Value Chain Analysisis for Strategic Formulation, The Case of PT Indofood Indonesia

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Abstract

Keyword: Formulasi strategi, analisis portofolio, analisis value chain.

Introduction
PT. Indofood Sukses Makmur Tbk (Indofood) is the leader processed foods company in Indonesia, with leading domestic market shares for most of its products, including instant noodles, wheat flour, branded edible oils and fats, baby foods and snack foods. Indofood also produces food seasonings products. Currently Indofood is the largest instant noodles manufacturer and the largest flour miller in the world, with installed capacities of approximately 13 billion packs and 3.6 million tons per annum, respectively. Indofood owns the largest distribution network in Indonesia. Total employees as of December 31, 1999 were 42,172.

Supermi, Sarimi and Sakura instant noodles, Bimoli and Sunrise cooking oil, Royal Palmia and Simas margarine, Chiki, Chitato and Jet-Z modern snacks, Promina and Sun baby food products, and the Indofood and Piring Lombok range of food seasonings. These brands play a vital role in sustaining Indofood s business stability and Indofood s strong fundamentals. The well-known and trusted brands of Indofood include household names such as Indomie, Indofood continues to benefit from its significant competitive advantages in Indonesia, such as its low production cost, mainly due to its economies of scale, its extensive distribution and marketing capabilities.

The operating result achieved to date is due mainly to Indofood’s "Triple A" consumer products strategy:
**Exhibit 1**
**Indofood’s "Triple A" consumer products strategy**

<table>
<thead>
<tr>
<th>Acceptability by</th>
<th>focusing on high quality products with strong brand equity and brand loyalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affordability by</td>
<td>Maintaining low cost production through economies of scale</td>
</tr>
<tr>
<td>Availability by</td>
<td>ensuring the freshness and availability of its products across the country, through strategic manufacturing locations and extensive distribution network</td>
</tr>
</tbody>
</table>

Indofood’s products are distributed mainly through its subsidiaries, including Indomarco, independent distributors as well as some cooperatives, which bring the company’s products to more than 150,000 retail outlets in the country. Indofood’s nerve center is embedded in its advanced, satellite-based information technology system that makes far-flung operations on-line with the Head Office.

**The Indofood Divisions**

**Noodles**

Increased competition and aggressive promotion is the greatest challenge faced by the division. Today there are over 100 competitor brands in the market, a fourfold growth since the start of the financial crisis in 1997 and competition is most persistent in the lower-priced segment. Competition in itself has helped build the category and significant sums spent on television advertising, consumer, and trade promotions in 2003 are increasing per capita consumption of instant noodles. There is plenty of scope for further improvement. Indofood’s market share was 80 per cent overall in the total national market which in turn grew by around 5 per cent. Indomie at the high end of Indofood range retained over 40 per cent of total noodle sales volumes. Supermi and Sarimi maintained their positions in the mid price segment. Sakura at the lower end gained volumes and continued to maintain its leadership of this segment.

**Flour**
Supply conditions in international markets, rising wheat prices and increased shipment costs were the main issues for the division in 2003. Following the increasing of Indofood stocks in the second half of 2002, a reaction to the dramatic upswing in wheat prices, any expectations of a reduction in price and supply conditions in 2003 were overtaken by poor harvests in Australia and North America (Indofood main supplier).

The national market declined 1.5 per cent in volumes during 2003, through a general slowdown in demand from food producers. Wheat flour prices were 7 per cent higher year on year, total sales revenues for the division were 2.7 per cent higher while volumes were 5 per cent lower, reflecting a 2 per cent loss of market share to two local competitors, who were reducing prices. However both gross and EBIT margins showed encouraging improvement.

Distribution

In year 2003 Indofood launch their theme called “Facing the Future” that give some prominence to developments of distribution activities. They have made a number of important changes in a major effort to broaden market coverage, increase level of market intelligence and speed up their responsiveness. The Division’s sales force has been increased by 23 per cent and truck fleet by a further 21 per cent.

The management of inventory has been substantially altered from two separate stock controls at factory and warehouse to a centralized system, which is coordinated by branches as they are positioned closest to markets. Indofood have ‘homogenized’ their approach to distribution, by integrating the efforts of Indofood affiliated distributors, cutting out any duplication of effort and rationalizing the number of SKUs handled. While competition remained fierce during 2003 the division was able to increase gross and EBIT margins slightly.

