COMPETITIVE ANALYSIS MODEL IN GARMENTS INDUSTRY: CASE STUDY OF PT. PAN BROTHERS, TBK

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Abstract

The purpose of this paper is to discuss the competitive analysis model in the garment industry in Indonesia through case study of PT Pan Brothers, Tbk. The paper provides results of analyzing forces in the company is knows as a producer of Line of Products produced by the company are "Woven Garments" such as Padded and Light Weight Jackets, Pants, Shorts, Casual Pants and Dress Shirt, etc.

The research use case study method that aims to present information in structured, factual, and accurate information on the object studied. Case study method is used to examine the forces that pushed industry to evolve; and to identify other strategic strengths faced by the company.

The findings of this study show that five forces in the industry that pushed the garment industry are evolving. This paper also shows the results of the analysis of the competitive environment consisting of bargaining power of suppliers, bargaining power of buyers, potential new entrants, substitute products and rivalry amongst existing firms in the industry. Additionaly, this study resulted in the identification of a number of strengths and weaknesses of the company based on the areas of finance, marketing, human resource management and operations of the company.

This study provides managerial impact to the company studied, namely: (1) the financial ratio analysis shows the company's financial performance is considered good and increased net income / net sales increased by 23.65% per year from 338.5 million USD in 2014 to 418 million USD in 2015; (2) marketing performance analysis shows the company's website has not empowered to maximum as e-commerce sales system is weak; (3) the production performance shows the procurement of raw materials are still imported from China and Guang Zhu; (4) human resources assessment and performance monitoring system still used a manual system.

This paper discusses a case study of the forces of the industry faced by PT Pan Brothers, Tbk. and displays the results of the analysis of the strengths and weaknesses of the company's financial functions, marketing, human resource management and operations of the company; as well as a number of opportunities that need to be captured companies and a number of threats that need to be avoided.

Keywords: *Competitive Analysis, SWOT Analysis, and Garment Industry*
JEL Classifications: *M29, L67*

Research Background

The globalization era that grows rapidly invents the competition to be competitive. Many developing company with the various business ventures have been growing rapidly and the garment and textile industry is one of them. The development of the garment industry in Indonesia has been growing broadly. The textile industry and production (TPT) contributes the highest foreign exchange for almost five years about 6 billion $ per year. The growth of this industry has also produced a lot of vacant jobs in 2011 about 1,4 million workers worked in this industry or increased 4,78% from the total workers last year which was 1,4 workers (Kemenperin:2016).

The development of this garment and textile industry and production (TPT) inflicts the industry competition in Indonesia. PT. Pan Brothers Tbk is one of the competitors in this industry. The company(,) which is located in Tangerang, established in 1980, moves in garment and textile industry to generate various garment products. This company is the distributor of orienting on export. The competitors of the company that has performed go public which are PT Sri Rejeki Isman Tbk. and PT Indorama Synthetics Tbk. The businessman will produce competitive products with the purpose of appealing people's attention to use their products.
A company has surely a goal. The primary goal of a company is to escalate the shareholder's prosperity by increasing the company value (Salvatore, 2005). The company with a good performance keeps growing and can stand its industry, then the company requires to analyze its financial or non-financial performance by evaluating its business. Another valuation that is usually performed is SWOT analyzing to evaluate internal or external factor that can persuade company's performance, besides that, to figure out the strategy which is used by the company for being competitive in the business, also to develop the company. Business valuation of a company from the financial side can be asserted by analyzing the annual report of a company with financial ratio analyzing method.

From the above description of the problem formulation of the study, there should be a study to analyze the competitive analysis model in garment industry through Case Study of PT. Pan Brothers, Tbk. which would be benefited for the industry analyzed. This paper is organized as follows: Section 1 contains the profile of the company based on financial performance. Section 2 presents the reason for using case study method and the research design, the criteria used to interpret the findings of the results. Section 3 discusses the findings of the study. The paper concludes the results of the study in Section 4.

Literature Review

The *competitive analysis* approach can be used to help selecting the strategy which has been developed before by Michael Porter (1985). This approach assumes that (Rufaidah 2014) by analyzing the strength that forms an industry can predict generally the industry profit and the possibility of success from every strategy in the business unit. According to Porter (1985), there are five primary strengths that shape an industry: *Power of Supplier, Power of Buyer, Availability of Substitutes, Barriers to Entry & Exit and Rivalry among Competitor*.

