

CHAPTER III

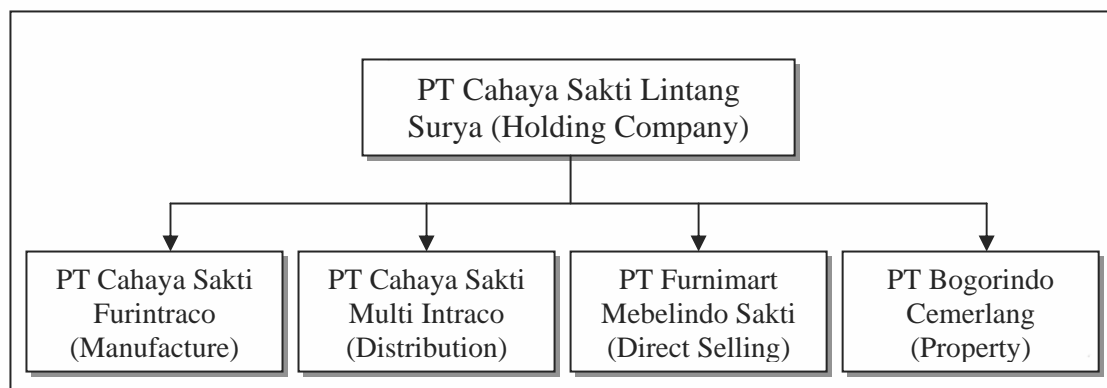
FURNIMART BRIEF PROFILE

This chapter will explain the profile of Furnimart as a member of Olympic Group. Furnimart profiles to be explained are especially comprises the brief history of its establishment, vision and mission, and market development.

3.1. Company Background

Olympic Group was established in Bogor in 1983. It concerns with furniture business on producing activities. Product furniture knockdown was produced at fist is study desk. The company use “Olympic“ as the name of product branding. As the activities of market and distribution expanding, in 1986 PT. Cahaya Sakti Multi Intraco was established. Mr. Au Bintoro as Chairman of Olympic Group considers that the important aspect of increasing market and distribution channel should be followed by expanding in variety of products, the company starts developing Bed Room Set, Living Room Set, Children Set, Kitchen Set, and Office Set. This development is also to fulfill the increase of customers demand to knockdown furniture. Today Olympic Furniture becomes one of customer needs nationally and also internationally. It is indicated that Olympic has 49 branches and 30 “kiani” (districts distribution point), spreading all over Indonesia and they distribute nationally for more 3600 traditional retailer outlet, and 250 modern retailer outlet. Below is the organizational structure of Olympic Furniture Group.

Figure 3.1 Organizational Structure of Olympic Group



Source: Olympic Group

Olympic Group as a holding company which the company name is PT. Cahaya Sakti Lintang Surya. It consists of several companies; produce, distribute, and sell product furniture knockdown.

3.2. PT Furnimart Mebelindo Sakti (FMS)

PT Furnimart Mebelindo Sakti is a group of Olympic Furniture that active in Direct Selling Outlet and supplier member. As market leader in furniture knockdown industry in Indonesia with domination market shares as high as 60% (based on Frontier Analysis, 2005), Olympic tries to develop by it self distribution network that directly addressed to serve consumer better. Pass by Olympic branches that disseminated flatten almost in all Indonesia, Olympic tries to strengthen domination and product generalization till to all islands in Indonesia. Concept of Furnimart that directly sell a Olympic products to consumer is one of Olympic long-range strategy in preparing competition with entry of some foreign modern retails in Indonesia that enough influence domination map and commerce displacement from traditional to modern outlet.

Furnimart as home retail chain store is positioned as store furniture from Olympic Furniture Group that not competes directly with partner stores / traditional stores that have been devoted develop along with Olympic. Every store Furnimart will have different product compare to traditional stores, so each store can walk spatially without feeling mutually bothered. Actually Furnimart was establishing in 2005, offers home furniture chain convenience store concept for consumer with affordable price. Furnimart tries to give the best service with variation of range product for home furniture and small office home office (SOHO).

