IMPROVING DISTRIBUTION CHANNEL AT PT. SUMBER GRAHA SEJAHTERA (SGS)

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ABSTRACT

SGS is the company is a leading timber processing company in Indonesia. With over 1 million m³ of processing capacity, they are among the top five tropical hardwood plywood producers globally, and one of the largest in Indonesia. The purpose of this research is to develop SGS distribution network especially related to the company's intermediaries. Through their owned network, the company hopes that it will create brand loyalty and also create integrated services for consumers which most of company's consumers are developer and contractor where they are became company's target market.

In order to reach maximum result it is better for the company to replace current distribution channel and build new distribution channel. The first step in designing distribution channel, the company must understand the service output levels its target consumers want. The second step is establishing objectives and constraint for the channel. The third step is identifying and evaluating major channel alternatives. Therefore, to build new distribution strategy aim to retain all control to the market as a key factor, writers provide three alternatives of distribution channel strategy to the company. All the alternative of distribution strategy are made based on the company's sales data which is provide information about the company sales areas

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as well as total sales volume on each area. To increase company's sales, one of the strategies that company could implement to increase sales is developing suitable and sophisticated distribution channel. Meanwhile, to develop suitable distribution channel, the company should knows well about the market specifically about their consumers.

Keywords: distribution channel, strategy, intermediaries.

BACKGROUND

Nowadays, in the era of global competition many companies in the world as well as in Indonesia facing a problem of uncertainty. Faster product development, increasingly flexible manufacturing system, shorter product life cycle, higher consumer expectation in term of quality but less price and variety of products are competing in the markets. Despite the benefits to consumers, the uncertain world is making it more difficult to manufacturers to predict which of their goods will sell more in order to gain more market share.

In the plywood manufacturing the production process is relatively simple which meant that a highly variable raw material from the original tree is manufactured into a product that is stronger and more versatile. Because the feature of plywood likes its dimensional stability, strength, and its durability have proven, therefore, plywood being accepted for application in the building material category which is dominated by steel or other sheet metals.

However, the plywood market is unique because plywood products are sold in the same pattern as commodities or agricultural products and it is essentially a free market. Therefore, there is no standardization to set year-round selling price for the products. The seller usually expected to sells at the highest price, meanwhile, the buyer wants purchases at the lowest price. In the plywood market price were driven by the production volume and demand as the key factors, sometime quality also might become a demand factor.

Since the plywood market has a unique characteristic, therefore, developing a proper distribution channel will help plywood producer or even plywood seller to spread and to create more networks in order to increase market coverage. Having wide market coverage in the plywood industry is one of the strategy which suitable for the industrial players to win the competition. However, the distribution strategy also should be able to create a market monitoring system that linked to sales, therefore, all market changes will be quickly anticipate by the players through integrated networks.

According to the Indonesian Association of Wood Panel (APKINDO) total Indonesia plywood production in 2008, reached for 2.9 million cubic meters where 60% of the production was for export with export value of plywood in 2008 reached US$ 1.3 billion. Meanwhile, in 2009, the production figure decreased and reached only 2.1 million cubic meters and with export value of plywood in 2009 significantly decreased reached only US$ 839,000. The decrements was due to global economic crisis during the year resulted the decrement of global plywood demand. Therefore, as the result most of Indonesian plywood manufacturer started to focused their sales on local market since.

SGS was the major plywood manufacturer in the Indonesian plywood industries with total market share for around 21% in 2008. Consistently, the company seeks to focus its efforts on growing its market share in Indonesia. Currently SGS has two brands for its plywood product which is “PALEM” and “TUNAS.” Moreover, company does not have their owned distribution channel where all the company’s product are sell to the independent distributors which owned and manage by third parties. As the result, SGS facing several issues such as company’s market coverage is weak and did not spread equally, difficult to control retail prices, not easy to get feedback from the market, and vulnerable to speculation.

In order to growth its market share, the company believes that developing distribution channel is necessary to strengthen company’s position in the plywood industry in order to anticipate tight market competition. By developing integrated marketing networks, the company will be able to develop an integrated service to win the competition by fulfill consumer needs.

Problem Statement

To strengthen SGS growth platform, the company consistently develop many variant of wooden bases products and the company pursue to do better quality and strive value-added products. Nowadays, the companies are in the process of developing more its business to reach the 2010 net sales target such as improve company's distribution strategy.

Currently, company does not have specific distribution channel where all the company's product are sell to the buyers that also act both as distributor and retailer in the market although sometimes company also sell their products directly to the end users, which is mostly to contractor or manufacture of plywood value added products such as furniture industry. Therefore, SGS sometimes could not take full control of their market and also SGS was less able to deliver what market wants since the company could not able to collect information related to their end user specifically related to the consumer's needs and expectation.

As mention above that SGS facing several issues of their current distribution especially related to the company's intermediaries, therefore, SGS management has decided that it is the time for the company to develop their owned distribution network. Through their owned network, the company hopes that it will create brand loyalty and also create integrated services for consumers which most of company's consumers are developer and contractor where they are became company's target market.

Therefore, to pursue management objective to develop their owned distribution network, SGS should be able to overcome the company's main problems which is developing proper and suitable as well as effective distribution channel strategy in order to strengthen company's growth. If the company was able to overcome the main problem of developing distribution channel, the company was also able to overcome the other issue which company faced currently which is finding consumer needs and expectation.

Consumers are more sophisticated and price sensitive. They expect products and services to be delivered faster and more conveniently. And they have no qualms about switching to competitors. Moreover, consumers are constantly being interrupted by thousands of marketing messages, making it easy for one message to get lost in the overwhelming clutter of communications. Plus, consumers no longer have a well-defined set of products and vendors that they will consistently seek out to fulfill a need. Therefore, identifying consumer's needs and expectation for the company is a must.

