

- b. The competition is quite heavy but not heavy as in Indonesia
- c. There are hundreds of Philippine furniture importer that not reached yet by PT. CSF
- d. Most of the existing buyers of PT. CSF are located in Metro Manila, there is chance to expand the market to other city and other provinces directly.
- e. There are no strong furniture brands in Philippine. Most of the consumers or even retailers only know the country's source of the furniture.
- f. The cost to open a Representative Office is not too significant for business

2. Threat

- a. Competitor from Malaysia and Thailand, and Indonesia it self try to get more penetrated to Philippine panel furniture and makes the panel furniture market get saturated.
- b. The oil price goes up significantly and make the freight cost increase. It will make Malaysian products get cheaper since the distance between Indonesia to Philippine is farther than Malaysia to Philippine.
- c. The global warming issues become hotter and make harder to get wood from Indonesian forest. It will make particle board price as the main material become more expensive.
- d. The average Term of Payment of Philippine Importers give to the furniture retailers is 120 to 150 days. It will be too risky and costly for foreign company to sell the products directly to furniture retailers.

3. Strength

- a. Olympic Brand is well known in Indonesian market and many of the Philippine furniture retailers know the Olympic products and trusted the quality, that's why many of the retailers and consumers assume that Olympic is for middle to up market segment even though in Indonesia it self Olympic is for middle to low market segment.
- b. Production capacity is big and ready to support PT. CSF to expand the Philippine market.
- c. PT. CSF has realized the urgent needs of expanding the market

4. Weakness

- a. PT. CSF only have three main buyer in Philippine, and they are all located in Metro Manila, not spread in difference provinces.
- b. There are no buyers who give full support to PT. CSF, they just buy the product because it's cheap or good quality and design, not because they have to.
- c. PT. CSF only visited Philippine market and buyers for one or twice a year, for three to four days. That is not enough to build strong business relationship to those buyers and would not be able to have deeply knowledge of the Philippine panel furniture market and its demands.

By considering the SWOT factors above, there are some strategies that PT. CSF can build based on the SWOT analysis as shown in the table below:

Table 5.19 - SWOT Matrix

<p style="text-align: center;">Internal Analysis</p> <p style="text-align: center;">External Analysis</p>	<p><u>Strength</u></p> <ol style="list-style-type: none"> 1. High Quality perceived brand and assumed for middle to up segment 2. Big Production Capacity 3. Management realized the urgent of expanding the market 	<p><u>Weakness</u></p> <ol style="list-style-type: none"> 1. PT. CSF only have three main buyers 2. PT. CSF do not have full commitment of the buyers 3. Lack of market visit and relationship with buyers 4. Many of PT. CSF products cannot cope with Philippine taste
	<p><u>Opportunity</u></p> <ol style="list-style-type: none"> 1. Big market worth \$40 million per year 2. The competition is lighter than in Indonesian market 3. There are hundreds of furniture importers not entered yet 4. There are big market outside existing buyer's location 5. There are no strong local furniture brands 6. The cost to open a Representative office is not significant 	<p><u>S-O Strategy</u></p> <ol style="list-style-type: none"> 1. Open a Representative Office in Manila with all Philippine coverage area. 2. Build Olympic brand by aggressive promotion by ads or exhibitions 3. Find and approach new buyers outside Metro Manila
<p><u>Threat</u></p> <ol style="list-style-type: none"> 1. Competitor from Malaysia, Thailand and Indonesia it self 2. Material price increase significantly 3. long Term of Payment for the retailers will be very risky 	<p><u>S-T Strategy</u></p> <ol style="list-style-type: none"> 1. Avoid long term of payment by selling only to big importers, not directly to retailers 2. Focus on cost efficiency in production 3. Make long term agreement with the particle board suppliers 	<p><u>W-T Strategy</u></p> <ol style="list-style-type: none"> 1. Make exclusivity agreement with some buyers 2. Patent right for fast moving items design

5.1.3.1 Strength – Opportunities (S-O) Evaluation

There is a big panel furniture market in Philippine, but it was seems so hard to penetrate deeper for PT. CSF. By open a representative office, PT. CSF will have more ability to access the market. Simple representative office is suitable for PT. CSF in Philippine. Just send one capable person from PT. CSF

and recruit one or two experienced local salesman and one for administration. This way is commonly used by other Indonesian company in Philippine such as Kopiko.

Actually, there are another ways to expand the market in Philippine such as Private Label or License. But PT. CSF policy is not allowed Export Department to sell any product with Private Labels except to Europe or Japan Area can only be by no brand. This due happen because PT. CSF vision to build Olympic name as well known furniture brand in the world, and as a first step, PT. CSF already got Primaniyarta Award from Presiden Republik Indonesia for Indonesian Company who build global brand.