There are two opinions in this competitive analysis (Barnat: 2014): (1) the more strength that forms an industry, the lower returns in the industry; and (2) the main strength influences business unit so that the profit for the unit is lower. The strength of competitive analysis gives a systematic way in evaluating the industry and providing the strategic option in the business unit in encountering the industry. Whereas the weakness of competitive analysis is (1) difficult to recognize what has influenced the industry strength, and (2) the success key of a company is to collaborate not compete.

Research methods (hypotheses)

This study is a case study, which is the purpose of this study is to examine an issue deeply by analyzing the company strategy and viewing the strength and weakness, opportunity and threat so that the company can be heading in the industry competition to accomplish *competitive advantage*. The procedure of this case study is: *first*, selecting the case. By choosing the phenomenal case in a society with the aim of finding the solution to the issue that occurs; *second,* data collection. Data and information about the study issue are collected from the annual report of company and journals; *third*, data analysis. Data analysis and organizing are carried out to clarify previous data; *fourth*, correction. Data that has been collected is refined and strengthened with new data on the category which has been found; *fifth*, reporting. The report is written down communicatively and describing phenomena in the study.

Research results expectation, Limitation and Originality

Strategic Posture of the Company

PT. Pan Brothers Tbk started operating commercially in 1981. The main activity of the company in the apparel industry by producing various clothes. The company share was firstly offered to the people in 1990 and recorded in Indonesian Stock Exchange (ISE) since 1990. PT Pan Brothers Tbk is managing the industry from developer sector, distributor, garment producing and the subsidiary company produce various clothes such as the jacket, dress shirt, active wear and polo shirt.

The market of PT Pan Brothers Tbk and its subsidiary company are The North Face, Adidas, Hugo Boss, Nike, Prada, Tigha and Yonex. The majority market of PT. Pan Brothers, Tbk is to export the products to the United States, European Community, Eastern Europe, Canada, Asia, Australia and other countries. The company has some competitors which are: *first*, PT Indorama Synthetics Tbk (INDR). This company has recorded the highest sales about US$ 682 million or 8,98 billion IDR (rate 13.170 IDR/US$); s*econd*, PT Sri Rejeki Isman Tbk (SRIL) or is known as Sritex, by reaching the sales about US$ 631,3 million in 2015 or 8,3 billion IDR (rate 13.170 IDR/US$) or increasing 7,2% from 2014 about US$ 589 million; *third*, PT Asia Pacific Fibers Tbk (POLY). This company resulted from the sales US$ 390 million in 2015 or 5,13 billion IDR, decreased 21,5% than 2014 about US$ 493,5 million. In this competition, PT Pan Brothers Tbk has been able to reach the sale about US$ 418,6 million in 2015 or 5,5 billion IDR, increase 23,6% than 2014 about US$ 338,5 million. The gross profit of this garment producing has grown significantly about US$ 53,6 million in 2015 than 2014 about US$39, 6 million. But, the company net income has weakened into US$ 8,6 million 2015 than last year(,) which was US$ 9,3 million.

Competition Analysis

The industry competition of textile industry and production in Indonesia is quite rapid and it invents PT Pan Brothers to be able to analyze the competition. Here is the competitive analysis by using the five force model approach by Porter (1985): (1) *Rivalry among Competitors*, the company should be more aggressive in competing by providing many kinds of products, competitive price, and on-time delivery. The company has to maximize utility and various systems and technology which can help and accelerate the production, worker's development continually to keep competing in the global market and contributing to the Indonesia export market; (2) *Barriers to Entry & Exit*. The barriers in this textile industry and production is quite heavy, it can be detected from many companies with their familiar brand, through the partner system as a supplier of garment products, they have been a united system and bounded to each other for a long time; (3) *Availability of Substitutes*. The competition is tight in this industry, it makes the company realize many substitute products which can replace the main product of the company so that they need to emphasize the high quality of products which are sold to the customer and provide them a competitive price; (4) *Power of Buyer*. The company must enhance *new buyers* and empower the old buyers with a new product to escalate total order and improve the type of product. The company has a lot of buyers and always gain new buyers and maintain the dependency on the certain buyer. So that, the maximal portion of every buyer is determined on the limit about 30% of total sales; (5) *power of supplier*. The company needs to collaborate with the material supplier to obtain a beneficial synergy for the development of the company. The company will keep seeking and cooperating with a company which has an experience in producing another garment so that it invents them as the company vendor which works for the company.