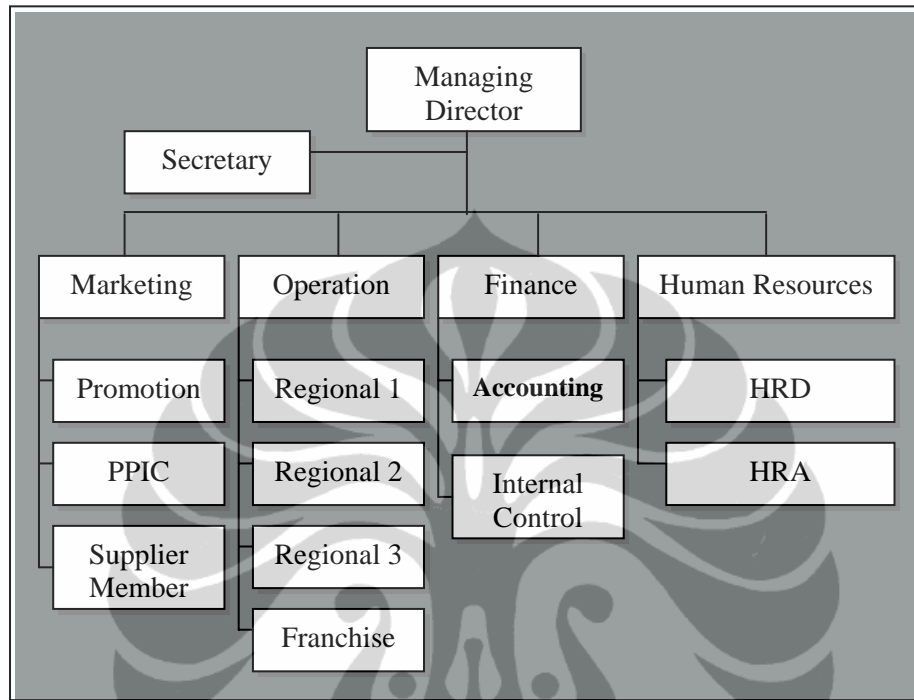
3.3. Organizational Structure

Led by a Managing Director, PT FMS, which currently employs 302 people, consists of four departments.

1. Marketing Department takes care of promotion activities, product development and inventory control (PPIC) and also supplier member
2. Operation Department takes care of selling activities, distribution, store operation, and franchise system

3. Finance Department handles financial, accounting and administration
4. Human Resource Department takes care of human resources development (HRD) and human resources administration (HRA).

Figure 3.2 PT FMS's Organizational Structure 2008



Source: FMS

3.4. Vision and Mission

When it was first established, PT FMS didn't officially setup its vision and mission, and then in October 2007, PT FMS try to put its vision and mission on paper. Below are the vision and mission of PT FMS:

1. Vision

To become retail furniture network widest, most and have standardization system and exceed in business competition

2. Mission

1. To create profitable business opportunity and develop entrepreneurship for prosperous society
2. As a social responsibility materialization for retired employee and unemployed to remain to be utilizable and have the effectiveness

3. To give the best service for business partner or consumer either on investment, product and become pride

Furnimart is unusual furniture store, but have a unique concept of:

1. Giving certainty shopping with fix affordable price
2. Giving interesting choice for consumer to go shopping with multifarious unique monthly promotion
3. Giving amenity goes shopping because attends in strategic location with easy to order and delivery (just call Furnimart) and exist in some cities in Indonesia (total store till now are 102 stores)
4. Giving consumer freshness in going shopping with exterior and interior display and also true live display

3.5. Manufacturers

Furnimart as retail business is responsible for sourcing and transforming material to produce furniture according to design specifications, in this case Furnimart has more than one business unit as a manufacturer to support production process. Its start from the designer process till becomes finish goods that is already to sell at the store.

Manufacturing output is divided between domestic (residential furnishings) and commercial (office furnishings and hospitality). Domestic products represent almost two thirds of the total output. In the past, manufacturers have sold products to consumers on the back of strong brands. However, retailers increasingly demand that products be 'white branded' (where the brand of the manufacturer is hidden from the customer), relying on the retailer's own brand to move the stock and display brand virtues.

For commercial manufacturers the issue is a different one. Rather than fighting for a share of the consumer's interest, commercial producers have to focus on price and costs to compete with cheaper imports. Because the market is fragmented, plant and equipment is often under-utilized. In addition, the average lead-time (the length of time between order placement and fulfillment) is 6-8 weeks, well below the best performers in the market. Best practice manufacturers have

implemented work cells and constraint management techniques to optimize output and reduce lead-time.

3.6. Furnimart Organizational Pattern

Furnimart as a retail organization assigns tasks / function, policies, authority, responsibilities, and rewards to efficiently and effectively satisfy the need of its target market, employee, and management. As a rule, a firm cannot survive unless its organization structure satisfies the target market, regardless how well employee and management needs are met (Berman and Evans, 2004).

Although retail organizations may differ, Furnimart generally have these attributes:

1. There are many functional divisions, such as sales promotion, product development and supplier member, operation and distribution, marketing, personnel and information systems.
2. Overall authority is centralized. Store managers have selling responsibility.
3. Many operation are standardized (fixtures, store layout, building design, merchandise lines, credit policy and store service)
4. An elaborate control system keeps management informed
5. Some decentralized lets branches adapt to localities and increases store manager responsibilities. Though large chains standardize most of the items their outlets carry, store managers often fine-tune the rest of the strategy mix for the local market. This is empowerment at the store manager level.