Exhibit 2: Indofood’s distribution subsidiary
Branded cooking oils and margarine

Competition continued to intensify in the branded cooking oil and margarine markets in 2003 and their performance was affected. Indofood’s branded revenues were 14 per cent higher at Rp 2.2 trillion, the result of price increases in February and November. Sales volumes increased by 4 per cent for the whole year to 462,600 tons and the division maintained market share at just under 40 per cent. Margarine sales volumes were 1 per cent lower primarily due to increased competition in the industrial margarine sector where Indofood has traditionally been dominant. Market share in margarine was 60 per cent.

The division recorded an operating loss of Rp 23.9 billion (compared to Rp 69.6 billion losses in 2002) but expectations are for a return to a positive operating performance in the year ahead. Keen price-driven competition, the prime factor influencing customer loyalty in this category, was the major challenge for the division. A number of fully-integrated competitors continued to absorb rather than attempt to pass on CPO price increases. The range of choice in the fast growing modern retail sector expanded still further while the level of migration from commodity cooking oil sales to branded sales in traditional wet markets was disappointing.

Trading

Conditions in 2003 were extremely tough for the trading operation, which is also responsible for the production and export sales of coconut oil (CNO). An inverse market for CPO, (forward prices constantly at a discount to spot), unusually steep freight rates, the effects of new import regulations and duty increases in the Indian market and the Rupiah appreciation against the US Dollar was a combination of factors that reduced margins. Drought conditions during the year led to a tightening of copra supply which adversely impacted CNO production and profitability. Sales were 26.3 per cent lower at Rp 2.1 trillion with a reduced gross margin of 2.0 per cent and operating loss of Rp 63.8 billion.

Plantations

The division produced another strong performance with sales 19.3 per cent higher at to Rp 1.1 trillion and operating margin climbing to 49.8 per cent (2002: 43.6
per cent). Output was 8.25 per cent higher at 298,739 tons from 54,440 hectares, representing the equivalent of about half of Indofood’s total manufactured cooking oil and margarine needs. A delay in the arrival of the rainy season helped Indonesia’s palm oil crop in 2003, increasing output to 9.9 million tons with expectations for a further 4 per cent growth in the year ahead. Prices generally eased in the first half of the year with steady firming after August but a poor soy bean harvest in the USA helped push up international CPO prices and the outlook is for a degree of stability at the current high levels.

**Snack Foods**

Sales for the division were lower primarily due to delays in launching some high profile promotions. For the popular brands of Chiki and Cheetos unit volumes were down 6 per cent and market share was down several percentage points. This category is primarily reliant on modern retail, a sector which continues to expand across Java, and selected outlying cities where the higher income groups reside. In the second half of the year, following promotions using Beyblades and Looney Tunes characters, sales volumes returned strongly. Continued promotional activity in 2004 is expected to deliver better results.

On a brighter note, Indofood higher-priced brand, Chitato potato chips, gained 8 per cent in sales volumes, improved margins from two price increases and higher market share. At the lower end of the market there was a decline in volume of the Yoyo brand as competition heated up. A re-launch of the Tradia brand with new packaging and a wider range of product are already underway to improve Indofood competitive position and attract some interest from the large traditional snack market.

**Children’s Foods**

In 2003 a full year of this business resulted in substantial growth in volumes and revenues. At the same time, in the commercial sector, Indofood still controlled the largest share of the market at 55 per cent, slightly lower than in 2002 but fared no worse than leading rivals, while smaller manufacturers made slight gains. Stability in raw materials prices helped improve margins.
One of Indofood main challenges is the conversion of aid-related customers into the habit of buying their commercial brands as family incomes improve. Aid agencies estimate a constant 30 million people below the poverty line in Indonesia for the next 10 to 15 years and Indofood capacity gives an advantage in securing more of this business in the future. They tried to balance this growth with improvements to profitability and they are planning some new higher margin products under Indofood two successful brands of Promina and SUN. A&P strategies will be crucial as will the positioning of Indofood products to avoid the crowded middle market sector in the year ahead. Given improved consumer buying power and the influence of AFTA, they expect overseas competitors will continue to target Indofood market.

Packaging

Packaging Division continued to serve the needs of Indofood in flexible packaging as well as the requirements of third party customers which collectively accounted for 24 per cent of the Division’s sales during 2003, much of this exported around the region to leading multinationals. The Division is one of the largest packaging companies in South East Asia with three plants operating full service design, development and printing for flexible packaging with a capacity of 720 million running metres per year. Capital expenditure is planned in 2004 to expand downstream processing to remove potential bottlenecks as capacity utilization increases.