Good distribution strategy will identify the best sales channels for the company and it tells how to exploit them. It meant getting the right product to the right consumers in the right place and at the right time also at the right price. Moreover, good distribution strategy can open up new opportunities, market growth and boost up profits. Therefore, the right distribution strategy will boost company business and it's an excellent way to expand into new markets, at least could optimize the current market. However, the degree of control that company wants to retain is also important. As a result, by working with the company's marketing channels the company can control their pricing and establish a direct relationship with the consumer.

LITERATURE REVIEW

Company Background

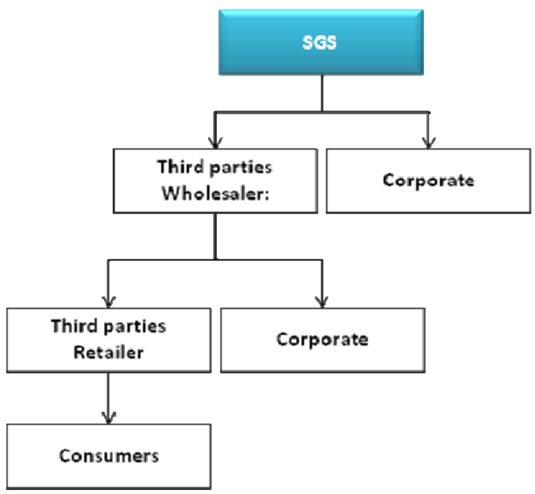
Since the commencement of company operations in 1978, SGS has come a long way. The company started out as a downstream processed timber products manufacturer without natural forest concession and industrial forest plantations. The company first operations were started in Sulawesi, producing 12,000 cubic meter of plywood annually.

Since then, the company has growth both through organic expansions as well as through acquisitions to become one of the major wood processing companies in Indonesia. Over the past 30 years the companies have focused extensively on developing research and development, management, processing and logistics and distribution capabilities so as to achieve a competitive edge over company competitors.

The company is a leading timber processing company in Indonesia. With over 1 million m^3 of processing capacity, they are among the top five tropical hardwood plywood producers globally, and one of the largest in Indonesia. The company's manufacturing facilities – plywood, veneer, MDF and secondary processing mills - are spread across the islands of Java, Sumatra, Kalimantan and Sulawesi, and are strategically located near to wood sources. Meanwhile, company main products are plywood, and veneer which is raw material for plywood, LVL and MDF panels, and several secondary, value added plywood products. Apart from the domestic market in Indonesia, company products are sold to consumers in various countries and territories, including Japan, the Middle East, South Korea, Europe, the United States and Australia.

Moreover, unlike traditional plywood producers in Indonesia who source most of their logs from natural forests, the company sources a significant portion of timber supplies from plantation forests, which allow the company to achieve a strong and sustainable wood supply. The company's manufacturing facilities - plywood, veneer, and secondary processed plywood and MDF mills - as well as resin and power production plants are spread across the islands of Java, Sumatra, Kalimantan and Sulawesi. In addition, the company holds 8 forest concessions covering approximately 575,000 hectares in Kalimantan.

Company's Current Distribution Channel



Picture 1. Company's Current Distribution Channel

SGS do not sell their products to the end users except to the corporate, between the company and end users there are a set of intermediaries performing a variety of functions. Since the company does not have specific distribution channel, currently the company sell their products to the market through two channels. First, the company sells its product to the wholesaler, which is for the company it's classified as premium wholesaler without any exclusive agreement between the company and the wholesaler. Moreover, from the wholesaler the product is selling to several parties such as small retailer which is most of them are building material store, corporate such contractors company and furniture industry, and also to the end users.

Secondly, the company also sells its product directly to the corporate. The volume of this direct selling are smaller compare to the sells through wholesaler because the company did not focus on this strategy in selling their product. The corporate consumers in these channels are including contractors and manufacturer of plywood value added products.

Currently SGS sold their products mostly not directed to the end consumer, SGS sold the products to the business market where there are intermediaries or third parties wholesaler which will receive goods and services from SGS for the first time in the market. After that the third parties wholesaler are sold or even supplied the product to others or to the end consumers which most of the product will used in the production of other products.

Through the current distribution channel strategy, the company ability to control the market in terms of pricing, product availability, and consumers' loyalty are weak. All the information related to market is kept by the wholesaler in order to have more profit margins. Based on the interview survey, even the company pricing policy are flexible, it is not enough to increase sales due to wholesaler are tend to selling plywood that give them high profit. Meanwhile, the lack of product availability in terms of specific plywood sizes in the market become one of the issue that wholesaler use to control demand of SGS products. Wholesaler are easily switch to competitor product when company's product unavailable. For product quality there is no significant issues related to company's product quality, SGS product has known as a product that have good quality in the market.

Therefore, it is difficult for the company to increase their sales significantly caused by high fluctuated demand. Currently, the company's product demand is tend to be control by the company's distribution channel. The demand are not originally represent consumer, when wholesaler are not willing to sales company's product due to low margin then it will create excess supply, as the result, the company will adjust their supplies into the market. Like a domino effect, when the market demand is increase and since the company adjusts supply, therefore, it will create lack of product availability. By maintaining current distribution channel strategy, it was though for the company to increase their sales especially when company is not able to gain information from the market in order to predict and control market.

In the plywood market price were driven by the production volume and demand as the key factors, sometime quality also might become a demand factor. Therefore, by developing a sophisticated distribution and market monitoring system that linked to sales it will enable the company to define their medium terms goal of increase sales significantly and create loyal consumers. Meanwhile, in the short terms by developing a sophisticated distribution the company is trying to strengthen their product position in the market in terms of pricing and product availability. Moreover, through company's distribution channel SGS will also able to increase their sales not only plywood product but also variety of product resulting from the development of plywood value added product.