Activity Analysis

The company financial performance is analyzed for over two years which is from 2014 to 2015, some financial aspects have increased and decreased, more detail can be viewed from this table:

Table 1. Table of Company Financial Analysis Performance

Ratio/Year	2015	2014
Liquidity Ratio		
Current ratio	359,845%	382,175%
Quick ratio (acid test ratio)	257,129%	291,496%
Cash ratio	85,296%	171,878%
Cash Turn Over	72027,683%	157639,496%
Inventory to net working capital	39,530%	32,135%
Leverage ratio		
Debt to asset ratio	51,526%	45,254%
Debt to equity ratio	105,155%	82,339%
Long-term debt to equity ratio	62,501%	41,173%
Times interest earned	258,044%	290,238%
Activity Ratio		
Receivable turn over	6,374	6,531
Average collection period	57,264	55,890
Inventory turn over	4,722	5,020
Working capital turn over	1,876	1,613
Fixed assets turn over	3,407	4,468
Total assets turn over	1,844	2,041
Profitability Ratio		
Gross profit margin	12,813%	11,685%
Return on investment	3,798%	5,623%
Return on equity	3,944%	4,630%
Earn per share	0,140%	0,150%
Net profit margin	2,060%	2,755%
Book market ratio		
Price earning ratio	400.000	336.667
Market book ratio	47.886	43,183
Market value added	0,102	0,089

Table 2. Value of sales and Net income (In USD)

VARIABLE	2015	2014	2013	2012
Sales	418.58 M	338.53 M	233.84 M	208.30 M
Net Income	9.39 M	9.57 M	10.55 M	7.48 M

Based on the table, can showed to us about the company *net sales* increased from US$ 338,5 million to US$ 418, 6 million. In *current ratio* aspect, the company decreases 22,33% in 2015, financial ratio evaluating is in the poor category. Money indicates the company's ability in paying off the short-term debt by using the short-term asset. Even though decreasing, the company is able to pay off the short-term debt. It is because of the increasing of the company asset and the *current liabilities* company has also escalated. The implication of paying off the short-term debt impacts the *cash ratio* company. The decreasing of cash ratio in 2015 was about 85,296 which means that the company can pay 0,85296 IDR for every a rupiah debt. It indicates that the company is unable to maximize the cash and marketable security to pay off the short-term debt.

The increasing of the financial ratio company can be detected in *debt to asset ratio*, which escalates to 51,526% in 2015 or 6% from last year 45,254%. It means that the company has utilized liability in costing the company asset. It is in a good category. But, *debt to equity ratio* (DER) is increasing. The total company debt with the capital is beyond 50% of the company capital which indicates that the company is not good enough. However, the company achievement is on target that has been agreed which is, maintaining an equity ratio on debt about 250%.

The company financial performance in *activity ratio* has been decreasing. The company *receivable turnover* (RTO) decreased about 0,157 from last year, the implication on the company was that it rendered the decreasing of profit because the inability company in selling efficiently by utilizing *account receivable*. However, the company inventory turnover (ITO) escalates to 0,298 than last year. This increase signs a good for the company. The increasing of this ratio renders the increase of sales by utilizing the available stock.

The increasing of the company financial ratio cannot be viewed from *gross profit margin* which is, escalating from 0,0113 in 2015 to 12.813%. It means that the company has a 12,813 % margin that can be used to cover the burden and still result in a profit.

VALUE CHAIN ANALYSIS

The company has some activity chains that are carried out to generate the product or service which is called as the value chain. PT Pan Brothers Tbk has some subsidiary companies which produces and supplies the products based on the customer demand. The primary activity that is carried out by the company is (1) **Inbound Logistic**. Logistic consists of procuring textile materials such as *polyester, single jersey, pique, fleece in cotton*. The controlling management of quality is carried out in this step. The company has barriers to perform inbound logistic which is, purchasing additional material such as accessories, tailor etc. PT Pan Brothers Tbk receives the materials from the supplier which is its own subsidiary company. For example, the company collects the materials for, PT. Pancaprima Eka Brothers, PT Hollit International, and PT Ocean, Asia Industry; (2) **Operation**. This activity consists in identifying the product. The selecting material process is adapted to the pattern and the kind of product which has been ordered before, measuring the material, sewing and printing the motif. The company maximizes the utility, system, and technology that can help and accelerate the production. Nowadays, the company has been prepared to supply all kinds of garments and invent the company as one stop shopping for the buyer for every kind of garment. The production capacity of garment segment in 2015 was supported by 22.186 sewing machines, and in 2016 the production capacity target has increased to 96 million pieces: (3) **Outbound Logistic**. The management system in Outbound Logistic consists of packing, labeling, releasing and delivering the product. (4) **Marketing and Sales**. The major products are the export products. The self-development from garment manufacturer to become the brand holder and garment retail. It is started with getting a license to sell in Indonesia and Asia from some garment brands. Entering retail and developing their own brand; (5) **Service**. The development is performed to enhance alliance with garment manufacture which is possible managed to be coordinated garment manufacture with the company to escalate production capacity for the best service to the customers.