Competition and Future Challenges

At this time Indofood is faced many problems. Indofood distribution channels are in trouble. On the level of retailer, that is PT Indomarco Prismatama, has been asked by Komisi Pengawas Persaingan Usaha (KPPU) to stop their expansion. Indomarco Primastama is the owner of 747 indomaret. Most of the share Indomarco Primastama is used to be owned by PT Indomarco Prista, Salim Group Business Units and Indofood as the holding company. One of the Indofood business units on distribution, PT Indomarco Adi Prima, is the supplier 9 % Indofood product in to Indomaret.

There are three problems occurs. First, KPPU asked Indomarco to stop their expansion. Indomarco didn’t allow having direct investment in opening new stores
except using franchise. Second, 51% share of Indomarco Prismatama is in the hand of Grup Bhakti Investama. Mean that Indomaret group is not owned by Salim Group anymore.

Third, many Indofood challenger are coming to the market especially on the noodle business. There are some competitors such as PT ABC Central Food with brands like Mie ABC and President. 65% share of this company is now acquired by HJ Heinz, a multinational company from US that operate on food industry.

Another multinational company such as Unilever also tried to enter in food industry. Usually they only produce toiletries but now they also enter noodle market by launching Mie & Me. Local competitor already strengthening their power as well. There was Medco Group with noodle products names salam mie.

The newest and major competitor in noodle industry is Wings Food. Their new product that is Mie Sedaap has shocked Indofood. Launched in April 2003, this product could take over for about 12% Indofood market share.

**Exhibit 3: Indonesia ten largest packaged food companies**

<table>
<thead>
<tr>
<th>Company</th>
<th>2000</th>
<th>2001</th>
<th>Product range</th>
</tr>
</thead>
<tbody>
<tr>
<td>PT Indofood Sukses Makmur Tbk</td>
<td>15.6</td>
<td>15.4</td>
<td>noodles, flour, cooking oil, margarine, snack food, baby food, food seasonings</td>
</tr>
<tr>
<td>Nestlé SA</td>
<td>4.1</td>
<td>4.2</td>
<td>dairy, coffee, tea, beverages, sauces, chocolate, candies, baby food, cereals</td>
</tr>
<tr>
<td>Unilever Group</td>
<td>3.0</td>
<td>3.2</td>
<td>oils and fats (margarine), ice cream, sauces, dressings and condiments</td>
</tr>
<tr>
<td>Friesland Coberco Dairy Foods Holding NV</td>
<td>2.7</td>
<td>3.0</td>
<td>dairy products</td>
</tr>
<tr>
<td>PT Indomilk</td>
<td>3.0</td>
<td>2.8</td>
<td>sweet condensed milk, milk powder, liquid milk, butter, yoghurt</td>
</tr>
<tr>
<td>PT Heinz ABC Indonesia</td>
<td>2.3</td>
<td>2.3</td>
<td>chili sauce, fruit drink concentrates, ketchup, soy sauces</td>
</tr>
<tr>
<td>Garudafood Group</td>
<td>1.4</td>
<td>1.5</td>
<td>peanuts, biscuits, iely food</td>
</tr>
<tr>
<td>PepsiCo Inc</td>
<td>1.1</td>
<td>1.5</td>
<td>soft drinks, snack food</td>
</tr>
<tr>
<td>Royal Numico NV</td>
<td>1.3</td>
<td>1.4</td>
<td>baby food</td>
</tr>
<tr>
<td>PT SMART Corp PT (Sinar Mas)</td>
<td>1.4</td>
<td>1.2</td>
<td>crude palm oil and palm kernel, cooking oil, margarine and shortening</td>
</tr>
</tbody>
</table>

Their competitor was not only in the noodle business. On the cooking oil product, Indofood should compete harder with Sinar Mas Group, which has production volume a half more than Indofood production volume. On the snack food, they should compete with many players in the market also. New player on this business such as Garudafood Group is already having production volume that exceeds indofood total product volume in snack food. Indofood still also compete with other competitors such as Mayora Group and Siantar Top.