CHAPTER IV

FURNIMART RETAIL STRATEGIC DEVELOPMENT

This chapter will elaborate and comprehend the analysis of marketing strategy and market development of Furnimart and the final section will summarize all determinant factors especially for doing store retail operational strategy for Furnimart with low budget high impact. The opening of this chapter will explain the marketing analysis and SWOT analysis to strengthen the theory in chapter 2.

4.1. Segmenting and Targeting

PT Furnimart Mebelindo Sakti (FMS) was set up to develop Furnimart marketing strategy and try to identify several unique customer segments across all market. Furnimart tries to aim at level middle to low market by giving different customer services. Furnimart realizes a middle to low market is very sensitive to price, in consequence, all products that marketed through Furnimart focus on price oriented combine with value oriented, so there is a pricing strategy that will arrange in particular product of a category in customer acquisition products and product that related to value for money. Thus in Furnimart, a customer not only will find a price oriented product but can also find a good quality products at affordable price.

Furnimart has already identified a primary and secondary priority segment especially for young family. Of course, the first priority is to manage an existing customer in order to become a loyal customer, by giving additional better services. Secondary priority of Furnimart is trying to influence or acquisition a middle customers be more recognizes by giving more promotion.

4.2. Positioning

Through innovation and improvements in all aspects, Furnimart will offer a good value to customers even though the purchasing power is go down because of Indonesia economic conditions. The concept of home furniture chain store “direct from the factory to the store” will help customer to fulfill their home furniture needs with better value and better price.

In relation to the market segment of store, Furnimart position itself as a chain store for home improvement. This relate closely with its target market which is customer that required affordable price and easy to visit because number of store and stay in so many location near to the target market.

4.3. Marketing Mix

4.3.1. Product

Furnimat has eleven categories with total 89 SKU's (stock keeping unit), divided by 46 SKU's are existing products and 43 SKU's are new products that already launched in 2008. That range products show in the table below.

Table 4.1 Range Product of Furnimart in 2008

No	Categories	Current	Discontinue	Existing	New
1	Bed Room Set	13	4	9	5
2	Children Set	6	1	5	0
3	Living Room	15	7	8	5
4	Kitchen Set	10	10	0	8
5	Dining Room Set	1	0	1	0
6	Office Set	3	3	0	5
7	Shoe Cabinet	3	1	2	1
8	Book Cabinet	16	8	8	6
9	Computer Desk	1	1	0	3
10	Compact Product	13	6	7	6
11	Product Killer	6	0	6	4
Total		87	41	46	43

Source: Furnimart's Data

At least two times a year, Furnimart always conduct a new product launching. The lifestyle growth makes every product adapt to the market demand. A color combination and technology make an exclusive product is not easy imitated, and also complete range product begin at bedroom set, living room set, office set, children set, kitchen set and miscellaneous make every customer can select a product match to their needs at affordable price through true live display in Furnimart.

4.3.2. Price

Retail market has an effect on to price sensitive, so a company needs to cautiously play the value map and effectively communicate the value based price to the target market, to avoid price war trap. In essence, Furnimart separates the target

market into price sensitive group and not price sensitive or customer that realize the value / quality. For price sensitive customers, Furnimart offers low price products but limited quantity and also in the certain time. While for the others, Furnimart offers value for money product with additional benefit such as free delivery, free assembling and free interest for credit purchasing.

This strategy might expand target market through acquisition of modern retail customers, but right value is still mapped exactly to the right customer. The other pricing strategy is making price bundling by undertaking package sale cheaper compare to purchasing set of. The price range shows in this table below.

Table 4.2 Price Range

No	Categories	Price Range (Rp.)
1	Bed Room Set	999.000 - 2.500.000
2	Children Set	1.200.000 - 2.900.000
3	Living Room	120.000 - 1.000.000
4	Kitchen Set	400.000 - 1.000.000
5	Dining Room Set	500.000 - 1.000.000
6	Office Set	150.000 - 600.000
7	Shoe Cabinet	300.000 - 600.000
8	Book Cabinet	50.000 - 500.000
9	Computer Desk	150.000 - 400.000
10	Compact Product	100.000 - 1.000.000
11	Product Killer	40.000 - 400.000

Source: Furnimart's Data

The list of price above based on categories and already included 10% tax. Furnimart also give special service free install and free delivery for purchasing more than Rp. 1.000.000

4.3.3. Place or Chain Store

Another way to avoid price war is by developing new chain stores in order to help customer easy to get the products and there is no transportation cost to buy home furniture. With developing new chain stores (the total target new chain store in 2009 are 152 stores) expected Furnimart can be disseminated flatten till to all Indonesia.