The support activity that is performed by the company in the value chain is (1) **Company Infrastructure**. The infrastructure to support the company activity is the material and the support production material, sewing machine and wave machine, support service such as transportation, communication, tool, safety equipment. (2) **Human Resources Development**. With the commitment, the company has been training the workers in 2015. The training embraces operational technic or leadership to accomplish the company competitive and productive. To develop the worker’s competency, the company has been evaluating the workers from assistant supervisor level, to see the potential that can be developed and implementing education training. (3) **Technology Development**. The company keeps trying to escalate and optimize the efficiency, productivity, the quality product, through modern machine periodically; applying quality management system ISO 9001:2008 by consistently implementing the integrated information with all divisions in the company such as *Supply Chain Management*, *Turbo cash, Quality Assurance System*, so that the company can set the right price for the buyer. (4) **Procurement**. The company hires HR based on qualification and competency that is required and purchasing the material, infrastructure, and other resources.

Business Performance Analysis

SWOT Analysis

The strategic management is a whole plan that directs to the attempt of achieving the company goal. To figure out the business performance of PT Pan Brothers Tbk can use business performance analysis which is divided into internal and external company factors called as SWOT analysis, it is used to recognize the strength, weakness, opportunity, and threat of a company.

Internal Environment Analysis

The internal environment analysis of a company is carried out to find out the strength and weakness of a company by analyzing the business function based on marketing, financing, operating and human resources. The result of the strength and weakness analysis is arranged into IFAS table.

Marketing Performance

The trusty garment product which is distributed to the United States, European Community, Eastern Europe, Canada, Asia, Australia, etc. The company provides retail apparel to serve the regional market. The company has marketing resources that will contact one by one, of a buyer to offer the product. If the deal is agreed, then the marketing resources will keep in touch with the buyer.

Financial Performance

The decision in managing the company financially is about 10% of the profit will be used to increase the capital to support the company operational. About 30% of the stock is allocated to invest from up to down to strengthen the position in the industry, by Entitas Anak. Besides that, the company funds US$ 40.000.000 for Committed Capex Term Loan Facility (TLF). The aim of this facility is for investment credit with the level of Libor interest + 3.5%.

Operational Performance

The company develops an alliance with the material supplier and garment manufacturer which is possibly managed to become a coordinated garment manufacturer with the company to escalate the production capacity. The company is also a supplier of the garment material and supplying to the garment manufacturer so that the company becomes the synchronized company in supplying chain that is completed from up to bottom. With self-developing to up from the garment manufacturer to all industries which are textile, spinning, and fiber. To keep the quality product, the company applies the quality international standard and adopt ISO 9001:2008 – Management Quality International Standard by bringing in the high-quality material and cheap which is from China and Guang Zhu.

Human Resources Management Performance

The total workers of the company at the end of 2015 were about 32.707 workers. It is a precious asset for the company that has to be maintained and developed. The development is carried out by implementing the training of operational technic and leadership to accomplish competitiveness and productivity of a company. Evaluation of human resources performance is carried out by evaluating all workers from *Assistant Supervisor level*, to detect potency and competency that can be developed and push on education with training.

Information System Management Performance

The system information management performance in PT Pan Brothers Tbk is divided into three management functions, which are (1) Operational Level, the company utilizes a Turbocash software to help the accounting (recording the sale and purchase transactions), the company also uses the Microsoft outlook to make an email program; (2) Managerial Level, the company uses the integrated information system and user-friendly, so that it will not take a long time to log in; (3) Strategic Level, using portfolio apps to find out the contribution of the company's apps by grouping the apps into categories such as *high potential strategic, key operational, support*.

Table 2. IFAS PT. Pan Brothers, TBK

Internal Strategic Factor	**Quality**	**Rating**	**Score**
A. The Strength of PT. Pan Brothers, TBK			
1. Experiencing in running a unit business (S1)	0,20	4	0,80
2. The High quality product (S2)	0,10	4	0,40
3. Serving the regional market (S3)	0,10	4	0,40
4. Available cash to expand (S4)	0,10	3	0,30
B. The Weakness of PT. Pan Brothers, TBK			
1. The high dependency on materials from foreign country (W1)	0,15	4	0,60
2. The level debt in the future (W2)	0,10	2	0,20
3. The higher loan interest rate (W3)	0,10	2	0,20
4. The competitive market (W4)	0,15	3	0,45
TOTAL	1,00		3,35