**Exhibit 4: Indofood Financial Highlights**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>17,571.4</td>
<td>16,483.3</td>
<td>14,844.6</td>
<td>12,732.2</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>4,466.1</td>
<td>4,067.8</td>
<td>3,886.6</td>
<td>3,710.6</td>
</tr>
<tr>
<td>Income from Operations (EBIT)</td>
<td>2,008.3</td>
<td>1,880.1</td>
<td>2,034.5</td>
<td>2,386.3</td>
</tr>
<tr>
<td>Net Income</td>
<td>105.5</td>
<td>89.9</td>
<td>74.9</td>
<td>61.9</td>
</tr>
<tr>
<td>Shares Outstanding (million)</td>
<td>8,527.7</td>
<td>8,483.3</td>
<td>8,030.6</td>
<td>9,158.0</td>
</tr>
<tr>
<td>Income from Operations per share (Rp)</td>
<td>22.6</td>
<td>21.2</td>
<td>22.4</td>
<td>24.2</td>
</tr>
<tr>
<td>Earnings per share (Rp)</td>
<td>71.0</td>
<td>90.0</td>
<td>52.0</td>
<td>71.0</td>
</tr>
<tr>
<td>Net Working Capital</td>
<td>3,442.9</td>
<td>2,805.7</td>
<td>(808.3)</td>
<td>1,310.0</td>
</tr>
</tbody>
</table>

| Total Assets         | 15,200.9 | 13,251.3 | 12,975.1 | 12,554.6 |
| Capital Expenditure  | 615.4    | 146.7    | 770.8    | 481.4    |
| Total Shareholders Equity | 4,032.0  | 3,663.1  | 3,651.6  | 3,588.7  |
| TOTAL LIABILITIES    | 9,255.3  | 10,715.1 | 6,656.7  | 6,902.1  |

| Return on Assets (%) | 3.1  | 2.1  | 5.8  | 5.6  |
| Return on Equity (%)  | 15.6 | 22.2 | 22.5 | 23.6 |
| Current Ratio        | 1.94 | 1.93 | 0.37 | 1.3  |
| Liabilities to Equity Ratio | 2.58 | 2.92 | 2.43 | 2.90 |
| Liabilities to Assets Ratio | 0.69 | 0.76 | 0.37 | 0.71 |

Source: www.indofood.co.id

From the data we could see that Indofood business is still promising for the future. However there will be many challenges that would be faced in future. Here we have two questions to identifying Indofood strategy.

- How would Indofood create cross-business strategic fits along the value chain?
- How could Indofood develop its organizational structure that could optimize its competitive advantage?
PORTFOLIO ANALYSIS

One of the techniques to analyze corporate portfolio is the by using General Electric Matrix. The aim of a portfolio analysis is (1) analyze its current business portfolio and decide which SBU's should receive more or less investment (2) develop growth strategies for adding new products and businesses to the portfolio, and (3) decide which businesses or products should no longer be retained.

This approach applies two axes which consist of the attractiveness of the industry and the strength or competitive position of the business unit. Industry or market attractiveness includes a broader range of factors other than just the market growth rate that can determine the attractiveness of an industry / market. Competitive strength likewise includes a broader range of factors other than just the market share that can determine the competitive strength of a Strategic Business Unit.

Typical (external) factors that affect Market Attractiveness:
- Market size
- Market growth rate
- Market profitability
- Pricing trends
- Competitive intensity / rivalry
- Overall risk of returns in the industry
- Entry barriers
- Opportunity to differentiate products and services
- Demand variability
- Segmentation
- Distribution structure
- Technology development

Typical (internal) factors that affect Competitive Strength of a Strategic Business Unit:
- Strength of assets and competencies
- Relative brand strength (marketing)
- Market share
- Market share growth
- Customer loyalty
- Relative cost position (cost structure compared with competitors)
- Relative profit margins (compared to competitors)
- Distribution strength and production capacity
- Record of technological or other innovation
- Quality
- Access to financial and other investment resources
- Management strength
There are six step approaches to implementation of portfolio analysis using the GE Matrix which is:

1. Specify drivers of each dimension. The corporation must carefully determine those factors that are important to its overall strategy
2. Weight drivers. The corporation must assign relative importance weights to the drivers
3. Score SBU's each driver
4. Multiply weights times scores for each SBU
5. View resulting graph and interpret it
6. Perform a review/sensitivity analysis using adjusted other weights (there may be no consensus) and scores.

Depending on where a unit falls on the matrix, its broad strategic mandate is either to invest capital to build position, to hold by balancing cash generation and selective cash use or to harvest or divest.