PT. CSF vision for Philippine market in the future is to have own branches like here in Indonesia, where every branches do marketing and sales activity and so the stock and distribution. So, that's why a representative office is a favorable alternative for PT. CSF because it will be easier to develop a branch starting from a representatives office rather than using the other way a starter.

There are many imported furniture in Philippine, but none of them have strong brand. This due happen because most of the furniture businessman in Philippine think only selling, not marketing. There were few importer tries to build brand but they stopped because the short time result is zero. This is normal because we know that marketing need great effort, cost and time.

Ligna and Olympic is very well know furniture brand in Indonesia. One of the reasons is because they are the first furniture company in Indonesia who are doing aggressive advertising in national television. For long term, PT. CSF can do the same say for Philippine market, but since the cost would be very high, PT. CSF can start by doing aggressive exhibition is many malls in Philippine and make some local radio ads. This way is very efficient and have significant result in Indonesia, but in Philippine this way in not familiar for furniture market. So, PT. CSF can be the first to try in Philippine aggressively and got the benefit from being the first.

5.1.3.2 Strength – Threat (S-T) Evaluation

A representative office is not allowed to do any business transaction to the local buyers or any other parties. All the transaction must be made by PT. CSF in Indonesia itself, a representative office only doing its function as a connector for PT. CSF to other parties in Philippine. So, a representative office is to handle the marketing and selling activities in Philippine, but when it comes to transaction, it must through PT. CSF in Indonesia. The payment terms of PT. CSF use for Philippine buyers are Transfer before Shipment or using Letter of Credit (LC). So, it is not allowed for the representative office to sell to small retailer by using Term of Payment.

Malaysia has distance competitive advantage compare to Indonesia for export to Philippine. Shorter distance means cheaper freight cost. But Indonesia has also competitive advantage compare to Malaysia, it's the cheaper labor cost. Making production more efficient will reduce the cost and make PT. CSF products more competitive.

Particle board price is not always stable, many times it follow oil price, and many time it's hard to get n the market. So, there a lot of uncertainty also in particle board price and supply. To reduce this uncertainty, it will be wiser for PT. CSF to make some contract with the particle board supplier with constant price and guaranteed supply.

5.1.3.3 Weakness - Opportunities (W-O) Evaluation

The purpose of business is to earn profit. The most common way to boost the sales is by using sales contract between PT. CSF with each of the buyers. Additional sales growth 20% to 40% is reasonable target for this sales contract, of course PT. CSF should put an interesting additional discount and or additional incentive in the buyers succeed to reach the targeted sales. Attractive incentive can be cash money, goods, vacation or other services.

By open a representative office, PT. CSF will have many opportunities to visit the buyers frequently. In Asian culture, personal relationship sometime is

more important than just a business relationship. By visiting frequently, not only to give more service and assistant to solve some problems, this way can build a close personal relationship between PT. CSF ambassador with the buyers. Close relationship also will open communication widely. PT. CSF will get more inputs from buyers what product should sell and how. This way is far more efficient than to do market survey alone to find this information.

By open representative office, PT. CSF also will have a lot of time to visit new market in all potential provinces in Philippine. PT. CSF can meet some retailers and whole seller to persuade them to buy PT. CSF products through existing buyers, or if they demand big quantity and willing to pay according to PT. CSF requirement, they can buy directly and become new buyers.

5.1.3.4 Weakness - Threat (W-T) Evaluation

Buyers are freely to buy products from any suppliers from any countries, there is no agreement preventing them to do that. If PT. CSF can make exclusive agreement for some buyers, it will force the buyers to buy panel furniture product only from PT. CSF, but they will demand more for compensation such as area exclusivity, items, or brand exclusivity.

Basically, all panel furniture is easy to make. New designs can be easily copied and available in the market. That's why a lot of furniture manufacturer don't want to invest their money on brand or promotion of new items, because developing new design means cost, but the result can be easily copied by other. So, to patent right is become important for PT. CSF to protect fast moving items from being copied by competitors.

