

## **CHAPTER II**

### **THEORITICAL FRAMEWORK**

In the previous chapter 1, the identified issues within PT.VPN related to the market development, in which the company had not achieved the target sales especially the declined of sales significantly in 2013. Historically, Volvo Penta has remained as strong player in industrial engine business with high quality of diesel engine even in Indonesia market. Therefore, in assisting PT. VPN optimizes its sales performance in Indonesia, the team will analyze the current company situation with some business tools then provide feasible marketing strategies approach for PT. VPN's improvement.

#### **2.1 PESTEL Analysis**

Environment analysis could been defined from many aspect. In this business or sales performance of PT VPN, as theory of PESTEL (PEST) tool could be used to see the relevance between business performance and environment factors. PESTEL tools can assist the company to understanding the environment in which their business operates. The six components description in PESTEL as follows political factor, economic conditions, sociocultural forces, technology factor, environment forces, legal and regulatory factors (Gamble, Peteraf and Thompon, 2013, p.38).

### **2.1.1 Political Factors**

These external factors include political policies and processes of the extent to which a government intervenes in the economy, such as tax policy, fiscal policy, costs, the political climate, and strength of institutions such as the federal banking system.

### **2.1.2 Economic Conditions**

The conditions include the general economic climate and specific factors such as interest rates, exchange rates, the inflation rate, the unemployment rate, the rate of economic growth, trade deficits or surpluses, saving rates, and capital domestic product.

### **2.1.3 Sociocultural Forces**

These forces include the societal values, attitudes, cultural factors, and lifestyles that impact business, as well as demographic factors such as the population size, growth rate, and age distribution. Population demographics can have large factors such as buying diesel machine, where costs and service needs vary demographic factors.

### **2.1.4 Technological factors**

These factors include the pace of technological change and technical development that the potential for wide-ranging effects on society, such as genetic

engineering and nanotechnology. The change can encourage the birth of new industries, such as based on nanotechnology of diesel engineering, and disrupt others such the traditional diesel industry.

### **2.1.5 Environment Forces**

These forces include ecological and environmental forces such as natural resources like water, weather, climate change, and associated factors crude oil availability as diesel fuel.

### **2.1.6 Legal and Regulatory Factors**

These factors include the government regulation and laws with which companies must comply such as consumer laws, labor laws, and occupational health and safety regulation. Others, such as minimum wage legislation, affect certain types of industries (low-wage, labor intensive industries) more than others.

## **2.2 Segmentation, Targeting and Positioning (STP)**

In the segment of industrial engine, practically there are so many strong brands has already played in this market. (Kotler and Keller, 2014, p.3-4) mentioned about how the importance of marketing for the company to get healthy financial in order to

sustain the business from fast changing trend siege in economy. STP is one of the business tools that can help PT. VPN to review its target market with better point of view.

### 2.2.1 Segmentation

It is part of basic marketing strategy for company in B2B profiling the target customer segment. (Jaman, 2012, p.62) mentioned when the firm failed to understand the detail of their customer segmentation, it may let the sales slipped. The journal also put other statements by Geoff Lancaster and Paul Reynolds (2002) in of their published marketing book, whenever the firm can get well information about customer, fierce competition and know the trends, it's necessary for the firm to focus on the segmentation aspect. In the book "Marketing Management",

(Kotler and Keller, 2012, p.230) explained the major variable of segmentation that can be used to figure out the profile of the target customer in business market as following bellow:

- **Demographic:** industry, company size, and location
- **Operating Variables:** Technology
- **Purchasing approaches:** Purchasing-function organization, power structure, Nature of existing relationship, General purchasing policies, and purchasing criteria.
- **Situational Factors:** Urgency
- **Personal characteristic:** Buyer-seller similarity, attitude toward the risk and

### **2.2.2 Targeting**

After the market segment is determined, the next phase for the company is to have more focus with select the appropriate target market (Kotler, 2012, p.34). However, not every company can cover all the target market. In this consulting project's topic, the target market will be in niche market segment. Ordinarily, the customers in niche market segment have willing to pay extra for quality of product. Since PT. VPN can be categorized as industrial product especially on the exclusive product where the frequency of purchase only for certain of purposes (Ma'arif, 2008, p.122).

### **2.2.3 Positioning**

(Kotler, 2012, p.276) positioning is any activity to build strong perception about the brand image for the target market. The positioning also reflects an objective comparison between a brands among with its competitors. When the brand has had good positioning in market target perception, it will directly lead customer to recognize the value proposition within the brand.

