

# CHAPTER 1

## INTRODUCTION

### 1.1. Background

The distributor business model is one of the challenging business models in this modern era. A distributor runs as an intermediary subject in the supply chain. Distributor business model is capital intensive, there are needs to control the number of product as buffers at the warehouse to fulfill customer order at any time, to finance many customer credits and to minimize credit to supplier. On the other hand, distributor owns a high volume of product, low value adds businesses, distributor trades with the small number of margins and must be run at low overhead business. (Dent, 2008)

CV. X is a distributor that offers logistic-delivery service and has been established since 2006. The areas covered by this distributor are the residency of Kedu and the Special Region of Yogyakarta. Currently, this distributor has around 3000 outlets to serve and 10 principals as business partner where each principal have different types of product to distribute. The types of products that given by principals are fast moving product such as candy, baby diapers, etc. and also slow moving product such as battery, cable, lamp, cosmetics, etc. The distributor utilizes central warehouse to keep all of the product from each principal.

As a distributor with many principals to serve, maintaining communication and business relationship becomes the most challenging problem. Each principal has different requirements, policies and treatments. Distributor has to fulfil all of the requirements from every principal and be active to analyze market trends to offer the best performance for each principal. Distributor has to prove maximum effort to reach the target that has been set by the principal because once distributor failed, the business relationship placed into a critical point and the worst thing that happened is when principal decides to discontinue the business corporation.

CV. X started to face the relationship problem with one of principal that owned big profitability contribution, since the beginning of January 2019. The principal requested distributor to build a new warehouse at one region at Central Java to expand the coverage area. The owner of the distributor estimated that, with low margin profit which can be reached in selling the product from the principal compared to capital investment needed to open new depot, the cost and profit was

not efficient and effective, so the owner decided to refuse the request and offered another negotiation to expand coverage area by current distributor facility infrastructure. After some negotiation that offered by the distributor, the principal refused and decided to discontinue 12 years of business cooperation with the distributor in the middle of January 2019.

Distributor perceived that nothing was wrong with the business performance since last few years. The distributor claimed, based on distributor perspective, number of sales and turnover was requested by principal constantly fulfilled every period and new coverage area requested still affordable without built new depot. Currently, distributor is dealing with confusion from the root of corporation discontinuity problem. Distributor cannot capture properly, which criteria as performance indicator is important that could not fulfil based on principal perspective which generated corporation discontinuity decision.

The problem of losing big principal with high contribution for business profit makes the distributor loses a lot of profit, because distribution system is a business chain that many business parties are included. When a party cuts the chain, whole distribution systems are affected. In instance, retailers that mostly supplied by the principal indicated decreasing of product purchased but distributor still has to deliver another product to that retailer with same delivery cost but lower number of orders and this condition decreased number of profitability for distributor.

Distributor must be aware and must anticipates this condition regarding the same problem occurs with other big principals in the future. As the lesson learned, distributor has to arrange strategic plans to prevent discontinuity of corporation. The strategic plans can be arranged by measuring performance of the distributor based on the principal perspective, so the distributor can learn, correct and plan the next step to maintain a better business corporation with every principals. Using performance measurement and evaluation tools helps distributor to take better decision and action rather than assumption and adjustment.

Briefly, the focus on this thesis is to assist the owner of CV. X in identifying important criteria which needed to measure and maintain by distributor based on principal and distributor perspective using performance criteria from contract agreement, measuring the current performance based on the criteria that needed and conducting an evaluation with existing principals to keep each principals in maintaining the business relationship towards distributor.

## **1.2. Problem Formulation**

Based on the background description, problems that raised are:

- a. What are key performance indicator that need to capture based on principal-distributor contract agreement about maintaining business relationship?
- b. How about current performance of distributor based on perspective of existing principals?
- c. What kind of evaluation and improvement should be arranged by distributor to improve the current performance?

## **1.3. Objectives**

The objectives of this research are:

- a. To identify and to analyze the KEY performance indicator that needed to maintain and the level of importance of each criteria.
- b. To measure the current condition of distributor performance towards existing principals based on performance indicator that has been identified.
- c. To create evaluation and improvement of current performance for maintaining business corporation and leading distributor in better business growth.

## **1.4. Scopes and Limitations**

The scopes and limitations of the thesis are as follow:

- a. The observation is conducted in CV. X with focused for evaluating the distributor performance only for the existing principal.
- b. Principal that become the respondents are principals who has been worked for distributor for more than 1 year.
- c. The data from distributor that used to measure the performance are using three months data which are April, May and June 2019.
- d. Performance indicator of distributor that used is regarding theoretically and contract agreement from the distributor with existing principals at CV. X.