**Portfolio analysis for Noodles, Flour, Branded cooking oils and margarine, Snack Foods, and Children’s Foods**

√ **Determining the external factors that affect market attractiveness**

1. Market size and project growth rate.

   Unfortunately we didn’t have any data how much the growing rate for the noodles, flour, branded cooking oils and margarine, snack foods, and children’s foods industry. But we could make an assumption that the growth rate for the industry is almost the same with the market leader projections. Indofood has projected that demand for the noodle in market is about 3 percent. For the other industry, since it was a big and fast growing industry there are still attractive.

2. The intensity of the competition

   In Indonesia, we know that there were already many players on food industry appear in the market. The industry attractiveness for the noodle industry is getting to be weaker. Many new competitors in the market could gain bigger and bigger market share than before. Many players are trying to launch their new product with different taste and different price. There are over 200 noodle brands in the
market today. For the other products (Flour, Branded cooking oils and margarine, Snack Foods, and Children’s Foods) the players is still small. In flour industry, there were only three big players in Indonesia. More challenge perhaps in snack and children food. For the snack food, the intensity of competition will increase because there are some growing numbers of local player. In children food industry the new player would come from international producers.

3. Emerging opportunity and threat

Noodles, flour, branded cooking oils and margarine, snack foods, and children’s foods industry in Indonesia is very attractive. Recent data shows that only 50 million Indonesian people that consume noodle. Indonesia has a great number of people which is about 200 million people mean that there are still many potential consumers to be served. Consumer’s purchasing power in Indonesian is getting better also after the crisis. However this potential opportunity is also come up with the potential threat for instance the increasing price for raw material. This condition also happens in other industry.

4. The presence of cross industry strategic fit

It’s more attractive for the industry to pursuing related diversification. There are more industry value chain and resource requirement in many business that match up with the company operations. Noodles, flour, branded cooking oils and margarine, snack foods, and children’s foods in some occasion are having similar value chains. Each of them can support others.

5. Resource requirements.

Most of the noodle producers in Indonesia dint have their own resource requirements. Material for noodles, flour, branded cooking oils and margarine, snack foods, and children’s foods still have to import from another country.

6. Seasonal and cynical influences

Industry buyer demand for Noodles, flour, branded cooking oils and margarine, snack foods, and children’s foods is considerable as steady year to year. Changing demand in some product like noodle usually could be predicted before (such as increasing buying demand in Ramadhan month)
7. Social, political, regulatory and environmental factors.

There are some concerns with the government rule about monopoly. Another problem is the price of fuel is increase and the side effect from the increasing fuel is delaying the distribution.

8. Industry profitability

Historically the profitability of noodles, flour, branded cooking oils and margarine, snack foods, and children’s foods industry of is stable. From the indofood data we could learn that the changes of profitability usually around 5%.

Exhibit 5: Calculating weighted industry attractiveness score

<table>
<thead>
<tr>
<th>Industry Attractiveness Measure</th>
<th>Importance</th>
<th>Noodles Rating/Score</th>
<th>Flour Rating/Score</th>
<th>oils Rating/Score</th>
<th>snack Rating/Score</th>
<th>Children’s foods Rating/Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market size and project growth rate</td>
<td>0.10</td>
<td>8/0.8</td>
<td>9/0.9</td>
<td>8/0.8</td>
<td>7/0.7</td>
<td>8/0.8</td>
</tr>
<tr>
<td>The intensity of the competition</td>
<td>0.25</td>
<td>3/0.5</td>
<td>8/2</td>
<td>3/0.75</td>
<td>3/0.75</td>
<td>3/0.75</td>
</tr>
<tr>
<td>Emerging opportunity and threat</td>
<td>0.10</td>
<td>8/0.8</td>
<td>8/0.8</td>
<td>7/0.7</td>
<td>8/0.8</td>
<td>8/0.8</td>
</tr>
<tr>
<td>The presence of cross industry strategic fit</td>
<td>0.20</td>
<td>10/2</td>
<td>9/1.8</td>
<td>9/1.8</td>
<td>9/1.8</td>
<td>9/1.8</td>
</tr>
<tr>
<td>Resource requirements</td>
<td>0.10</td>
<td>9/0.9</td>
<td>7/0.7</td>
<td>9/0.9</td>
<td>8/0.8</td>
<td>9/0.9</td>
</tr>
<tr>
<td>Seasonal and cynical influences</td>
<td>0.05</td>
<td>9/0.45</td>
<td>8/0.4</td>
<td>9/0.45</td>
<td>9/0.45</td>
<td>9/0.45</td>
</tr>
<tr>
<td>Social, political, regulatory and environmental factors</td>
<td>0.10</td>
<td>3/0.3</td>
<td>3/0.3</td>
<td>8/0.8</td>
<td>9/0.9</td>
<td>9/0.9</td>
</tr>
<tr>
<td>Industry profitability</td>
<td>0.10</td>
<td>9/0.9</td>
<td>8/0.8</td>
<td>9/0.9</td>
<td>9/0.9</td>
<td>9/0.9</td>
</tr>
<tr>
<td>Overall industry attractiveness score</td>
<td>6.9</td>
<td>7.7</td>
<td>7.1</td>
<td>7.1</td>
<td>7.3</td>
<td></td>
</tr>
</tbody>
</table>