In order to acquire an effective competitive advantage in market, the product or brand should be understood by prospects in certain way. The outcome of positioning will simply explain transfer a clear image in prospect's mind of what the product can offer. A clear position in the prospect's mind should be the one of the most important goal in marketing (EDU T, 2012).

## **2.3 Value Proposition**

Product or service partially or completed packaging design offers to consumers to fulfill and satisfy their needs. In other hands, it will give the financial benefit for manufacturer or provider. In addition to the basic proposition, in fact that product or service should be more than customer needs satisfaction but it should give also to the physiological needs (Ma'arif, 2008, p.119). Preference, choice and value of customer are indicator of value proposition.

Value proposition or differentiation as competitive advantages, where the values should give greater values to customer beyond the competitor's values. It can be derived from lowering the price or giving more values of product and services benefit to justify a high price (Joy I. Dirisu / Dr. Oluwole Iyiola / Dr. O. S. Ibidunni, 2013). Therefore, the value proposition should be better can bring the expected experience that customer want, especially to sustain a longer relationship as a supplier.

## **2.4 Ansoff matrix**

The Ansoff Matrix was developed by Igor Ansoff in 1957 with four major strategic options (table 2.2). The matrix has function to present the current company situation in the market and potential market. The Ansoff matrix is not only just examining the introduction of new products and services into a market but it also withdrawals of a product or service from a market (Lynch, R,2012, p.315-320).

	Present product	New Product
Existing market	Market Penetration	Product Development
New market	Market Development	Diversification

**Figure 2.1 Ansoff Matrix (Source: [www.free-management-ebooks.com](http://www.free-management-ebooks.com))**

The matrix basically consist of two dimensions, where the first dimension concentrates on the product (existing or new product), and the second dimension concentrates on the market (existing or new market).

1. **Market Penetration:** Focus on selling the product or service to existing markets to achieve growth in market share.
2. **Market Development:** Focus on developing new markets or market segments for the existing product or service.
3. **Product Development:** Focus on developing new product or service for the existing markets.
4. **Diversification:** Focus on development of new product and sell it into new market.

The matrix present the alternative choices to assist the company make a decision whether or not to develop new products or enter new markets, but it does provide with an outline of alternative methods that support the company achieve growth targets. The matrix also showing how the company can develop a strategy to

change the market position as well as increasing or improving the product range. Furthermore, each of those options also show some risks that should need to consider before the execution the marketing strategy.

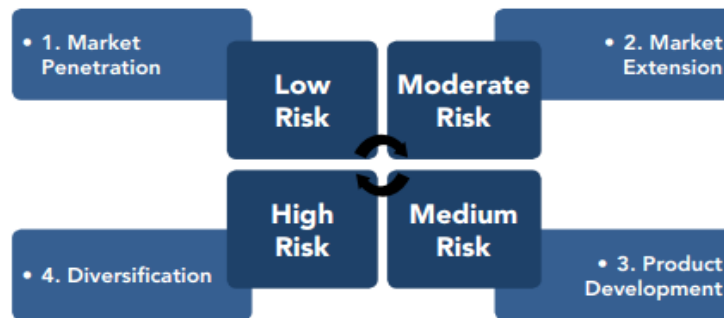


Figure 2.2 Market Expansion Risks (Source: source: [www.free-management-ebooks.com](http://www.free-management-ebooks.com))

## 2.5 SWOT Analysis and TOWS Matrix

SWOT analysis is a basic tool of marketing, in which it can figure the overall evaluation of product and services from its strengths, weakness, opportunities and threats. In 1960s and 1970s, Albert Humphrey had introduced this SWOT framework analysis, and currently adopted by almost all organizations to aid them in making decisions. The organization can use it also for defining and formulating their strategy in business competition.

- **Internal (Strengths and weakness)** is business evaluation of internal company strengths and weakness from product and service owned.
- **External (Opportunities and Threat)**. The company should evaluate every opportunities and threats from external company environment that will contribute



to the business. The good marketing should take the benefit of these opportunities and threats in order to be an advantage for the company.

TOWS matrix is a tool to analyze the current situation of implemented strategies and alternative strategies need to be developed (Koichi Takahashi / Takashi Maeno, 2011). The TOWS analysis is used to enhance SWOT analysis and defining alternative strategies from the analyzed of internal and external situation. There are four TOWS analysis.