METHODOLOGY

Marketing Data

Based on marketing data, in year 2009, the company's market share in the local market reached for around 27% with total sales of 226,150 cubic meters. In year 2009, most of sales come from Jakarta area with total sales of 198,100 cubic meters or equals to 88% of SGS total sales. Therefore, based on marketing data SGS became one of the big players in the Indonesian plywood market. Moreover, currently the company has two brands for its plywood product which is "PALEM" classified as plywood which is made by mix wood as their raw material and "TUNAS" as plywood which is made by pure "eco" wood. Most of sales are contribute by "PALEM" brand which totally for around 67% of total sales, meanwhile "TUNAS" brand contribute for around 33% of total sales. As shown in the table below:

Table 1. PALEM and TUNAS Total Sales

2009 Total Sales			Brand Contribution	
	Areas	**Volume (m3)**	**PALEM**	**TUNAS**
1	Jakarta	198,100	86%	14%
2	Medan	11,900	40%	60%
3	Semarang	4,300	88%	12%
4	Bandung	4,050	77%	23%
5	Jambi	2,200	100%	0%
6	Pontianak	1,600	52%	48%
7	Palembang	1,400	35%	65%
8	Surabaya	1,000	0%	100%
9	Batam	800	100%	0%
10	Pekan Baru	400	17%	83%
11	Pangkal Pinang	200	100%	0%
12	Lampung	150	78%	22%
13	Banjarmasin	50	100%	0%
	Total	**226,150**		
Source: PT. Sumber Graha Sejahtera				

Financial Performance

The Company and Subsidiaries' operations in year 2009 have been affected significantly by several factors such as global economic downturn, slowing growth of Indonesia economic conditions, and continues downturn in the timber industry. During the global economic downturn in year 2009, company's export are decreased significantly for around 40% compare to the previous year, therefore, to increase company's sales, SGS focus in developing market in Indonesia. Moreover, in year 2009 the company facing the problem of scarcity of raw materials and the condition affected company's production activity. Therefore, in the year 2009, the company margins are under pressure and as the result in year 2009, SGS stated Net Losses for around IDR 792.826 millions.

Table 1. Consolidated Statement of Income

PT. SUMBER GRAHA SEJAHTERA AND SUBSIDIARIES **CONSOLIDATED STATEMENTS OF INCOME** **Years Ended December 31, 2009 and 2008** ***(Expressed in millions of Rupiah, unless otherwise stated)***		
	2009	**2008**
NET SALES	2,797,247	3,209,305
COST OF GOODS SOLD	(2,725,438)	(2,947,623)
GROSS PROFIT	71,809	261,682
OPERATING EXPENSES		
Total Operating Expenses	(310,846)	(372,318)
OPERATING LOSS	(239,037)	(110,636)
OTHER INCOME (CHARGES)		
Other Charges, Net	(530,950)	(818,095)
LOSS BEFORE TAX BENEFIT (EXPENSES)	(769,987)	(928,731)
TAX BENEFIT (EXPENSE)		
Tax Benefit (Expense), Net	(131,601)	23,271
LOSS BEFORE EXTRAORDINARY ITEM	(901,588)	(905,460)
EXTRAORDINARY ITEM	-	50,968
LOSS BEFORE MINORITY INTEREST IN NET LOSSES OF SUBSIDIARIES	(901,588)	(854,492)
MINORITY INTEREST IN NET LOSSES OF SUBSIDIARIES	109,302	128,133
NET LOSS	(792,286)	(726,359)

Source: PT.Sumber Graha Sejahtera

The company's short-term loan totaled IDR 287,308 million in 2009 was down slightly from the year 2008, as well as the company's long-term loan which totaled IDR 766,174 in 2009. At the close of year 2009, the company had more than IDR 100 billion in cash and cash equivalent, it was indicated that financial liquidity was not a problem.

Table 2. Consolidated Balance Sheets

PT. SUMBER GRAHA SEJAHTERA AND SUBSIDIARIES **CONSOLIDATED BALANCE SHEETS** **Years Ended December 31, 2009 and 2008** ***(Expressed in millions of Rupiah, unless otherwise stated)***		
	2009	2008
ASSETS		
Cash and cash equivalent	106,748	117,825
Restricted time deposit	20,516	22,959
Trade receivables		
Related parties	12,750	13,960
Third parties	123,681	140,969
Inventories	394,565	540,233
TOTAL CURRENT ASSETS	930,189	1,070,677
Due from related parties	1,751	181
Property, plant & equipment	2,042,916	2,326,278
TOTAL NON-CURRENT ASSETS	2,512,161	3,529,775
TOTAL ASSETS	3,442,350	4,600,452
LIABILITY AND SHAREHOLDERS' EQUITY (CAPITAL DEFICIENCY)		
Short-term loans	287,308	361,412
Trade accounts payable		
Related parties	14,552	13,622
Third parties	291,279	312,099
Accrued expenses	153,067	71,586
Current maturities of long-term liabilities	523,894	510,626
TOTAL CURRENT LIABILITIES	1,508,581	1,553,593
Due to related parties	756,064	790,901
Long-term liabilities-net of current maturities	827,699	1,073,871
TOTAL NON-CURRENT LIABILITIES	1,858,601	2,070,103
TOTAL LIABILITIES	3,367,182	3,623,696

MINORITY INTEREST IN NET ASSETS OF SUBSIDIARIES	135,197	244,499
SHAREHOLDERS' EQUITY (CAPITAL DEFICIENCY), NET	(60,029)	732,257
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY NET OFF CAPITAL DEFICIENCY	3,442,350	4,600,452

Source: PT.Sumber Graha Sejahtera

Table 3. Consolidated Statements of Cash Flows

PT. SUMBER GRAHA SEJAHTERA AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS Years Ended December 31, 2009 and 2008 ***(Expressed in millions of Rupiah, unless otherwise stated)***		
	2009	2008
CASH FLOW FROM OPERATING ACTIVIITIES		
Cash received from consumers	2,825,218	3,272,677
Cash payment to suppliers and for operating expenses	(2,308,711)	(2,557,647)
Cash provided from operation	516,507	715,030
Net Cash Provided by Operating Activities	314,300	194,164
CASH FLOW FROM INVESTING ACTIVITIES		
Net Cash Used for Investing Activities	(50,822)	(430,021)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Cash (Used for) Provided by Financing Activities	(274,555)	199,744
NET DECREASE IN CASH AND CASH EQUIVALENTS	(11,077)	(36,113)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	117,825	153,938
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	106,748	117,825

Source: PT.Sumber Graha Sejahtera

Based on interview with the company's management in response to the market condition, management will continue to implement the following measures of capture a greater market share by increase company's sales in Indonesia with the company's competitive strength to sustain market leadership and capitalize on growth opportunities in Indonesia. Moreover, the company will expand to upstream and downstream segments in order to enhance margins.

