CHAPTER II
BUSINESS ANALYSIS

2.1 Industry Analysis

Poultry industry in Indonesia is the most advanced in the livestock sector. It has one of the brightest growth prospects in Indonesia. 60% of production is concentrated in Java, with the balance distributed as follows: 30% in Sumatra, 6% in Kalimantan and 4% in Sulawesi. Its rapid growth is fuelled by a huge market potential and the relatively low consumption on chicken in Indonesia compared its South East Asia neighbors as can be seen in the table below:

Table 2.1: Chicken Consumption Per Capita in ASEAN Countries

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<td>1.93</td>
<td>1.95</td>
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<td>1.7</td>
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<td>1.68</td>
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<td>1.7</td>
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<td>2.22</td>
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</table>

*Source: FAO*

In Indonesia, poultry industry also has relatively low competitiveness and profitability compared to poultry producers in other countries, notably USA, Thailand
and Brazil. The industry relies for almost 70% of its production inputs on imported feedstuffs and animal health care products like vaccines and others.

Based on the national meat consumption data for year 2003, chicken was at the top position, which is 64% of total meat consumption, far higher than other meat products, such as beef 13% and lamb 1% (chicken was still favorite meat for Indonesians, being the cheapest source of animal protein and for a predominantly Moslem population, chicken is a key element of the meat diet).

![Figure 2.1: Indonesia’s Meat Consumption per Capita 2003](source)

*Source: FAO and Ditjen Peternakan*

In year 2002 to 2004, the combined installed production capacity of feedmills in Indonesia increases by an average of 3.6% p.a, from 5.5 million MT in 2002 to 5.7...
million MT in 2003, and 5.3% p.a from 5.7 million MT in 2003 to 6.0 million MT in 2004. This is in line with the growth of chicken meat production.

<table>
<thead>
<tr>
<th>Table 2.2</th>
<th>National Feedmill and Chicken Meat Production</th>
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<tbody>
<tr>
<td></td>
<td>2002</td>
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<tr>
<td>Feedmill Production</td>
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<tr>
<td>Chicken Meat Production</td>
<td>1.1</td>
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*Source: FAO and Ditjen Peternakan*

For a company to succeed in the poultry business, it needs to fully integrate its upstream and downstream operations. This comprises several major production activities: feed production, DOC (Day Old Chick) breeding, chicken farming, chicken dressing and processing, and distribution. In Indonesia, although there are more than 15 poultry operators, only 3 are fully integrated. These are PT Charoen Pokphand Indonesia Tbk, PT Japfa Comfeed Indonesia Tbk and PT Sierad Produce Tbk.

2.1.1 Competitor Analysis

2.1.1.1 PT Charoen Pokphand Indonesia Tbk (Charoen Pokphand)

Charoen Pokphand began commercial operations in 1972 with feeds production capacity of 20,000 tons a year in 2.4 hectares of land area in Jakarta. The
products consisted of, among others, cattle feeds (cow, pig) and poultry feeds (layers, broiler and duck). In 1976 and 1979, the company expanded its operation to Surabaya and Medan by setting up factories with capacities of 24,000 tons and 80,000 tons a year, respectively.

After undertaking several production improvements, presently, Charoen Pokphand has annual continued total production capacity of 650,000 tons in its factories in Jakarta, Surabaya and Medan. The factory in Jakarta has a land area of 27,284 square meters (with production capacity of 200,000 tons a year), Surabaya has a land area of 42,565 square meters (with production capacity of 250,000 tons a year), and Medan has a land area of 17,595 square meters (with production capacity of 200,000 tons a year).

Witnessing the increase in the market demand for shrimp feeds, in 1988, Charoen Pokphand expanded its business to the production of shrimp feeds by establishing a factory with a capacity of 40,000 tons a year in Medan. To further strengthen its market position in poultry feeds, on April 24, 1990, the shareholders approved to take over 80% of the shares of P.T Charoen Pokpand Jaya Farm, a company domiciled in Jakarta and engaged in poultry and other animal husbandry.

2.1.1.2 PT Japfa Comfeed Indonesia Tbk (Japfa)

Established on 18 January 1971, Japfa became a public (listed) company on 23 October 1989. With total production capacity of 1.6 million tons per annum, Japfa is one of the leading feed manufacturers in the country. Of the total feed produced by Japfa today, 10% is used for internal breeding operations while the rest is sold to local farmers and independent distributors.

Japfa attributes its success in feed production to five critical factors: a sophisticated feed technology system, an excellent feed formulation strategy, a strong raw materials procurement capability, a high capacity utilization rate, and unrivalled distribution network.

