

CHAPTER 1

INTRODUCTION

1.1. Background

The human population around the world increases over time, including Indonesia. Indonesia's population growth also means that there are and there will be more basic needs to be fulfilled, especially the need for food. Moreover, not just any food, the human body needs proteins and other important nutrients to live a healthy life. One of the major contributing sectors to fulfilling the basic need of nutritious food is animal husbandry.

According to Badan Pusat Statistik (2022), the demand for cattle's meat for Indonesia in 2022 is 695,390 tons. This data indicates that there is a big demand for farm products, especially meat. Furthermore, the same reference shows every province in Indonesia needs a significant amount of meat, especially the major islands. Since meat comes from animal husbandries, this means that many animal husbandries must be established to fulfill the demand of meat in Indonesia.

Badan Pusat Statistik (2022), quoting from Sensus Pertanian (2013), stated that there are 13.56 million farm households in Indonesia. In their operations, these farms and husbandries need animal feed. Thus, producers for animal feed are crucial to support these industries. Seeing this business opportunity, CV X has become one of the producers for animal feed, specializing in ruminants feed, such as cattle, sheep, and goats (Zhang et al., 2022).

CV X is an animal feed producer located in Klaten Regency, Central Java. The company is established in 2014 by Mr. Budiman. Since established, CV X is classified as a small company and a goods trading business.

Based on the collected information through observations and interviews, there are some problems experienced by the stakeholders of the company. The owner confirms the low dividend he receives due to the low number of sales. Since the marketing employees get a bonus for every number of sales, they also receive low bonuses. Meanwhile, some customers fail to stay as regular customers. After further investigation, most of them complain about the products' prices. They think the prices are too expensive, so they choose other alternatives to fulfill their need for animals' feed.

1.2. Problem Identification

Before identifying which stakeholders to be considered for the research, a business process is created to explain the process happening if an order is received by the company. Figure 1.1. shows the business process of CV X. From the business process, it can be identified that there are four major parties who act directly when an order is received, namely customers, marketing department, production department, and 3rd party logistics, with the operational manager supervising the whole process to report it to the owner.

By far, no problem has occurred related to the 3rd party logistics. Therefore, this stakeholder is not considered for this research. There is also no complaint coming from the production department, but a non-optimal utilization of the machines can be observed. However, there are complaints coming from the marketing department that they receive low bonuses due to the low sales experienced by the company. Moreover, several customers also complaint that the products' prices are too expensive. Since the marketing department's staffs are responsible for the sales, which becomes the income to support the company's operation, and the customers are the source of the income, making it important for them to keep buying from the company, those two stakeholders are considered important and chosen for this research. In addition, the owner must be satisfied with the company's performance to keep the company running. Thus, the third stakeholder to be considered will be the owner. In conclusion, the three stakeholders to be considered in this research are the owner, the marketing staff, and the customers, because they are crucial to keeping the company running but issues are encountered by each of them.