External Data Analysis

In analyzing external data, mostly it will relate to the company's stakeholders'. Since currently SGS sold their products mostly to the business market, therefore, SGS stakeholders' which related to the business market can be classified as wholesaler, retailer, and end users.

A consumer is one of the most important factors in the firm. Therefore, what consumer wants, needs and expectation should become a priority in order to attract more consumers and at the end they will be loyal to the company's product. SGS classified their consumer into three types of consumer based on companies lines of distribution which is mostly focus to the business market such as wholesaler, retailer, and corporate.

It is crucial for the company to identifying their consumer characteristic related to what consumer needs and expectation from company's products and services. When the company was able to identify their consumers, therefore, the company will also able to provide such services that required specifically related to distribution channel in order to create loyal consumers. Based on the interview with company's wholesaler, SGS's consumers can be categories into two types. First, consumers that have a characteristic of high-value deal seekers who known their needs and search channel actively before buying the product at the lowest possible price. Secondly, consumers that have a characteristic of high-involvement shoppers who will gather information in all channels and they will make their purchase in a low cost channel, but they also will take advantage of consumer support from a high touch channel.

Moreover, there are two types of shopper that most of SGS's retailer serves. The first type is service or quality consumers who cared most about the variety and performance of products in stores as well as the service provided. Since the variety of plywood products are variety in terms of thickness size which every size has different performance for different purpose. These types of shopper concern about product availability in the stores. They will not easily change to other product since they are concern to the quality; therefore, it is crucial for retailers to manage the product availability. The second type is price or value consumers who were most concerned about spending their money wisely. This types of shopper are concerned to the price, they will ask to get the best prices since they believed that they have right to receive more discounts based on total purchases.

Based on current distribution channel, the company divided their consumers into three types of consumers which is wholesaler, retailer, and corporate. Each of consumers have their own character, therefore, through deep interview and survey writers will defined each of consumer needs and expectation to the company's products.

First wholesaler, it was company "main gates" on introduces their products to the market. Wholesaler in this case are likely distributor but without specific agreement between company and wholesaler. Therefore, SGS could not control wholesaler in terms of pricing even though the company is implementing flexible pricing policy to give flexibility to the wholesaler to calculate their own margin. Moreover, the company could not able to push wholesaler to sell more of the company products since there is no agreement between both parties and wholesaler will be prefer to sell products that provide high margin.

Besides financial support, wholesaler also has several expectations that are mostly related to the company's product such as SGS will supply not only plywood but also plywood value added product because by adding more product variation it will increase the opportunity to sell more products for wholesaler. And also wholesaler has an expectation about the product availability; they are concern about the product availability because it has directly affected their sales. Even for wholesaler loyal consumer's they will easily switch to another wholesaler when one of the wholesalers could not provide certain product their need, therefore, for wholesaler it was a loss of opportunity to sell more.

Second retailer, basically retailer help SGS to distribute more of the company's product into wider market coverage. Therefore, what retailer need are mostly related to the product availability, it is crucial for retailer since most of retailer are building materials store. Meanwhile, retailers also need a financial support which is in form of cash discount and flexible term of payments. By having both financial support it will affected retailer margin and as the result, retailer can manage their cash flow.

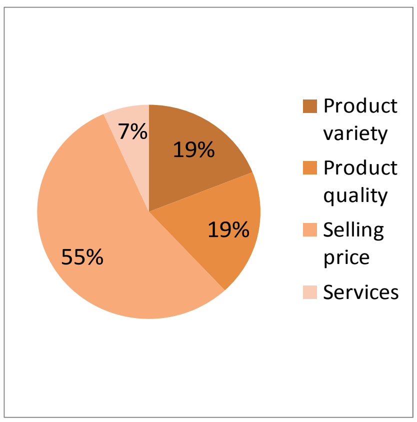
There is no significant issues related to the retailer expectation, they only expect that the company could deliver the product as soon as possible. Based on the interview, retailer has certain time limit for delivery time. Therefore, to maintain their sales retailer was easily switch to other product which available in the market and they tend to not loyal only in certain brand.

The last one is corporate, corporate buyers can be define as manufacturer of plywood value added product such as furniture industry and also can be define as contractors company. Most of company's corporate buyers are contractors; however, they have similar characteristics as well as needs and expectation. Since corporate bought the product in large size transaction and they will use it into other production process, therefore, good quality product became their primary needs. Beside quality, corporate decision to buy plywood also affected by the selling price. Competitive price are became their consideration since they purchase in a large size transaction and most of contractors should follow their standard procurement procedure where pricing is one of the main factors.

Moreover, a corporate buyer also needs a guarantee from the company related to the product availability in terms of product thickness or product size. For corporate buyers they are usually loyal consumer because if they had suitable with the company's product specifically the quality, they will not easily switch to other product. Therefore, the availability of product is necessary for them to follow-up with their project time schedule. Meanwhile, based on the interview most of corporate buyers expectation were related to the product quality in terms of high product durability, which mean the product can be used more than one time if necessary.

Since consumer perceived value is based on the difference between what the consumer gets and what he gives for different possible choices. Therefore, based on the deep interview with company's consumer, SGS should focus its activities related to consumer need in order to increase the value of the consumer offering by;

1. Reduces the buyer's non monetary costs by reducing the time, energy and psychological costs. Related to non monetary costs, most consumers are concern about product availability. They believe that product availability will help them to reduce time, energy and psychological costs in selling company's product.
2. Reduces its product's monetary cost to consumer. Most of company's consumer concern about price of product specifically related to the selling price which should be competitive and also related to price discount in order to gain more profit since most of consumers are business market.