Japfa places equal emphasis on producing high quality feeds and maintaining quality consistency of its feed. It boasts of an advanced feed technology system which enables it to implement a stringent quality assurance program. In feed formulation, it has a team of qualified nutritionists who are capable of tailoring to a particular set of feed specifications. This capability is a major benefit to customers as a precisely formulated feed produces the best results and is also cost efficient.

In farming, Japfa enjoys a high level of integration with its subsidiary, PT Multibreeder Adirama Indonesia Tbk. Established in 1985 and publicly listed on the Jakarta and Surabaya Stock Exchanges in 1994, Multibreeder currently operates a number of poultry breeding farms to produce DOCs located throughout Indonesia. Most of Multibreeder’s DOCs are sold to local commercial farmers.
In 2003, JPFA sales growth was 10.02% and 3.14% in 2002, and resulting a profit of Rp 151.9 billion in 2003, and Rp 1,088 billion in 2002. Appendix 5 shows the financial information in more details.

2.1.2 Bird Flu Outbreak

Bird Flu outbreak, which posed a serious threat to the poultry industry in Indonesia, in fact did not influence the national chicken production level in 2003 and 2004. Table 2.2 shows that the national chicken production has an increase of 9% YoY, from 1.1 MT in 2003 to 1.2 MT in 2004. The consumer demand decreased slightly when the bird flu outbreak was first announced. Some articles support this information as shown in Appendix 7 to 9.

2.1.2 Commodity Price

In poultry businesses, production cost is highly influenced by the fluctuation in raw material price, especially for two major commodities, corn and soybean meal (SBM) as shown in Figure 2.2 below, which together account for about 70% of total production cost. Most of these are imported, and therefore, are closely related to exchange rate risk. The ability to take good inventory position and forecasting, and the ability to transfer the increase of production cost to selling price are the major key factors to success in this industry.
2.2 Company Analysis

PT Sierad Produce Tbk is an entity resulting from the merger in 2001 of four companies conducting the core business of Sierad Group. These were PT Anwar Sierad Tbk, PT Sierad Produce Tbk, PT Sierad Feedmill and PT Sierad Grains. Its core businesses include the production of primary processed and poultry feed, breeding and hatchery, growing farm, slaughtering and production of further processed and value added chicken products, poultry equipment, fishmeal production,
fast food and animal health and pharmaceutical.\(^8\) The company, formerly PT Betara Darma Ekspor Impor, was incorporated on 6 September 1985. Its current name was adopted on 27 December 1996 in preparation for its successful public listing on the Jakarta Stock Exchange.

“Being focused, we at Sierad Produce would like to be concentrated in the food related industry. Our ultimate goal is for every Indonesian citizen to have the opportunity and affordability to buy our products at very affordable prices, which is actually to fulfill the dream of the Company to be one of the leading food companies in Indonesia”, said Mr. Budiardjo Tek explaining the vision of the Company.\(^9\)

### 2.2.1 Business Description

#### 2.2.1.1 Feedmill

Sierad Produce is recognized as one of the largest feeds producers in Southeast Asia, with state-of-the-art facilities and production capacity of 800,000 metric tons per annum.\(^10\) Sierad Produce’s feedmills, located in different parts of Indonesia, are computer-automated to ensure consistent product quality and operational efficiency at all stages of production.

Sierad Produce’s unique competitive advantage, stemming from its use of expanders in its production process, ensures the production of hygienic, nutritious

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\(^8\) The last two were divested in 2006  
\(^9\) Quoted based on direct interview  
\(^10\) PT Sierad Produce Tbk - Company Profile
and highly digestible feeds. It is not surprising then that Sierad feeds are the “feeds of choice” for many chicken growers in Indonesia.

### 2.2.1.2 Breeding

Sierad Produce breeds parent stocks of different strains, which are sourced from foreign and local grandparent stockbreeders. The parent stocks in turn produce eggs that are then hatched to become the final stock of day-old-chicks (DOCs). Sierad Produce ensures the production of high quality DOCs by operating modern closed-house breeding farms, fitted with tunnel ventilation, cooling pads, foggers and automated feeding and drinking systems. Sierad Produce implements strict bio-security and vaccination programs in its breeder farms to ensure that the flocks are consistently disease-free. Sierad Produce’s breeding facilities produce up to 105 million DOCs every year.

### 2.2.1.3 Hatchery

For Sierad Produce, “the art of hatching eggs into healthy DOCs” is a noble mission and a year-round pursuit. Sierad Produce’s hatchery operations adhere to the highest standards and employ the latest technology and “best practices.”
Sierad Produce’s hatcheries use modern machines and equipment supplied by well-known international suppliers of setters and hatchers. Its hatchery facilities are capable of hatching up to 120 million eggs per annum.