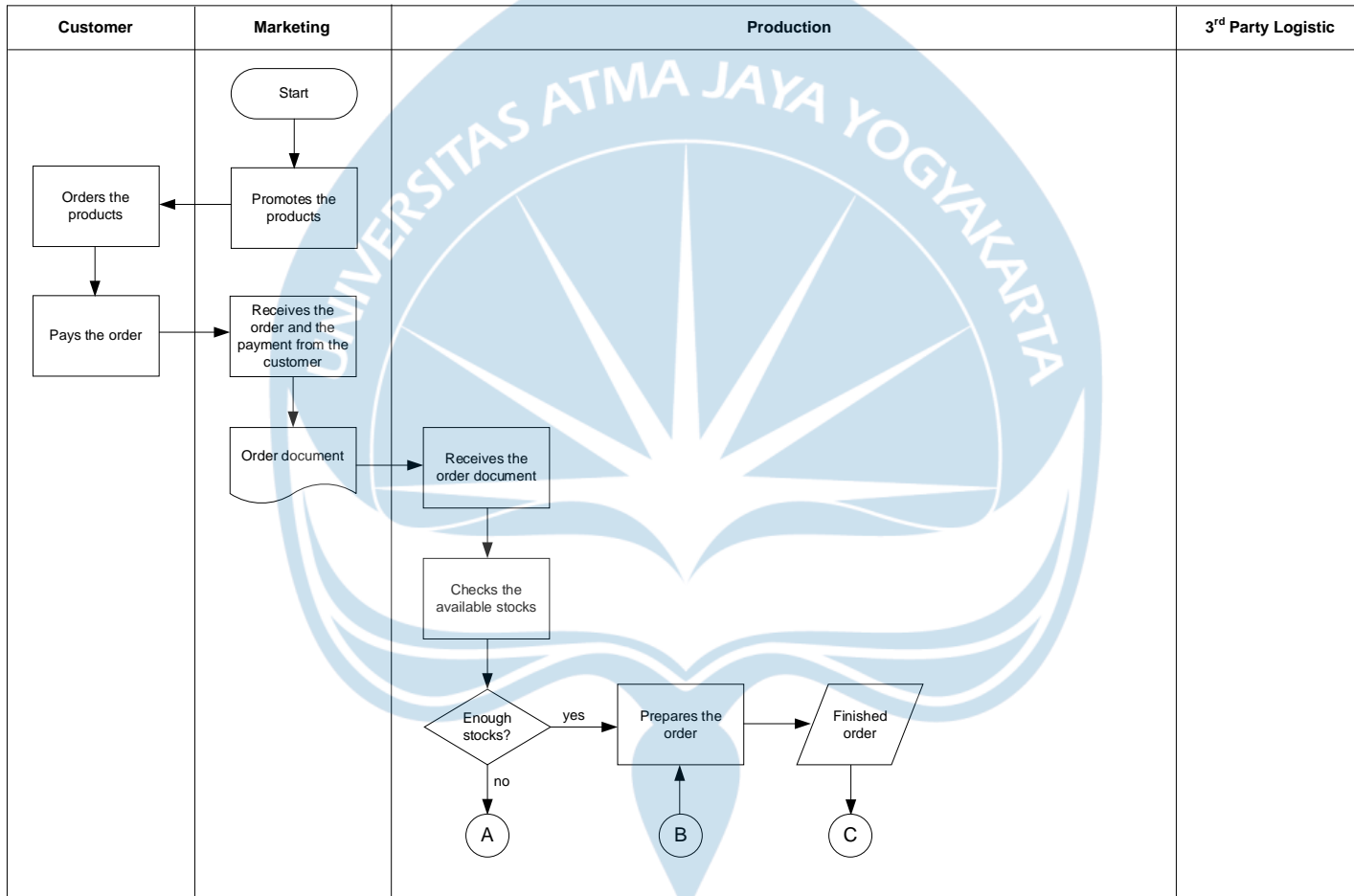


Figure 1.1. CV X Business Process

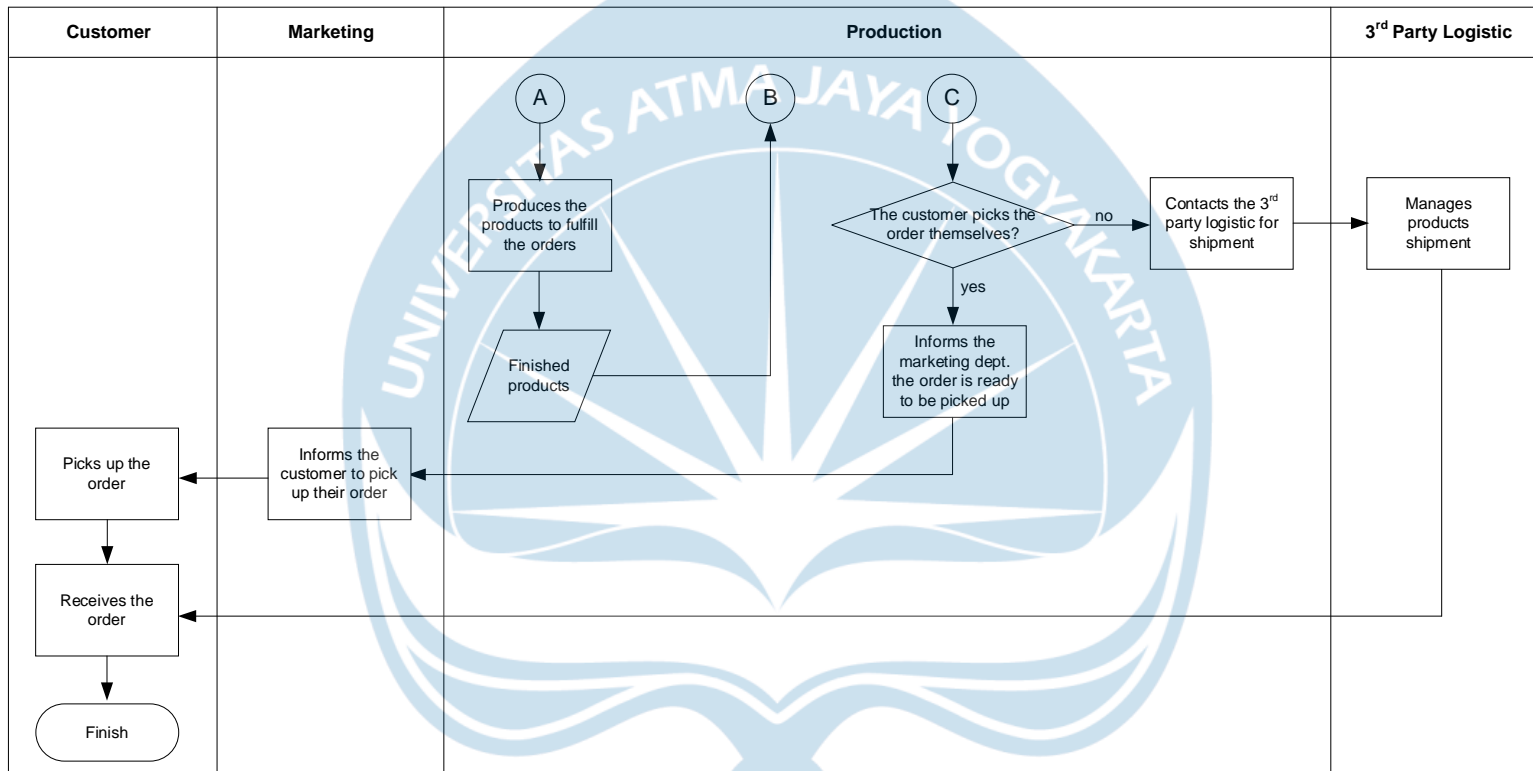


Figure 1.1. Continuation

Based on the stakeholders' concerns, the low number of sales results in the employees' concern of lacking bonuses and the owner's concern of low dividends. After further investigation and analysis, there are three major causes of the low sales and low dividends of CV X. The possible reasons are several one-time customers, non-optimal utilization of digital marketing, and low production capacity. The interrelationship diagram to create better visualization of the problem is illustrated in Figure 1.2.