	Types of consumer	**Value**
1	Reseller	Price control
		Value added product
		More reward
		Terms of payment facility
2	Retailer	More discount
		Product availability
		More reward
3	Corporate	Product quality
		Competitive price
		Product availability

Picture 1. Types of consumer

In designing distribution channel firm should be able to fulfill several requirements such as able to analyze consumer needs, establishing channel objectives, and identifying and evaluating major channel alternatives. Since SGS does not have their own distribution channel, therefore, the company was not able to provide such requirement. Basically, the main issue related to the company's current distribution strategy were the company could not retains all control specifically related to the market condition, unable to control price since resellers

aimed to gain big margin, and the company will suffer more business risk specifically because the company's demand is highly fluctuated.
Along with the company objective to capture a greater market share with the company's competitive strength to sustain market leadership, and since the result of current distribution channel were not optimum, therefore, the company should adjust their current distribution channel. In order to reach maximum result it is better for the company to replace current distribution channel and build new distribution channel.

The first step in designing distribution channel, the company must understand the service output levels its target consumers want. The five services outputs are: (1) Lot size – since the number of units that average consumer purchase on one occasion are a large size, therefore, new channel should able to provide a large lot size which consumer can buy; (2) Waiting and delivery time – in general consumers prefer faster transaction without waiting and faster delivery. However, in a large size transaction the tolerate average time consumer wait for receipt of the goods are equals to one week; (3) Spatial convenience – since the plywood product are treat similar to commodity product which is consumer easy to switch to other brand, therefore, company new channel should make it easy to consumers to purchase the product without creating extra costs like transportation and search cost; (4) product variety - the company should be able to provide greater assortment in terms of plywood size and also it is better if the company was able to provide plywood value added product because more choices will increase the chance of consumers to finding what they need; (5) Service backup – the greater the service backup provide by the company such as credit, delivery, consulting, installation, will increase consumer interest to the channel. However the service backup should not increase channel cost and rising prices significantly.

The second step is establishing objectives and constraint for the channel. It is clear the objectives of company's channel are similar with the company objective itself which is to increase sale in order to capture greater market share. Since plywood has characteristic as a bulky products, therefore, it is require channels that minimize the shipping distance and the cost of handling. Minimize shipping distance mean the channel is prefer near the company plant.

Meanwhile, on the consumer side the shipping cost can be adjusted with the amount of purchase as the service backup.

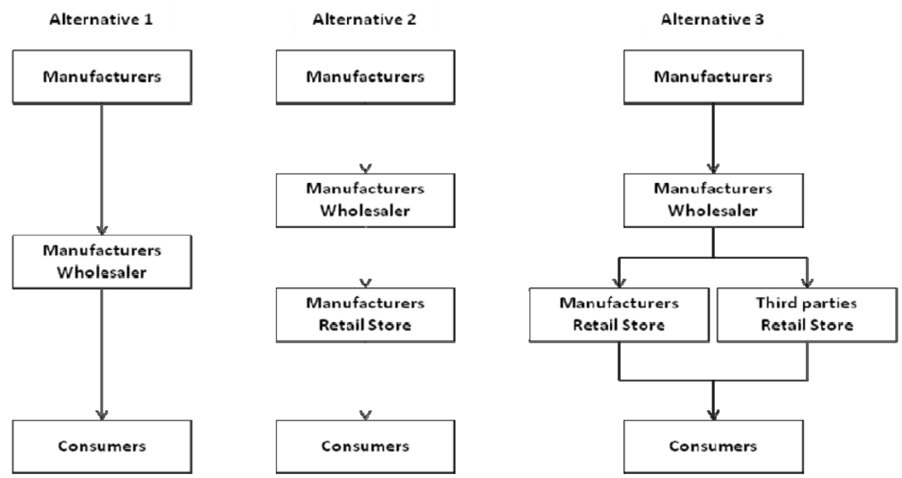
The third step is identifying and evaluating major channel alternatives. For reaching consumers, SGS can choose from much variety of channels such as from sales forces to agent, distributors, and dealers. Each of channels has their strength and weaknesses. Since plywood is not complex products, therefore, using sales forces and agent which can handle complex product to reach consumers are expensive. Meanwhile, distributors are much less expensive and distributor can create sales, but like current condition the company loses direct contact with consumers. What seem suitable for the company is a combination of channels between dealers and distributor, because each channel is able to reach different segment of buyers and they were able to deliver the right products at the least cost. The last step is evaluating the major alternatives, each channel alternative needs to be evaluated against several factors like economic condition, control, and how fast the channel could adapt with the changes of environment.

Channel alternatives described by the types of available business intermediaries, the number of intermediaries needed, and the terms and responsibilities of each channel member. Based on the analysis, in managing company’s intermediaries the suitable distribution strategy for the company is a push strategy where all the activity to promote and to sell the product to the end user is conducting by the company itself uses the company’s resources such as company’s sales forces, trade promotion budget, and company’s intermediaries.

One strategy suitable for the company in order to define the number of intermediaries is selective distribution which relies on more than a few but less than all of the intermediaries willing to carry particular product. This strategy can gain acceptable market coverage with more control and less cost. The advantages of this strategy are better market coverage than exclusive distribution, more control and less-cost than intensive distribution, concentrate effort on view productive outlet, and selective firms capable of carrying full product line and provide the required service.

Least but not less, the company should stated clear terms and responsibility for each of their channel. Moreover, the company should be able to treat each channel with the same manner like treated them respectfully and give same opportunity to growth in order to be profitable. There are several elements that the company should be able to describe in built channel relationship such as price policy, condition of sale, distributors' territorial rights, and mutual services and responsibilities.