### 2.2.1.4 Growing Farm

Sierad Produce raises the DOCs to become broiler chicken, either in the more modern company-owned closed house farms or through contract growers who largely use the more traditional open-houses. As in its breeding farms, Sierad Produce also employs strict bio-security and vaccination programs in its final stock broiler farms. Sierad Produce constantly motivates and assists its contract growers to increase their net income by educating them and assisting them to exceed company-set productivity standards such as feed conversion ratio, mortality, body weight and growing days.

Sierad Produce’s partnership with its contract growers plays a vital role in the nation’s socio-economic development, most especially in the countryside. Sierad Produce provides its contract growers with the full package of production inputs, such as, day-old-chicks, feeds, poultry health care products, technical assistance as well as education in the latest farm management techniques. Sierad Produce finally provides the logistical support to ensure the efficient distribution of full-grown chicken when they are ready for harvest.

Sierad Produce helps elevate the income and the quality of life of its contract growers, their families and other dependents by providing them those production
inputs and capital goods, which would have otherwise been unaffordable or inaccessible for many of them.

2.2.1.5 **Slaughterhouse & Poultry Food Processing**

Sierad Produce’s slaughtering facilities are among the most modern and hygienic in the country. The facilities and processes are HACCP-certified. Sierad Produce has slaughtering capacity of 8,000 chickens per hour. The complex process involves scalding, plucking and eviscerating, cutting, deboning and chilling or freezing. Sierad Produce strives to optimize its profits by continuously creating added value thru the entire value chain of primary and further processing. Sierad Produce ensures that all of its processes and procedures conform to the “halal” requirements.

Sierad Produce takes pride in the quality of its dressed chicken and further processed products, and for which it has become the “supplier of choice” for the overwhelming majority of international franchised fast food chains operating in Indonesia.

2.2.1.6 **Fast Food**

Sierad Produce has a two-faceted involvement in the retail food industry, firstly through its exclusive franchise for Wendy’s Indonesia, and secondly through
its exclusive license for American-based Hartz “all you can eat” chicken buffet restaurants for Indonesia and selected countries in Asia.

### 2.2.1.7 Supporting Operations

Sierad Produce operates sophisticated laboratories in various parts of the region to help ensure that only high quality products are produced at each of its facilities: feedmills, breeding farms, hatcheries, broiler farms, slaughtering and further processing. Sierad Produce also produces plastic poultry equipment using injection and blow techniques for automatic drinkers, feed pans and other similar poultry equipment, and animal health care and pharmaceutical product, to supply the internal requirements of its breeding and contract farms as well as those of independent farmers.

### 2.2.2 SWOT Analysis

This analysis involves monitoring the external and internal marketing environment. Once the Company has performed a SWOT analysis, it can proceed to develop specific goal for the planning period.

The analysis starts from the determination of key strengths of the Company:

1. Integrated Business Strategy
With vertical integrated business, the company will be more competitive, and have better supply and distribution chain since all units can support the operation of each other.

2. Available Capacity

The company still has enough capacity to increase their production volume in the future. The feedmill’s capacity is one of the largest in South East Asia, while its Slaughterhouse is one of the most modern and largest in Indonesia, with slaughtering capacity of 8,000 birds per hour.


The company has implemented strict bio security system to ensure that the product is hygiene, healthy and safe to be consumed.

4. Halal and HACCP Certification

Through this certificate, the product could be consumed by every people and could meet the international standard for fast food operators.

5. ERP System

The company had collaborated with Microsoft Indonesia to implement Microsoft AXAPTA for better reporting, planning and controlling.

Instead, with the current situation, the Company faced some problems, which put it in the weak position such as:

1. Slow Corporate Growth

One of the reason why corporate grew slow was lack of working capital. The Company ran the business only by internal financing. It could not get any external
source of financing, while the obligations to the Bondholders and Lessors were still outstanding.

2. High Financing Cost

Since the Company has a good relationship with some suppliers, the company is allowed to get financing from suppliers. However, the cost become higher compared to the Bank loan, since the suppliers take a higher margin.

However, this weak position has challenged the Company to find the ways for improvement and to grab the following opportunities in order to increase its sales in the future, considering that it still has some key strength to be further developed:

1. Increasing Demand for Modern Slaughterhouse

As result from Bird Flu disease, some people are more concern about healthy chicken, and therefore, it is possible to increase the production level in the future due to the increase of demand, where the product has met the required standard.

2. Limited local brand for dressed chicken

The brand of Sierad’s dressed chicken is “Delfarm”. Since there are seldom branded chicken in the market, it is an opportunity for the Company to built brand awareness and treat the product in an exclusive one that offer value added to the consumers, compared to the other similar product. (Considering that chicken is commodity product)

3. Low poultry consumption Level

As mentioned earlier, the chicken consumption level per capita in Indonesia is low compared to other countries in South East Asia. Since the level of
consumption is closely related with the GDP rate, it means that if the income (GDP) level in Indonesia is increase, so the demand of chicken will increase too.