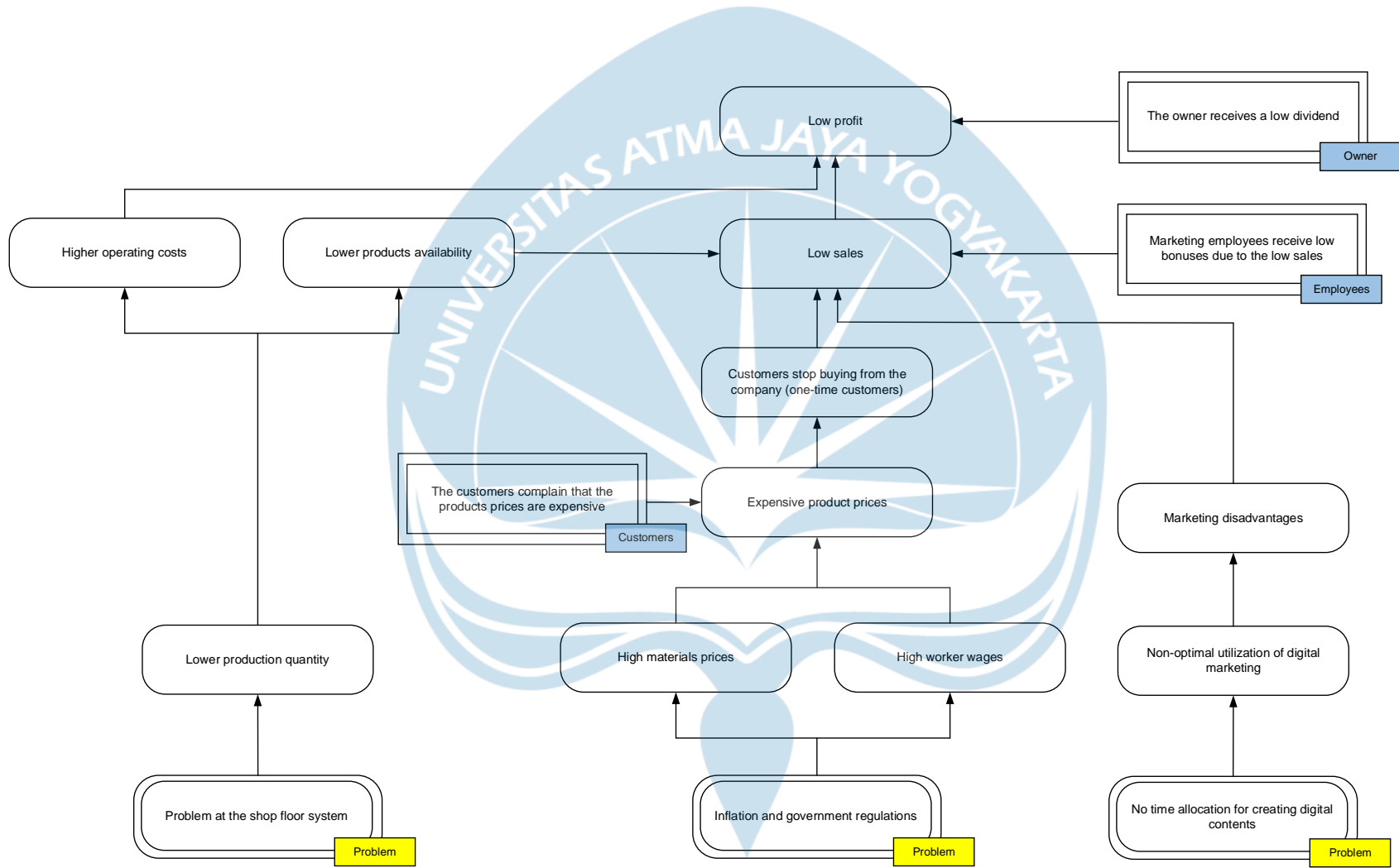


Figure 1.2. Interrelationship Diagram

Some customers fail to stay as repeat customers of CV X, resulting in several one-time customers. From 2020 to 2022, the company has followed up and recorded every one-time customer and the reason behind their failure to re-purchase from the company. Their reasons are categorized as six categories: expensive prices, the customer no longer raises livestock, the customer stops becoming an agent, the animals refuse to eat the company's product, quality issues, and the customer feels the company's location is too far. Figure 1.3. demonstrates the number of the one-time customers and their reasons for not repeating orders.

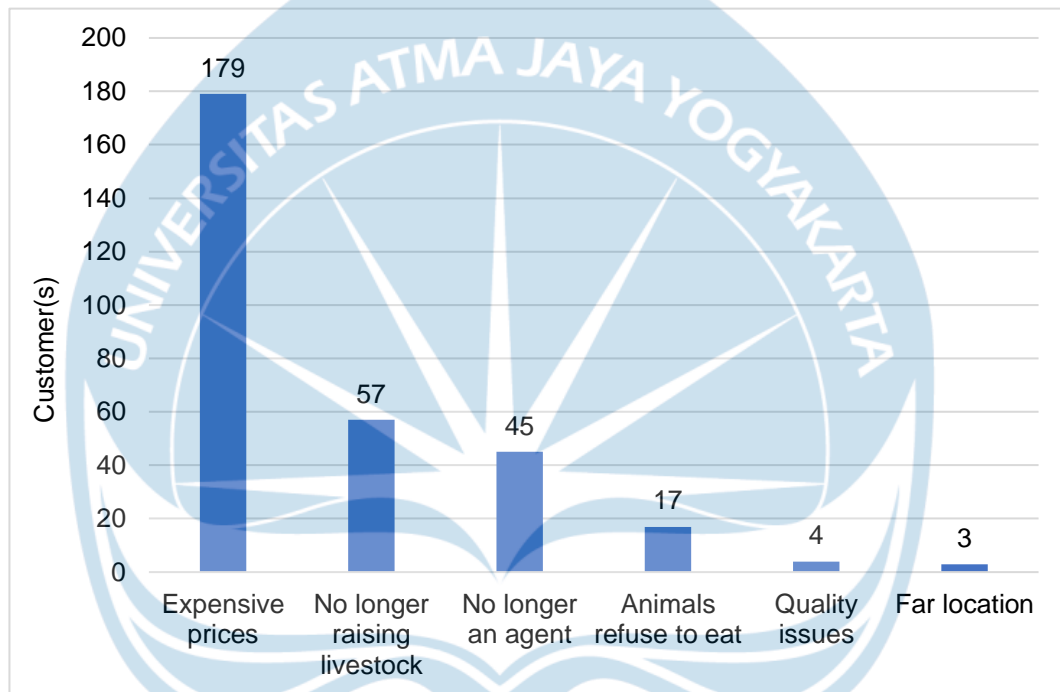


Figure 1.3. Reasons of One-Time Customers at CV X

To assess the situation regarding the customers' concerns for the products' prices, the contributing costs must be evaluated. CV X categorizes the costs into seven categories: materials, wages, electricity, insurance/BPJS, inventory, machine inventory, and production cost. The data from 2020 to 2022 shows the largest contributing factors to the products prices are the materials and the workers' wages. Table 1.1. illustrates the total costs for each component from January 2020 to December 2022.