5.2 NPV and Other Investment Analysis

5.2.1 Net Present Value

As discussed in chapter 2, to calculate NPV we need to calculate the required rate of return first.

$$R_e = R_F + \beta \times (R_M - R_F)$$

Where:

R_e = Cost of Equity

R_F = Risk – Free Rate

β = The company beta

$R_M - R_F$ = Market Risk Premium

Source: S.A. Ross, R.W. Westerfield, J. Jaffe, & B.D. Jordan, *Modern Financial Management*, 2008, p. 162

Risk Free Rate (R_F) based on interest rate of SBI is 10.23% (source: Bank Indonesia, Suku Bunga Sertifikat Bank Indonesia, <http://www.bi.go.id/web/id/Moneter/Suku+Bunga/Suku+Bunga+SBI/>, January 19, 2009). Based on Country Default Spreads and Risk Premiums data, the Market Risk Premium for Philippine is 14.75% (source: New York University, Leonard N. Stern School of Business, Country Default Spreads and Risk Premiums, http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html, January 19, 2009). Since PT. CSF is not public listed company, in this business plan we use β from other similar furniture company from China, where $\beta = 0.33$ (source: Yahoo Finance, Stanley Furniture Co. Inc. <http://sg.finance.yahoo.com/q/ks?s=STLY>, January 19, 2009). Then, the discount rate can be calculated as follows:

$$R_e = 10.23 \% + (14.75 \% \times 0.33) = 15.0975\%$$

So, the discount rate is 14.48 %. To calculate NPV, we must calculate the projected income statement and projected cash flow (see Appendix 2 for the cost budget).

PT. CSF use The Jury Technique to forecast sales in Philippine using Representative office. Three experts in Export Department of PT. CSF are gathered to discuss the sales forecast in Philippine after long discussion. The youngest of them has experience in furniture industry more than six years while the senior has experience more than 12 years, and all the expert members know and already visit the Philippine market. The sales forecast result is as we can see in the table below:

Table 5.20 - Projected Income Statement (in US \$)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Sales		800,000	960,000	1,152,000	1,382,400	1,658,880
COGS		<u>(640,000)</u>	<u>(768,000)</u>	<u>(921,600)</u>	<u>(1,105,920)</u>	<u>(1,327,104)</u>
GM Value	-	160,000	192,000	230,400	276,480	331,776
Initial Investment	(34,650)					
Operational Cost	-	(88,230)	(65,868)	(72,455)	(79,700)	(79,700)
Marketing Cost	-	(69,600)	(43,200)	(51,840)	(62,208)	(74,650)
Sales Program	-	(24,000)	(66,660)	(73,326)	(80,659)	(88,724)
Depreciation	=	<u>(930)</u>	<u>(930)</u>	<u>(930)</u>	<u>(930)</u>	<u>(930)</u>
EBIT	(34,650)	(22,760)	15,342	31,849	52,983	87,772
Tax (30%)	=	<u>6,828</u>	<u>(4,603)</u>	<u>(9,555)</u>	<u>(15,895)</u>	<u>(26,331)</u>
EAT	(34,650)	(15,932)	10,739	22,294	37,088	61,440

Table 5.21 - Projected Cash Flow (in US \$)

EAT	(34,650)	(15,932)	10,739	22,294	37,088	61,440
Depreciation	<u>0</u>	<u>930</u>	<u>930</u>	<u>930</u>	<u>930</u>	<u>930</u>
Cash Flow	(34,650)	(15,002)	11,669	23,224	38,018	62,370

Table 5.22 - Net Present Value (in US \$)

T	Year	Cash Flow	PV Calculation	PV
0	2008	(34,650)	(34,650) / 1.150975 ⁰	(34,650)
1	2009	(15,002)	(15,002) / 1.150975 ¹	(13,034)
2	2010	11,669	11,669 / 1.150975 ²	8,809
3	2011	23,224	23,224 / 1.150975 ³	15,232
4	2012	38,018	38,018 / 1.150975 ⁴	21,663
5	2013	62,370	62,370 / 1.150975 ⁵	30,878
Total NPV				28,898

Based on the Net Present Value Rule as discussed in chapter 2, if the NPV > 0, the company should accept the project. Since the NPV for this project is greater than 0, PT. CSF should take the investment.

5.2.2 Internal Required Rate of Return

The IRR of an investment is the required return that results in zero NPV when it used as the discount rate. The IRR is calculated by trial and error as shown below:

Table 5.23 - Interest Rate of Return

Discount Rate	NPV
15.10%	28,898
25.00%	8,717
30.00%	1,395
31.08%	0

The IRR of the project is 31.08%. Based on the IRR rule discussed in chapter 2, PT. CSF should take this project since the IRR exceed the required return which is 15.0975%.