Therefore, to build new distribution strategy aim to retain all control to the market as a key factor, writers provide three alternatives of distribution channel strategy to the company. All the alternative of distribution strategy are made based on the company's sales data which is provide information about the company sales areas as well as total sales volume on each area.



Picture 2. Channel Alternatives

DISCUSSION

Evaluating the Alternatives

Each of channel alternatives needs to be evaluate to define the best alternatives which suitable to the company and also could address company's problem. To choose the best alternatives there are several factors to evaluate where in this case we are using consumer's desired service output levels to define the service output levels target consumers want. And also we are evaluating each of channel alternatives against economic, control, and adaptive criteria.

Table 3. Evaluating the Alternatives

Factors	A1	A2	A3	Explanation
Ownership	Company	Company	Company & third parties	
Types of channels	Retail store	Distributor & Retail store	Distributor & Retail store, value added partners	
	Direct marketing channels	Indirect & Direct marketing channels	Indirect & Direct marketing channels, direct sales channel	
Service output level				
Lot Size	Medium to big purchases	Big purchases	Big purchases	Depend on the size of outlets. Assume standard sales branch outlet should be a third floor building.
Waiting and delivery time	Faster	Faster	Faster	Depend on the coverage area. Average delivery time equals to 1 week for big lot size purchase.
Spatial convenience	Low number of store (13)	Medium number of store (19)	High number of store (32)	More retail store mean more convenience it helps consumers save on transportation and search cost.
Product variety	Limited assortment	Great assortment	Great assortment	Greater assortment

Factors	A1	A2	A3	Explanation
				means more choices and it will increase the change of finding what consumer need.
Service backup	Less services	More services	More services	The add-on services (credit, counseling, installation) provide only by sales branch.
Economic, control and adaptive criteria				
Value added of Sale	Low	Medium	High	
Cost per transaction	Low	Medium	High	
Fixed Costs	High	High	Low	The fixed cost engaging third parties office is lower than establishing a new company sales office.
Cost rise	Slow	Slow	Fast	Related to base salary and commission for sales force.
Control	No problem	No problem	No problem	

Alternative Strategy

The idea of first alternative is simplicity which is companies built direct distribution from manufacture to the distributor owned by SGS. The number of intermediaries is exactly the same with current company sales areas which is equals to thirteen outlets which is classified as wholesaler. The outlets main function is to sell company's products, besides, outlets also has another function as company's warehouse.

The benefit of first alternative is that the company takes full control of distribution channel. All information related to the market will be directly received by the company without any filtering from the distributor. Therefore, the company will be able to anticipate and response quickly to the changes of environment. Besides information, the company was able to manage what their consumer needs and expectation, at the end by providing what consumer needs the company expected that consumers will be loyal. Since the outlet is part of the company's supply chain system, therefore, by implementing this strategy we expect that the sales will be boost up because the company was able to control demand.

In terms of value added of sales, first alternatives reach the lowest value added compare to other alternatives due to the limitation numbers of sales representatives that company could hire. Meanwhile, in terms of costs, the cost per transaction in the first alternative is the lowest compare to other alternatives. Cost per transaction mostly related to the numbers of company's sales force or sales representative and since the numbers of company's sales force are limited and they would receive a base salary plus commission, therefore, the cost per transaction in the first alternative is the lowest. However, the level of fixed costs in the first alternatives is high due to the cost of establishing a new company sales office are higher compare to those of engaging a sales partners or agency.

Moreover, by using companies owned sales representatives, the company will receive others several benefit such as a company sales forces will concentrate on the company's product; will be better trained to sell company's product; sales forces will be more aggressive because their success depends on the company successes; most of consumers prefer to deal directly with the company's representatives.

On the second alternative, the distribution channel is more specific in terms of market penetration. The strategy is to build company's own sales branch which the responsibility is similar to the distributor and build company's own retail store in order to expand market. Beside selling company's product and provide a warehouse, sales branch can be conducted several activities like conducting a consultation services in order to provide or offer solution to company's consumers, and also sales branch could offer third party products which supporting and strengthen company's main products. On the other hand, retail store will cover more market especially areas which cannot reached by the sales branch, therefore, retail store responsibility was tightly related to support company's marketing flow especially physical flow. Moreover, retail store also has responsibility to maintain the availability of company's product in the market and also support sales branch delivery in terms of delivery time, so consumers will receive their product faster.

In terms of value added of sales, second alternatives value added is higher compare to first alternatives due to the numbers of sales representatives that company could hire is higher compare to first alternatives because the company develop both distributors and retail stores. Meanwhile, in terms of costs, the cost per transaction in the second alternative is higher compare to first alternatives but lower compare to third alternatives. The numbers of company's sales force which generated by the company will be higher compare to first alternative and since they still would receive a base salary plus commission, therefore, the cost per transaction will be increase following the numbers of sales force. Meanwhile, the level of fixed costs is still high because the company should establishing a new company sales office both distributors and retail stores.

In terms of control, since the ownership both of distributors and retail stores is owned by the company itself, therefore, the function of control is not a problem for the company. Company was able to control their distribution channel directly in order to manage the changes of market condition and the changes of environment. Moreover, through SGS sales branch, company was also able to provide more plywood value added product and other complementary product which strengthen company's core product both own by the company and third parties, as well as provide additional services to expand sales.

The last alternatives was the combination between using company's current distribution channels which mostly serve by third parties retailer and company's new distribution channel which own by SGS. The main consideration of using this strategy is time and cost efficiency especially fixed cost. Therefore, the company will be able to minimize the risk of losing sales and market share during the preparation to build new channel.

In terms of value added of sales, third alternatives value added is the highest compare to other alternatives due to the numbers of sales representatives is the highest as the result of the combination between company's sales force and third parties sales force. In the third alternatives besides develops company's owned distributors and retail stores, the company also using third parties retail stores. Meanwhile, in terms of costs, the cost per transaction in the third alternative is the highest compare to other alternatives because besides pay a base salary plus commission for company's sales force, the company should pay a commission based on the third parties sales forces or sales agency. The sales agency representatives are expensive because they may be just as aggressive as a direct sales force, depending on the commission level; it may be better received by consumers as more independent; and it may have extensive contacts and marketplace knowledge.