Table 1.1. Total Costs During January 2020 – December 2022

No.	Component	Total Cost (Rp)
1	Materials	5,219,276,921
2	Wages	1,438,394,100
3	Electricity	242,463,480
4	BPJS/Insurance	191,035,635
5	Inventory	184,867,050
6	Machine Inventory	165,441,675
7	Production Cost	52,985,411

Unfortunately, from Table 1.1., it can be concluded that the customers' complaints about expensive product prices cannot be resolved in this research. The worker wages are dependent on government policy, while the materials' prices are dependent on the supplier and inflation. On the other hand, the company needs enough sales and profit to run the business properly. Thus, decreasing the products' prices will not be feasible for the company since it is contradictive to the generally increasing prices. Moreover, releasing a new product with a cheaper price is not favorable for the company because it requires a lot of costs, efforts, and time to do so. Therefore, this research is limited to resolve the owner's and employees' concerns as the other stakeholders.

On the other hand, based on Figure 1.3., there are a total of 305 one-time customers at CV X. As of 2022, the company has recorded a total of 1,267 customers of the company. So, by subtracting the total number of customers with the total number of one-time customers, the total number of repeat customers can be found, which is 962 repeat customers or 75.93% of the total customers. Lau (2022) stated that in general, a minimum of 30% repeat purchase rate is acceptable. Lau's (2022) statement was supported by LaBianca (2022), who found that in most cases, the average repeat customer rate is between 20% to 40%. Furthermore, Le (2023) confirmed that a repeat purchase rate of above 20% is acceptable. Since the repeat customer rate of CV X is at 75.93%, it can be considered safe, even better than the average repeat customer rate in many cases. This concludes that an evaluation for CV X's marketing system is not urgent.

Despite the company's high repeat customer rate, the company has planned a new marketing strategy, and they are planning to implement it soon. If all goes as planned, the new strategy will start effectively in 2024. Since the company has their own plan related to marketing, this research will have less impact, if the focus on the research is also for the company's marketing because whatever the outcome

of the research is, the company will execute their own project. If their plan succeeds, the initial plan was to do extra hours of work on the production floor due to insufficient production capacity in the current situation. However, extra work hours also mean extra costs to be paid by the company. Therefore, an increase in production capacity could greatly help the company to reach the expected target without charging more additional costs.

Another reason for the company's low profit is the low production quantity. The low production quantity happens because some wastes are identified in the production floor. In the production process, the semi-finished products must be transferred from the grinding department to the mixing department. However, this transfer requires two hammermill machines in the grinding department to stop operating. Due to the different area of the grinding department and the mixing department, the workers must load the semi-finished products to a pickup vehicle, transport the products to the mixing department, unload the semi-finished products in the mixing department, and return to the grinding department to continue working.

A higher production quantity will increase the company's profitability due to the lower operating cost. Furthermore, increasing the production capacity means the company can sell more products due to higher products availability and lower the operating costs because of higher productivity, resulting in higher sales and dividends. The marketing employees will receive higher bonuses and the company can make higher profit, so the owner can get more dividends; thus, resolving the owner's and employees' concerns as the stakeholders.

To prove that the increase in production capacity and quantity may affect the products' sales, Figure 1.4. illustrates the data for sales, capacity, and the production quantity. As shown in the red rectangles, it can be concluded that in recent periods, there have been efforts to push the sales higher, proved by the high number of sales and nearing the maximum capacity. However, in the current state, they are limited by the production capacity, so a higher production capacity can provide more products availability to perform more sales.