5.2.3 Payback Period

The payback period calculation is as shown below:

Table 5.24 - Payback Period (in US \$)

T	Year	Projected Cash Flow	Cummulative Cash Flow
0	2008	(34,650)	(34,650)
1	2009	(15,002)	(49,652)
2	2010	11,669	(37,983)
3	2011	23,224	(14,758)
4	2012	38,018	23,260
5	2013	62,370	85,630

$$\begin{aligned}
 \text{Payback Period} &= \text{Year before full recovery} + \left(\frac{\text{uncovered cost at start of year}}{\text{Cash flow during the year}} \right) \\
 &= 3 + (14,758 / 38,018) \\
 &= 3.39
 \end{aligned}$$

So, the payback period for this project is 3.39 years. To accept or reject project based on pay back period, it depends on the company's maximum desired payback period. Based on the company internal data, the maximum desired payback period is 5 years. So, since the pay back period of this project is less than 5 years, PT. CSF should accept this project.

CHAPTER 6

CONCLUSION AND RECOMMENDATION

6.1 Conclusion

Based on analysis and discussion in chapter 5, the conclusions are as follow:

1. To open a representatives office in Philippine would be a wise strategy for PT. CSF to expand the market to the Philippine. From financial calculation, this project is feasible since the Net Present Value is positive, the Internal Required Rate of Return is 31.08% and the Payback Period is only 3.39 years.
2. It will be hard at the first, but will be a lot easier and helpful after couple years of hard work of representative office. The representative office will represent the PT. CSF in Philippine panel furniture market, it will become the eyes and ear of PT. CSF to know more about the market demand and situation, to know more about the condition and what needs and demands of the buyers and potential buyers. It also will become the hand and foot of PT. CSF to take actions needed to expand the market and boost the sales.

6.2 Recommendation

Based on the SWOT analysis and SWOT strategy, here are some recommendations to expand the market in Philippine:

1. Open a representative office in Philippine. It's feasible from the financial side and marketing side. The cost of getting started is not too big and PT.

CSF can get the professionals for this project from PT. CASMI or recruit new capable ones.

2. Since there are no strong furniture brand in Philippine, this is a challenge for PT. CSF through its representative to make cheap marketing activities but frequently and effective, such as radio ads or exhibition. Exhibition is cheaper way for promotion while doing direct sales for promotion. Since representative office is not allowed to do any transactions, any exhibition should work together at least with one of the buyers. This is good to build closer relationship with consumers since they see directly the products, and also good to build closer relationship with buyers since they also get the benefit of sales and being promoted.
3. Philippine is big country, Metro Manila is just a city. Although some buyers already have channels to outer provinces, there are still many potential buyers who are ready to buy directly from PT. CSF with big volume. If the order is still small, it can be advised and encourage to take from one of the existing buyers. PT. CSF only have 1% of panel furniture market share in Philippine, it should be bigger than this because in Indonesia, PT. CSF is the leader of panel furniture. It means PT CSF had the ability to expand the market in Philippine more than before. As we can see in the projected income statement in chapter 5, In year 2009, the target is to reach \$800,000 or 2% of the panel furniture market share (2% from \$40 million of panel furniture market), and increase to become \$1,600,00 or 4% of market share in year 2013.
4. By open representative office, PT. CSF will have more time and opportunity to visit buyers and potential buyers. In Asian culture, sometimes personal relation is more appreciated than business relation only. So, the representative should have good communication skill and open personality to get easily in touch personally with the buyers.
5. Many Philippine furniture references are different with Indonesia's. PT. CSF through its representative office should do market research to know what are the differences and what design is "in" the market. This doesn't

mean have to be a formal researches, it can be done by asking to the buyers and retailer while doing daily communication. This way is more efficient, more effective and not costly.

6. The common Term of Payment if Philippine furniture market from importers or wholesalers to retailers is 120 to 150 days. It's very risky and costly, it would be better to focus on sales only to importers with big volume and safer payment.
7. Many of Malaysian and Thailand products are cheaper than PT. CSF products. This due happens because not only they are doing aggressive selling by having lower margin, but also they have higher productivity than PT. CSF labor and sometimes cheaper particle board materials. This point should become the management concern of PT. CSF to increase the cost efficiency in production and also to guard the price and supply of the particle board materials it self. Long term contract agreement with particle board suppliers is a good alternative strategy to achieve this goal.
8. When the market become saturated and there is no strong bonds with the buyers, buyers can be easily moved to competitors to get cheaper products, better design or any other reasons. To guarantee the safety of the sales volume, exclusive agreement can be a good consideration for PT. CSF, where PT. CSF can only sale selected items to only one buyer or sale only to one buyer, or sale only to one buyer in one selected area. As compensation, buyers have to reach targeted sales or can only buy selected items form PT. CSF only.
9. Furniture design is easily be copied. If there is some items of PT. CSF products become fast moving items because it's unique or new design, patent right is a good alternative strategy to protect the sales.