√ Determining internal factors that affect Competitive Strength of a Strategic Business Unit

1. Relative market share

Indofood market share in noodles industry is begun to decreases year by year. For the national market, Indofood is projecting their growth rate for about 5% in 2004. In year 2004-2005 Indofood market share is predicted 75% until 80% nationally. The data has showed us that Indofood still has strong competitive strength. Indofood oil division has also loosing share for about 6% because their competitor cut their products price. This is also happen in other product like snack and children food. However as a whole, indofood company is still have the biggest market share in food industry.
2. Cost relative to competitors cost

Price charged by industry rivals is lower than Indofood. However this is not representing that rivals have lower cost unit. Probably it’s happen because they wanted to compete by price. Indofood have large-scale operation that theoretically should have lower cost than its competitors.

3. Ability to match or beat rivals on key product attribute

Indofood have many variants of their products. Consumers have wide range of product that they could choose. For noodle product indoofod have more than 50 different brands and prices. Usually their competitor has only 2 or 3 different brand. When Wings Group launched their new brand called “mie sedaap” to the market, indofood respond this challenge by launched Supermie Sedaap. Indofood have ability to match rival product attribute.

4. Ability to benefit from strategic fits with sisters business

It’s probably the biggest strength that indofood have. They could make collaboration with their own division such as division flour and noodles. They could also share their technology, advertising, distribution and operation. Later on we discuss on the next session.

5. Ability to exercise bargaining leverage with key customers and supplier.

Indofood is big company that could exercise bargaining leverage with customers and supplier. Indofood is big consumers for its supplier therefore they have bargaining leverage.

6. Caliber strategic alliance and collaborative partnership with suppliers and buyers.

Indofood is having good strategic alliance and collaborative partnership with suppliers and buyers. Indofood have good relationship with supplier from outside of the country. Many consumers activity like charity is using Indoofod noodle, the example is on the charity of natural disaster. They also have good relationship with small food stall. Many of them are using indofood noodle.

7. Brand image and reputation

Indofood product for noodle is very well known. They have built their reputation trough many years. Started from noodle they began to use indofood brand to produce other products. This strategy is working very well.
8. Competitively valuable capabilities

Indofood is known because the quality of its product. Their logo is “the symbol of quality foods”. They have recognized for their technological leadership and marketing powers.

9. Profitability relative to competitors.

Indofood is always making profitable business of their operation. They usually have profitability up to 3%. The problem is their market share is getting smaller.