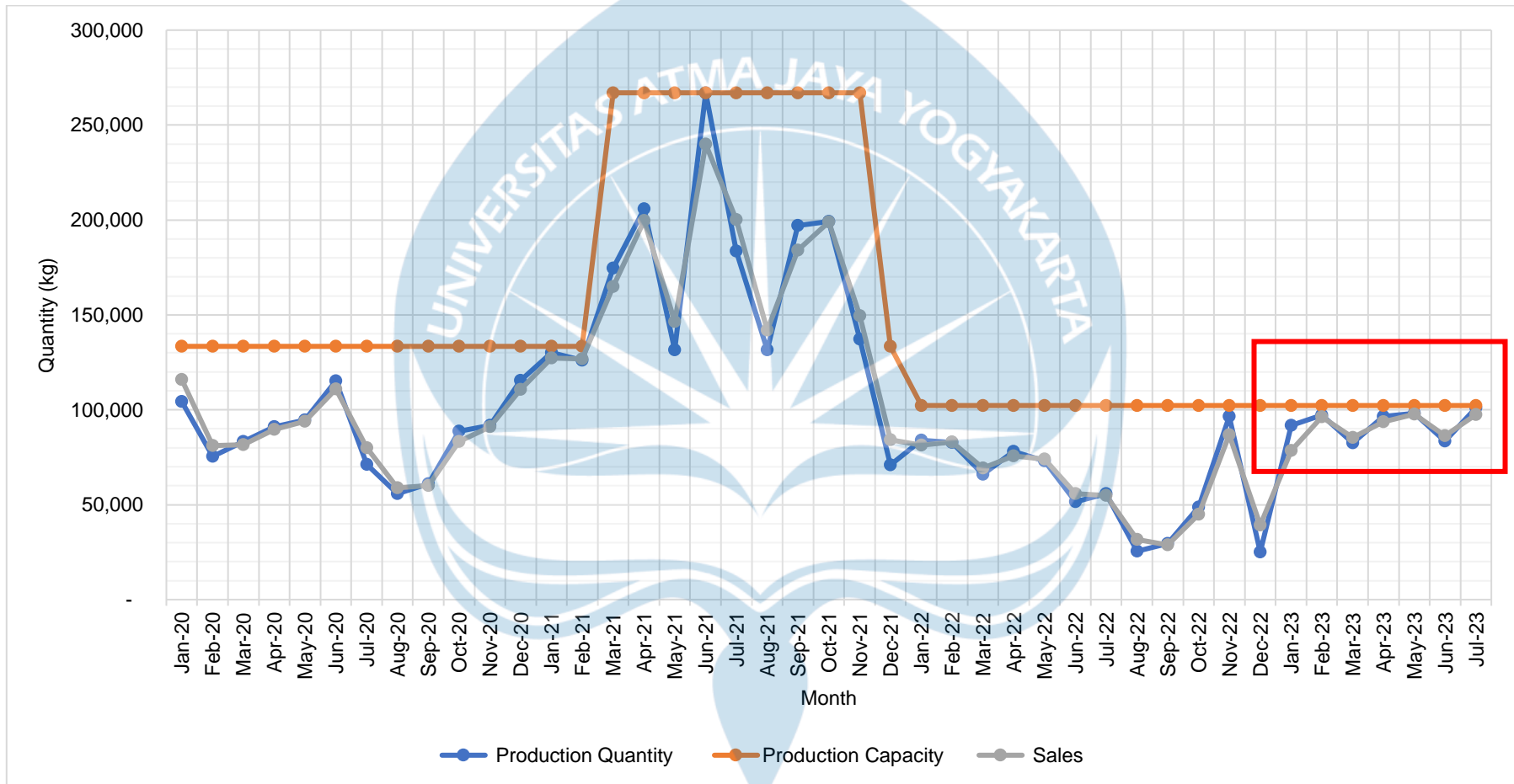


Figure 1.4. Production Quantity, Production Capacity, and Sales Data

1.3. Research Problem

From the problem identification, the main issue that happens at CV X is the low dividend received by the owner. Production capacity will be chosen as the main consideration in this research because the increase of production capacity will increase the company's sales because of higher products availability, decrease the operating cost, result in higher company profit, and resolve the solvable issues of the stakeholders.

1.4. Research Objective

According to the research problem and problem identification, the objective of this research is to help the company increase its capacity by 10% from the current capacity, which is 102,240 kg, as calculated in Chapter 5 page 42. The target to increase the capacity by a minimum of 10% is obtained at the owner's request, after discussion with the owner of the company. Moreover, the solution must utilize the current company's resources without charging additional costs.

1.5. Research Limitation

The limitations for this research are as follows.

- a. The implementation of the solution will be done from 2 October 2023 to 7 October 2023 due to the time limitation to complete the research.
- b. The secondary data for this research is the data from January 2020 to July 2023 as the company's permit.
- c. The solution should not charge the company more costs.