<u>External Environment Analysis</u>

The condition of the external company brings some chances and threats to the company achievement of a goal. The opportunity and threat factors are summed up in the table *EFAS* (External Strategy Factor Conclusion):

Table 3. Of EFAS PT. Pan Brothers, TBK

External Strategic Factor	**Quality**	**Rating**	**Score**
A. Opportunity for PT. Pan Brothers, TBK			

1. Indonesia is supported by the availability of the workers, infrastructures, resources for industry based on rayon, nylon, and filament with or without the combination of cotton (O1)	0,15	4	0,60
2. The company asset is consistent per 31 December 2015 about US$ 122.9 million, increasing about 46,54% (O2)	0,06	3	0,18
3. The company predicts Indonesia export will escalate and have the opportunity for the company which is able to compete in the global market (03)	0,05	3	0,15
4. The lifestyle and the activity of urban customers change, it opens an opportunity for the garment industry (04)	0,09	2	0,18
5. The Government of Indonesia by The regulation of the Ministry of Industry Number 123/M-IND/PER/11/2010, supporting the textile industry and production (*TPT*), by subsidizing 10% of purchasing new machines to renew this sector, publishing economic packet regulation which is for intensive industry (tax intensive, electricity discount, tax cuts for the workers), launching Free Trade Agreement with Europe in 2017) (05)	0,15	4	0,60
B. Threat of PT. Pan Brothers, TBK			
6. The economy of destined export country is worse, the other possibilities that will influence the sales (T1)	0,12	4	0,48
7. The change of economic and politic in the regional or destined country will weakened the company performance (T2)	0,10	2	0,20
8. The entry logistic is canceled and it will obstruct on time delivery and reduce the customer trust on the company (T3)	0,15	3	0,25
9. The strength or weakness of rupiah is beyond the limit and the increasing of the domestic cost such as standard minimum wage; oil; electricity; cellular etc that will decrease the power of competition of a company (T4)	0,13	3	0,39
TOTAL	1,00		3,03

Conclusion and Suggestion

Conclusion

The *competitive model analysis* is used to help the management in making a strategic decision, by analyzing the competition industry, the company can predict the next step to achieve a goal. The company must have a competitive advantage to stand at the competition. The advantage is something that can make the company more competitive in appealing the customer interest and survive in the face of competition. By utilizing the advantages, the company can shape a competition strategy. The company that is able to compete, it will be able to stand the business and strengthen its position in the market industry.

a. The Competition among The Same Company

Many regional companies which move in the same industry which are PT Indorama Synthetics Tbk, PT Sri Rejeki Ismani, and, PT Asia Pacific Fibers also have a market in the outside Indonesia. The foreign competitor is from China, the advantage of this company is to set the cheap price with the good quality. Maintaining the quality product and also attempting to reduce the cost of material is one of the competitive strategies that is performed by PT Pan Brothers Tbk.

b. The Entry of New Competitor

The new competitor with the advantage competitive has forced PT Pan Brothers Tbk. But, the capital factor that is required, such as materials, workers, and infrastructure capacities to build a garment company, particularly entering the foreign market needs a big cost. PT Pan Brothers Tbk is well known and has a loyal customer in outside Indonesia, it invents the company not to worry about the threat from the new comer in the garment industry.

c. The Development of Substitution Product

The substitution product gives a chance for the customer to switch old product to a substitute product. The substitution product of PT Pan Brothers Tbk is the products which are sold in the region and those which are made by China company.

d. Power of Supplier

The company receives the primer material from the supplier. So that when the chips are down to find the material from other suppliers then it will give a chance the supplier to offer. The supplier of PT Pan Brothers Tbk is from China and Guang Zhu. On the other hand, the dependency of the materials from foreign country becomes a threat to the ongoing of the company if the exchange rate is unstable and fluctuating.

e. Power of Buyer

The strength of offering the buyer which gives an opportunity to the customer to offer the price so that it will persuade the competition intensity in the industry. PT Pan Brothers Tbk is keeping the good relationship with the customer so that the company can use the strategy in negotiating the price or warranty.

Recommendation

Based on the strategic factors mentioned above, the recommendation that is required to do with the company in accomplishing the goal is:

1. **The strategic factor in the short-term:** the company needs to monitor the fluctuation of rupiah to predict the sale and purchase materials so that the company is able to adapt with the consequence of the rupiah fluctuation
2. **The strategic factor in medium-term:** Maintain the market that has been reached and targeting the new market such as the medical industry
3. **The strategic factor in the long-term:** Utilize the new technology that can reach all markets such as medical industry so that the company can rule all markets.

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