAINTAIN GROWTH AND EXPAND MARKET

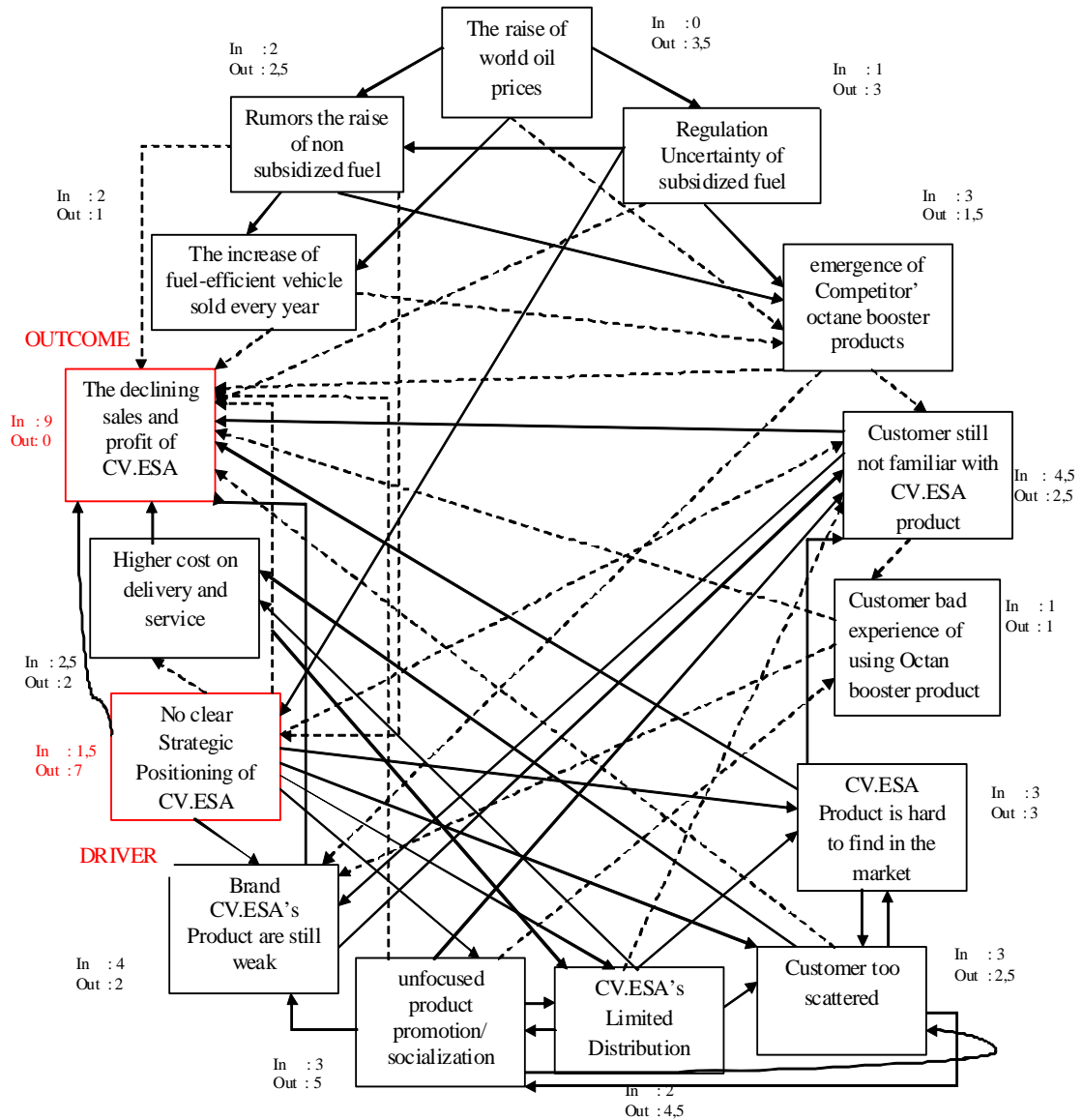


Exhibit 2

SFAS matrix

Strategic factors	Weight	Rating	Weighted Score	Duration			Comments
				S	I	L	
S1 Highly effective and cost efficient production	.10	4	.40	X	X		Simple process, high productivity
S3 Superior Product : cheap & effective	.10	5	.50	X	X		One of the most efficient and affordable product for daily use.
W3 Limited distribution network	.10	3	.30	X			No partnership with large distributor
W4 Characteristic of the product: liquid and flammable	.15	3	.45	X	X	X	Difficult To distribute it for broad market
O1 The rise of middle class	.10	4	.40	X	X	X	Consumptive but also price sensitive
O3 People awareness to use high quality and eco friendly fuel increase	.10	5	.50	X	X		Aware but still not able to buy non subsidized fuel
O5 Octane booster market has more time to grow	.15	3	.45	X	X	X	Government and people unreadiness to eliminate non subsidized fuel
T1 Uncertainty government regulation about subsidized fuel price policy	.10	2	.20	X	X		If raised too high close to the non subsidized fuel, CV.ESA product will lose its advantage.
T2 A delayed regulation to limit fuel usage based engine capacity	.10	2	.20	X	X		Target market will be more narrow