1. Strength-Opportunities (SO). Analyze the strength (internal) in order to create the opportunities (external).
2. Strength-Threats (ST). Analyze the strength (internal) in order to overcome the threats (external).
3. Weakness-Opportunities (WO). Minimalize the weakness (internal) with taking the advantage of the opportunities (external).
4. Weakness-Threats (WT). Minimalize the weakness (internal) and overcome the threats.

## **2.6 SAVE (Solution, Access, Value, Education) Model**

Few decades ago, the marketing 4ps (product, price, place and promotion) model probably have lead many marketers in capture the company's target. However some experts argued if 4ps model was not really matched in business-to-business (B2B) world, the marketing 4ps concept probably it did not reach all B2B model in right way (Richard E, Eduardo C, Jonathan K, 2013). They also mentioned that most

of the marketing and sales team in 4ps model has lead them only to the product features and quality but it did not cover the customer needs to resolve their problem. As a result, it shifts the 4ps to the SAVE model as follows:

1. From ***Product***, shift the focus on ***Solution***

To support the marketing product, beside focus on quality, feature and technology, the company also has to concentrate on the solution. Therefore, the marketing and sales team need to include their strategy with customer-centric perspective. The company should define who the users of this product are, and how this product benefit can meet their need.

1. 2. From ***Place***, shift the focus on ***Access***

Access is about thinking the integration way of all channels and tools available to company that are relevant to their prospects or customers. The access refers to the extension of place on 4ps model where strategic place or location plays important roles in marketing. Moreover, in SAVE model, the related companies have responsibility in providing the channels as a whole connections, where the prospect or customer can access easily the product or service both through direct purchase and indirect purchase (online purchase).

3. From ***Price***, shift the focus on ***Value***

In the recent HBR's "***Rethinking 4ps***", those marketing experts stated about *Value* or benefit relative to *Price*, rather than stressing how price relates to production costs, profit margins, or competitor's prices". Usually price is not the key factor when

customer decide to buy product or service. This is because most customers compare the entire marketing offering and do not simply make their purchase decision based solely on a product's price. In essence when a purchase situation arises price is one of several variables customers evaluate when they mentally assess a product's overall value.

#### 4. From *Promotion*, shift to *Education*

Change the P "Promotion to Education, this transformation has brought a new way for company to be closer with the customers. When customers are well informed for what they want to know about the product or service, it can give new level of service that telling the customer by continually explore knowledge that may incorporated in promotion or advertising tools. (Conrado, 2013).

As described by the initiators Eduardo, the SAVE strategy can give a new way of thinking for company by not just selling their product. Three requirements for successfully making the shift from 4 P's thinking to SAVE.

1. Management must encourage a solutions mind-set throughout the organization.
2. Management needs to ensure that the design of the marketing organization reflects and reinforces the customer-centric focus.
3. Management must create collaboration between the marketing and sales organizations and with the development and delivery teams.

The SAVE framework is a step of evolution from traditional product marketing into solution marketing. However, it is often difficult to change the way of company approaches the marketing. (Lloyd Melnick, 2015) stated the four P's of traditional

marketing theory (Product, Place, Price and Promotion) was not too relevant anymore with the current business climate and expectations of customers. Transforming the four P's into the SAVE framework with focus on Solutions, Access, Value and Education, it can provide alternative marketing strategy. The core of SAVE is providing solutions that meet customers' needs and overall focusing on the user.

## **2.7 Customer Relationship Management (CRM)**

(Kotler and Keller, 2012, p.135-136) defined, customer relationship management (CRM) is any kind of activity that sustain and keep customer loyalty to use the service or product of the firm. Today, CRM has contributed a large of portion that influenced company profitability.

The purpose of the firm to have CRM within marketing management cannot be separated with maintain the exist relationship. For customer, the firm try to satisfy create good experience image for the brand, product, and service offer for customer personally or mass as part of additional service. In the end, customer then will repeat to use the same brand product, service which already trusted.

### **2.7.1 Managing B2B Customer Relationships**

To generate and expand the company's profit from customer loyalty is one of the way to success the company business (Kotler and Keller, 2012, p.141-143). Business-to-customer (B2C) model and business-to-customer (B2B) businesses are

different, B2B transactions is not too intense selling the product or service but the request on the purchase order in high value. B2B businesses deal is only applied to existing known clients base who are already know each other and doing business together for years. Therefore, B2B relations are more personal, often face to face, and still follow the old methods of communications, such as mails, phone calls, faxes, personal meetings etc.

In improving the relation for B2B between the sellers and buying partner, the trust factor needs to be included in this relation. The higher trust can add value for both seller and the partner, and having high trust level among the B2B which meant the healthy relation between companies and chance to expand the business.