Besides strength, weaknesses, and opportunities, the Company was also threatened by some factors as follows:

1. Increasing Raw Material and Energy cost

   Fluctuation in raw material price, especially for imported ones, and an increase of energy cost are two major threats for the company to become competitive compared to the others.

2. New Entrance

   New entrance that comes with sufficient working capital, facilities, knowledge and skill can threaten the company to maintain its current position.

2.2.3 4 P Analysis

The 4 P analysis is important to determine the marketing objectives of the Company and strategies to be taken in order to increase the sales (Kotler, 2006, p. 245). The components are product, price, place and promotions.

For product, although the Company produces commodity type product, it has own brand, to differentiate the products to other competitors’ and to give value added to the customers. The Company’s strategies to develop its products are as follows:

1. To increase brand awareness, through advertising, campaign, etc.
2. Product Differentiation and Segmentation based on income level and customer’s target. For example, the low-end customer in selected area will prefer to buy cheaper product rather than product with premium price.

3. Customer satisfaction monitoring

   Regular monitoring is very important in order to know whether the products are acceptable, and the existing customers are willing to repeat the order.

4. Research and Development to create innovative product.

   For pricing, the Company uses the 2 strategies as follows:

1. To implement premium pricing for superior product and at par pricing for the standard one.

   It means that the pricing strategy is closely related to the quality of product.

2. To monitor profit margin per product, per customer, and per distribution channel.

   The company also has distribution (place) strategies as follows:

1. To open new branch which have closer access to the market in order to reduce the distributor’s role.

2. To expand the distribution channel in both modern and traditional market.

   Promotion strategy also takes an important role, since even though the Company can produce qualified product, competitive pricing and distribution place, without good promotion strategy, it can not successfully obtain its goal. Therefore, the Company has taken promotion strategies as follows:
1. Customer acquisition by increasing brand awareness and product differentiation, and also customer retention by maintaining the best quality and creating incentive program.

2. To implement Key Account Management Concept in order to give optimum service to the customers.

2.2.4 Financial Performance

The company’s sales growth was -14.4% in 2003 and 0.60% in 2002 which resulting a net loss in the sum of Rp 106.8 million in 2003 and Rp 74.3 million in 2002.

Figure 2.3 : Net Loss For Year 2001 - 2003
Source : www.jsx.co.id
The proportion of sales in 2002 and 2003 are as follows:

![Figure 2.4: Proportion of Sales 2002 - 2003](source)

Source: Company’s Annual Report 2002-2003

Earning from operations before interest, taxes, depreciations and amortizations (EBITDA) fell from Rp 62.1 billion in 2002 to just under Rp 1 billion in 2003. Operating income also declined, from Rp 21.1 billion in 2002 to losses of Rp 41.8 billion in 2003.

For financial ratios, current ratio was remained unchanged at 3.4:1. Shareholder equity rose from Rp 74.78 billion to Rp 205.34 billion, due to fixed asset revaluation of Rp 237 billion. Solvency improved considerably: the debt to equity ratio improved from 14.4:1 in 2002 to 5.2:1 in 2003, and debt to total assets from 0.93:1 to 0.84:1. Below is financial ratio comparison between the Company and its competitors, PT Charoen Pokphand Indonesia Tbk and PT Japfa Comfeed Indonesia Tbk:
The above comparison shows that the current ratio of Sierad was higher compared to Charoen and Japfa, which is 211.86 percent in 2001, 339.38 percent in 2002, and 340.56 percent in 2003. It means that in term of liquidity, Sierad was more liquid compared to its competitors for year 2001 – 2003.
It shows that for Sierad, the proportion of debt to total assets was 0.97 in 2001, 0.93 in 2002, and 0.84 in 2003, which was higher than its competitors in the same period. It means that Sierad used more debt to finance its assets, rather than equity.

Figure 2.7: Comparison – Debt to Equity Ratio for Year 2001 – 2003

It shows that for Sierad, the comparison of the amount of debt financing to the amount of equity financing was higher than its competitors, which was 32.9 times in 2001, 14.36 times in 2002 and 5.16 times in 2003.
For Sierad, the amount of profit (net income) produced for a given level of assets showed negative amount, since the Company did not book profit during that period. The percentage was lower than its competitors, except the one in 2001, where Japfa was the highest, resulting from loss of Rp 494 billion in that period.
The purpose of this ratio is similar to that of the return on assets ratio, except that it focuses on the owner’s initial investment (represent by the equity) rather than total assets. Based on the above information, it shows that the return of equity of Sierad was lower compared to its competitors.

The details of financial information are shown at Appendix 6.