Exhibit
New business model of CV.ESA

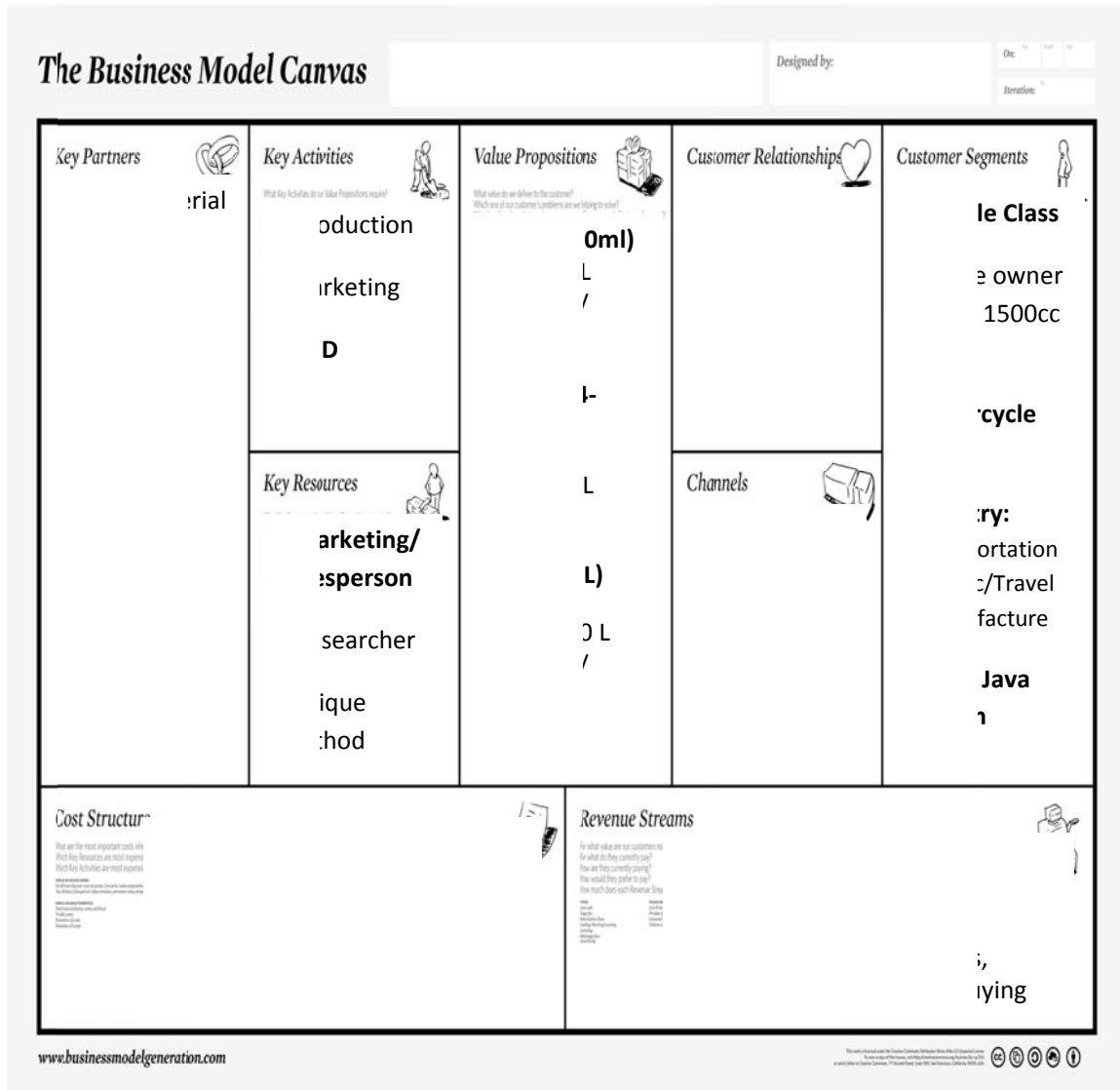


Figure of New Business Model of CV.ESA

Source: Analysis, 2012 (picture adapted from businessmodelgeneration.com)