In the case of PT. VPN, B2B relationship model where the buyer (dealer) and supplier (PT. VPN) relationships can be classified to the below category relationship.

- Basic buying and selling relationship; these are simple and routine exchanges with moderate levels of cooperation and information exchange.
- Contractual transaction relationship; these exchanges are defined by formal contract and generally have low levels of trust, cooperation, and interaction.
- Collaborative relationship; these exchanges more on trust and commitment that will lead to the true partnership.
- Mutually adaptive relationship; buyers and sellers make many relationship with specific adaptations but need necessarily achieving strong trust or cooperation.

In general, B2B relationship requires a long term process. During this process, utilize the CRM function can help in designing a prolonged marketing campaign that will nurture the relationship over a period of time.

### **2.7.2 Building Loyalty**

To generate and expand the company's profit from customer loyalty is one of the way to success the firm business (Kotler and Keller, 2012, p.141-143). Customer loyalty is important because selling more to existing customers are easier than finding and selling to new ones.

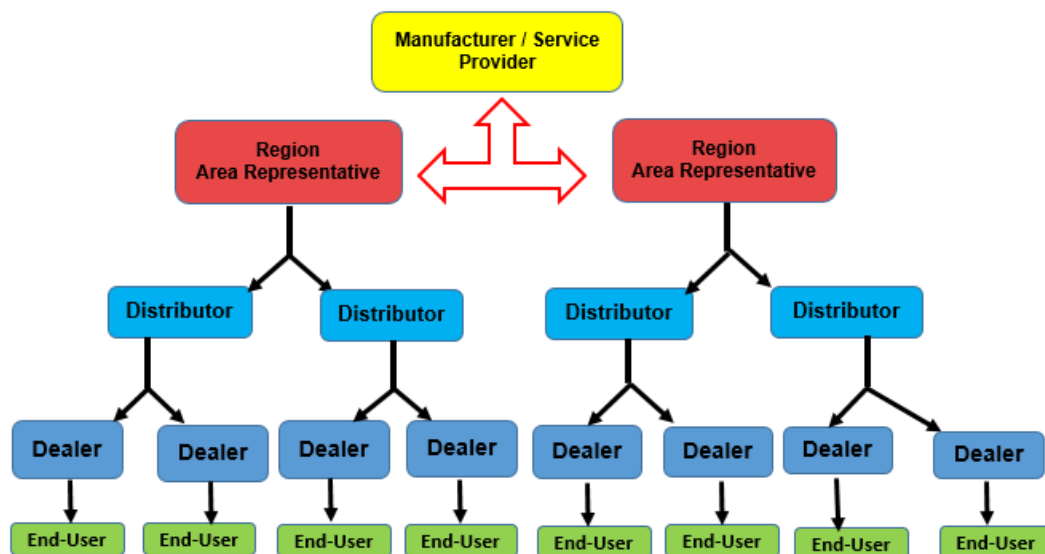
Building loyalty is not only purposed to find out and request the customer (dealer) for their detail information such as phone number or email when they buy product or service from the company. However, maintaining good relationships and trust each other over time that would be benefit both sides.

Loyal customers tend to do repeat order, and they will recommend the business to others. Focus on customer centric is one of the way to rise up the level customer trust in building the customer loyalty, by identifying the factors that become the barrier, it would give some the company required evaluation in fulfill the customer needs.

## 2.8 Supply Chain Distribution

In theory, there are three types of supply chain which are Direct supply chain, Semi-Direct supply chain, and Indirect supply chain (Ma'arif, 2008, p.165-171). Direct supply chain means product or service from manufacturer or provider is directly distributed to consumer or end-user. Semi-Direct supply chain means the flow of product or service is distributed from manufacturer or provider to consumer or end-user by involving middleman as distributor. Indirect supply chain means the product or service started from manufacturer or provider to consumer or end-user through several layers of middleman.

In this thesis, the current supply chain model adopts the four levels of indirect supply chain distribution, where PT VPN acts as distributor of Volvo Penta's product or service.



**Figure 2.3 Four Levels of Indirect Supply Chain Distribution (Source: The Power of Marketing Practitioner Perspectives in Asia)**

The benefit of this four layers distribution is the company would be able to go into the remote area through available network supply chain, and company operation or distribution cost would be efficient rather than having own distribution operation. Whereas the weakness of this four layers distribution is communication barriers with different levels understanding of product or service knowledge, and can disturb the brand or product image of the company.