### Exhibit 6: Calculating Competitive Strength score

<table>
<thead>
<tr>
<th>Competitive Strength Measure</th>
<th>Importance Weight</th>
<th>Noodles in industry</th>
<th>Flour in industry</th>
<th>Oils in industry</th>
<th>Snack in industry</th>
<th>Children’s foods in industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relative market share</td>
<td>0.15</td>
<td>8/1.2</td>
<td>7/1.05</td>
<td>8/1.2</td>
<td>7/1.05</td>
<td>7/1.05</td>
</tr>
<tr>
<td>Cost relative to competitors cost</td>
<td>0.20</td>
<td>8/1.6</td>
<td>8/1.6</td>
<td>8/1.6</td>
<td>8/1.6</td>
<td>8/1.6</td>
</tr>
<tr>
<td>Ability to match or beat rivals on key product attribute</td>
<td>0.05</td>
<td>8/0.4</td>
<td>8/0.4</td>
<td>7/0.35</td>
<td>8/0.4</td>
<td>8/0.4</td>
</tr>
<tr>
<td>Ability to benefit from strategic fits with sisters business</td>
<td>0.20</td>
<td>10/2</td>
<td>10/2</td>
<td>10/2</td>
<td>10/2</td>
<td>10/2</td>
</tr>
<tr>
<td>Ability to exercise bargaining leverage with key customers and supplier.</td>
<td>0.05</td>
<td>9/0.45</td>
<td>7/0.35</td>
<td>9/0.45</td>
<td>8/0.4</td>
<td>9/0.45</td>
</tr>
<tr>
<td>Caliber strategic alliance and collaborative partnership with suppliers and buyers</td>
<td>0.10</td>
<td>9/0.9</td>
<td>8/0.8</td>
<td>9/0.9</td>
<td>9/0.9</td>
<td>9/0.9</td>
</tr>
<tr>
<td>Brand image and reputation</td>
<td>0.10</td>
<td>9/0.9</td>
<td>9/0.9</td>
<td>9/0.9</td>
<td>9/0.9</td>
<td>9/0.9</td>
</tr>
<tr>
<td>Competitively valuable capabilities</td>
<td>0.10</td>
<td>8/0.4</td>
<td>8/0.4</td>
<td>9/0.45</td>
<td>8/0.4</td>
<td>9/0.45</td>
</tr>
<tr>
<td>Profitability relative to competitors</td>
<td>0.05</td>
<td>8.75</td>
<td>8.3</td>
<td>8.75</td>
<td>8.55</td>
<td>8.65</td>
</tr>
</tbody>
</table>

### Exhibit 7: Indofood Portfolio GE Matrix

<table>
<thead>
<tr>
<th>INDUSTRY ATTRACTIVENESS</th>
<th>BUSINESS UNIT POSITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>HIGH</td>
<td>Noodle</td>
</tr>
<tr>
<td>MEDIUM</td>
<td>Flour</td>
</tr>
<tr>
<td>LOW</td>
<td>Oil</td>
</tr>
<tr>
<td></td>
<td>Snack</td>
</tr>
<tr>
<td></td>
<td>Children Food</td>
</tr>
</tbody>
</table>

**INDOFOOD PORTFOLIO GE MATRIX**

- **STRONG**: Noodle
- **MEDIUM**: Flour, Oil, Snack, Children Food
- **WEAK**:
Value Chain Alignment

For the distribution, Indofood tried to coordinate all sales of their product in Indonesia by using centralized system. They are channeled and coordinated through regional clusters which are located near its market and which are supported by satellite-linked information technology system which allows the company to monitor sales and inventory levels of each particular product in local sales areas. The management of inventory has been substantially altered from two separate stock controls at factory and warehouse to a centralized system, which is coordinated by Indofood branches that positioned closest to the markets. By using this system they could share their truck to load a mix of indofood product to the stores. The Company believes these clusters allow it to control its distribution and transportation costs, coordinate the flow of its products to their markets and respond quickly to competitive pressures.

On operation, Indofood builds their own centralized packaging manufacturer (PT. Ciptakemas Abadi) that produce package for all of indofood product. PT. Ciptakemas Abadi has grown rapidly to become Indonesia’s largest flexible packaging manufacturer located in and around Jakarta. Because of their technology the company could produces flexible packaging materials that cater to a comprehensive range of applications, both in the food and non food areas, like wrappers for noodles, seasonings oil, snacks, biscuits, coffee, candy, detergents, shampoo, toothpaste, etc. Indofood use their flour division to give raw material for noodles. They have integrated their R&D on one department and shared their service to the customers.

Exhibit 8: Value Chain Activities
Financial Resource Fits and competitive managerial resource fit

Indofood businesses in noodle were leaders in mature industries. Therefore, both businesses were Cash Cows and can be used to pay corporate dividends, finance acquisition. Noodle business is tending to decline, followed by snack industry. Indofood strength capability included, large-scale Distribution systems and partnership with supplier and distributors, broad portfolio products with well-known brands, joint marketing activities

Industries key success factors included:

- Distribution network
- Product development
- Availability of raw materials
- Develop brand awareness
- Prices

Recommendation

Indofood should keep its cash cows (noodle) in healthy condition, strengthening and defending their market position so as to retain their cash-generating capability over the long term and thereby have an ongoing source of financial resources to deploy elsewhere. The entire product actually has strong business unit position and high industry attractiveness and some of them is predicted to grow more. Indofood should invest to grow at its maximum capability and provide more effort to aggressively entering international market.
References


www.indofood.co.id