Meanwhile, the level of fixed costs is the lowest compare to other alternatives because the fixed costs of engaging third parties sales office are lower than those of establishing a new company sales office. However, the costs will rise faster through third parties sales forces because they will get a larger commission than company's sales force. In terms of control, using a third parties will poses a problem because since the third parties is an independent firm seeking to maximize their profit, therefore, they may focus on consumers who buy the most rather than those who buy company's product.

CONCLUSION

There are many strategies that company can implement in order to increase their sales. By increasing company's sales, SGS was aimed to strengthen their market leadership in Indonesia plywood industry. Based on one of the Ansoff's model strategies which is market penetration strategy where in this strategy company is looking to adapt for increasing their sales and profits is usually market penetration strategy because this strategy is try to attract competitors consumer and looking for potential consumer for the existing

products. The market penetration strategy aims to seek increased sales of the present products in the present markets through more aggressive promotion and distribution.
Therefore, to increase company's sales, one of the strategies that company could implement to increase sales is developing suitable and sophisticated distribution channel. Moreover, this strategy also can be use as a part of market monitoring system where the company could gain information directly from their consumers especially related to market trend, consumer needs and consumer expectation.

Currently the company serves two types of consumer who have a characteristic of high-value deal seekers and consumers that have a characteristic of high-involvement shoppers. In the high-value deal seeker the company serve consumer who known their needs and they will search channel actively before buying the product at the lowest possible price. Meanwhile, in the high-involvement shoppers the company serve consumer who will gather information in all channels and they will make their purchase in a low cost channel, but they also will take advantage of consumer support from a high touch channel.

Moreover, there are two types of shopper that most of company's retailer serves. The first type is service or quality consumers who cared most about the variety and performance of products in stores as well as the service provided. These types of shopper concern about product availability in the stores. They will not easily change to other product since they are concern to the quality; therefore, it is crucial for retailers to manage the product availability. The second type is price or value consumers who were most concerned about spending their money wisely. This types of shopper are concerned to the price, they will ask to get the best prices since they believed that they have right to receive more discounts based on total purchases.

Meanwhile, to develop suitable distribution channel, the company should knowing well about the market specifically about their consumers, so the benefit from developing distribution channel will directly feel by the consumers which at the end will affect consumer's preference to buy. The company's should be able to deliver consumer needs and expectation that can be identified on the table bellow which based on the types of company's consumer. Each of consumers has different needs and expectation, which mostly related to their objective in buying company's plywood product. For example wholesaler, their needs mostly related to the financial issues and their expectation are related to company's product both availability in terms of product size and the variety of product. It's all because wholesaler is looking for high profit margin from sales when they decided to bought company's product.

Based on the survey, most of company's consumer is inform the changes of market which mostly information related to the changes of selling price, the changes demand of product size in terms of plywood thickness, and information about favorable brand that most consumer looking for. Meanwhile, the reasons for consumers did not inform the changes of market to the company because the company did not asked to them, company's consumer believed that the changes are not affecting their sales significantly, and the changes is repeatable event, therefore, through time they believe it will be back to normal.

In total what consumers need to the company's product or brand mostly are related to the company's selling price in terms of more discount and they were allowed to define their owned pricing policy. Meanwhile, consumer expectation mostly related to the company's level of services and the company's selling price. Consumer's expectation to the company's level of services were related to the level of product availability and related to faster time to deliver the product. For selling price, most of consumers expected that the company's give them more discount. In the table below we describe the consumer needs and expectation based on company's types of consumer.

When the company was able to identify their consumer's needs and expectation, therefore the company next step are finding suitable distribution channel strategy which linked directly to sales in order to increase company's sales. Basically, by developing new distribution channel the company hopes that they was able to take control of company's market specifically in terms of pricing policy and also able to gain market information directly from consumers in order to set-up future plan.

Table 4. Consumer's needs and Expectation

	Types of consumer	**Needs**	**Expectation**
1	Wholesaler	Price control	Product availability
		Value added product	Value added product
		More reward	More discount
		Terms of payment facility	
2	Retailer	More discount	Delivery time
		Product availability	Competitive price
		More reward	
3	Corporate	Product quality	High product durability
		Competitive price	Competitive price
		Product availability	

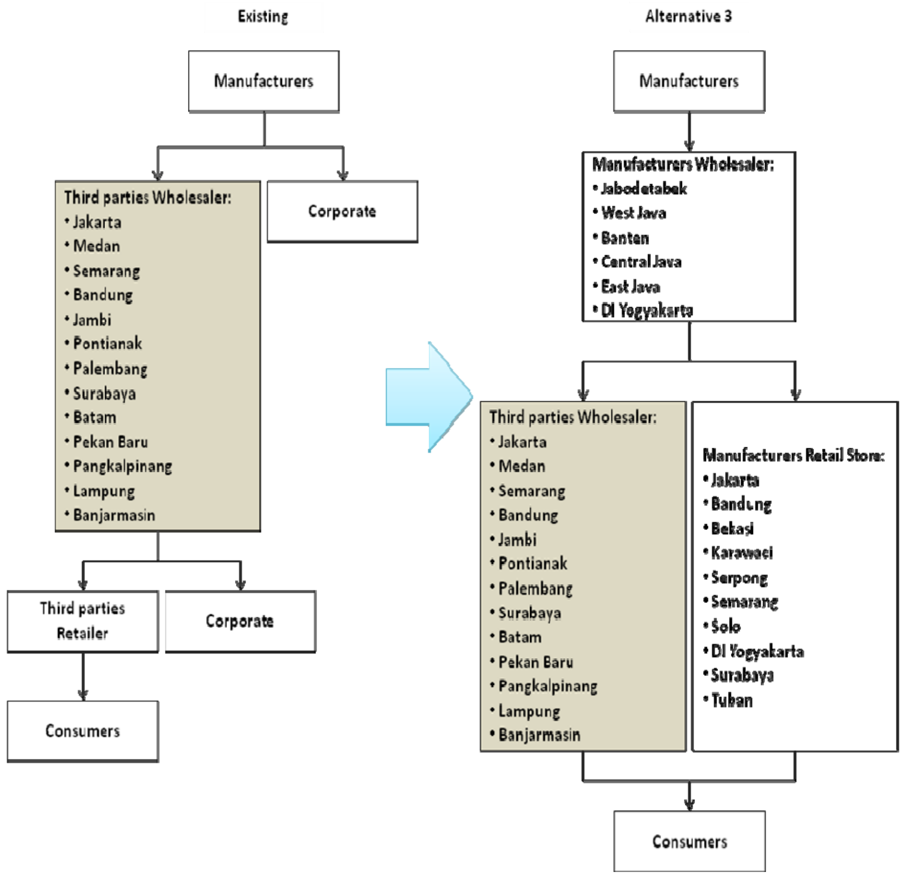
Along with the company objective to capture a greater market share by increase company's sales and as the result of inefficient current distribution channel, therefore, it is better for the company to develop new distribution channel replacing current distribution channel. The objectives of establishing new distribution channel is to expand market coverage, increase company's sales, and gain information directly from market. In developing distribution channel the company should provide several services output in order to deliver consumers want such as provide convenience large lot size, provide faster transaction and faster delivery, provide spatial convenience which mean consumers should not pay any extra costs to purchase the product, provide greater product variety, and provide service backup.

To effectively reaching more consumers, the suitable channels for the company is a combination channels between distributor and retail store, because both channels was able to reach different segment of buyers and they were able to deliver the right products at the least cost. Moreover, to expand market in order to reach more consumers, the suitable number of business intermediaries is critical since company’s intermediaries should be able to grab wide sales coverage areas.

RECOMMENDATION

From three alternatives, the best alternative which suitable to the company’s marketing channel is the third alternatives. Since the company’s objective in develop new distribution channel is to increase sales in order to increase market share, therefore, company’s new distribution channel should be able to expand the market coverage areas. Depending only with company resources to grab more market coverage it seem not enough, combining company’s own channel with third parties channel will be easier to the company to reach the objectives.

In developing company’s new distribution channel specifically related to the number of intermediaries or the number of outlets and their suitable location, there are several based parameters uses by the company as their main consideration such as demand and supply condition on each areas, company’s product existing supply in the areas to define company’s market share, the number of distributor, the number of competitors, and industry growth which using plywood as their raw materials. Based on company’s data, there are totally 14 areas that meet with the parameters which is Jakarta totally for 5 areas, Bandung, Bekasi, Karawaci, Serpong, Semarang, Solo, Yogyakarta, Surabaya and Tuban. Therefore, our recommendation related to company’s new distribution channel defined in the figure below.



Picture 3. Company's New Distribution Channel

The first suitable strategy for the company to define the number of intermediaries is a selective distribution which is relies on more than a few but less than all of the intermediaries willing to carry particular product. Therefore, as the first stage we recommending that the company focus in develop and build companies own sales branch. The company should develop sales branch in six provinces which divided into four existing areas such as Jakarta, West Java, Central Java, and East Java. Moreover, to strengthen company's position in Java area we proposed two of new provinces of Banten and DI Yogyakarta. Most of the areas are representing company's potential market based on company's sales data in 2009 and based on company's parameters. Therefore, to strengthen and to expand company's market share in their potential market by develop sophisticated distribution channels is the best strategy.

Why wholesales or sales branch should became the company priority in developing distribution channel? Wholesales differ from retailers in a number of ways such as wholesales are dealing with business consumers rather than final consumers, wholesales transactions are usually in large size, and wholesales usually cover a large trade area. In general, wholesalers are more efficient in performing several functions such as selling and promotion, buying and assortment building, warehousing, transportation, financing, risk bearing, market information, and management services and counseling. Therefore, build company's own sales branch will help the company to build strong foundation to developing distribution channel.

After developing company owned sales branch, the next stage is developing company's own retail store. Although many retail stores are third parties owned, an increasing number are part of a corporate retailing organization. The company's own retail store will help company to achieve economies of scale, greater purchasing power, wider brand recognition, and better-trained employees than third parties retailers.

From manufacture the finish good directly send to company's wholesaler which own by SGS and known as sales branch. Sales branch location should be in the strategic area with high potential market such as in the central economic city which represents the whole economic activities in the areas. Beside strategic area, sales branch also represent company's current condition where company's sales is significant in those areas, and the market in those areas are potential for growth, as well as considering the location of company's plant.

Sales branch function is not limited only to sales, sales branch will conducted several function such as company's area main warehouse, provide consultation services and consolidate all marketing activities on each area under head office supervise including pricing policy, discount policy, as well as profit margin policy. The benefit of this strategy is the company was able to maintain their current sales condition while develop new channel, therefore, the company will be able to minimize the risk of losing sales and market share during the preparation to build new channel. The main consideration of using this strategy is time and cost efficiency; the company can save budget and saving time to build new channels.

Meanwhile, retail store can be owned by the company or third parties under exclusive agreement between SGS and related parties which should be in legal entity form. The different between companies own retail store and third parties retail store mostly related to the outlet appearance and services provide on each outlet. Third parties outlet can be in the standard format like current company's wholesaler or standard building material store. Meanwhile, companies own should be having standardized appearance and services, such as standardize interior and exterior, as well as providing solution services. However, in the future third parties outlet should be scrutinized and should meet the standard of companies own outlet at least interior and exterior appearance.

However, all of our recommendation will be depends on the company's ability to provide necessary resources such as company's budget to develop new distribution channel, human resources, company's business plan, and also specifically related to government regulation since the company's status as the foreign investor (PMA).

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