Customer prefer to go shopping in the nearest location, actually time to go will give negative effect to customer readiness to visit a store. Especially in metropolis city is very hard to manage a time because of traffic jam and so on, so customer prefer to go shopping on site nearest and complete. The stores location of Furnimart can be seen on appendix 1.

4.3.4. Promotion

To increase customer perception of store image and customer traffic are main goals from promotion that conducted in Furnimart. Through regular promotion every month such as regular catalogue two times every month, print ad through national and local newspaper, joint promo with leasing company to support consumer funding, project catalogue for small office home office, and online promo through internet marketing.

Below the line activity is always run by Furnimart with combination to brand activity concept. The national and regional event is expected promotion activity can be run with effective and efficient to achieve store sales revenue. The promotion activities of Furnimart can be seen on appendix 2 and 3 and also the promotion cost on appendix 6.

4.4. SWOT Analysis

4.4.1. Strengths

As part of Olympic Group has high equity of Olympic brands. In the Indonesia market, a market share of domestic furniture is still dominant and supported by wide distribution infrastructure (based on Frontier Analysis, 2005). The utilization of Information Technology through online system is very support in applying efficient production technology, and now Furnimart has already installed “Furnisoft” software that run from website and easy to access through internet connection (please use this address <http://203.130.228.187.2:8080/POS>). This software will connect all information’s from store (sales, stock, etc) to server head office Furnimart in Bogor in real time.

Furnimart must manage some basic processes, such as new product development, store development, sales achievement, and order fulfillment. Each

process creates value and requires interdepartmental teamwork. Although each department may possess specific capabilities, the challenge is to develop superior competitive capability in managing the company's key processes. And it calls capabilities based competition. It is inline with the growth of modern retail outlet especially with entry of some foreign retail company in Indonesia make a map of competition between traditional market and modern market become fasting competitive. It's happened purchasing displacement from traditional market to modern market that apply concept of one stops shopping and offer clean shop atmosphere, fresh and quick to serve. Every year the trends of modern market growth are always bigger than traditional market. These is a matter of FMS builds Furnimart as alternative channel with a unique concept of convenience store, clean and refer to modern retail concept, and proven up to now have 102 stores around of Indonesia (on appendix 1) that is already served customer to give a solution of home furniture with affordable price and near with their location.

4.4.2. Weaknesses

Based on Frontier analysis (2005), Furnimart brand portfolio strategy have not arranged properly yet, this condition are caused to the number of the brand names that marketed in Furnimart, so it's make consumer confuses and races competitor easy to conduct imitation strategy. Marketing strategy of Furnimart is also uninstructed properly, proven by having not yet its consistence promotion models that have not integrated properly and unsuitable with local needs.

Although it has been applied online system but utilization of data warehouse is not applied properly, too much function administrative and job duplication still often happened in daily routine and it makes inefficient and ineffective because of there is no SOP (standard operating procedure) in operational process.

4.4.3. Opportunities

The one obvious opportunity of projection economic growth is still positive around 5% in 2009 (www.detikfinance.com, retrieved on November 10, 2008). According to this analysis will race orientation change and profitable consumer behavior for Furnimart to conduct expansion in term of store development. On the

other hand, the oil price is going down, it means the raw material price is also decrease and its effect to production cost and customer selling price.

In the era of information, internet growth makes many companies drag into worldwide marketing with horizontal approach through new wave marketing (Markplus, 2008). With the fast growth of internet and mobile users, therefore opportunities are obvious. Furnimart can utilize the service of the internet for its advantage by placing online shopping through www.mebelstore.com and www.furnimart.co.id (on appendix 4)

4.4.4. Threats

The growth of foreign modern retail has become threat for all industries in Indonesia not only furniture industry. Even more complete with the penetration of products import from China are growing make competition becomes faster.

The domestic furniture market's complex competition is due primarily to the large number of furniture companies both local and international especially from China, coupled with the rivalry generated among the large number of furniture factories competing for resources is the number one competition force. Among them, the medium-sized companies, factories with fewer than 500 employees, were the majority. There are more than 150 Brand Names furniture knockdown in Indonesia, some of them are Solid, Olympia, Bigpanel, Fazt, Expo, Gravier, Popular, Plasma, etc (based on Frontier analysis, 2005). Thus, almost of them use price cut as a means of competition. Besides, price war, other determinants for high rivalry is limited product differences, no brand identity and low customer switching costs. The price war evidence can be seen on appendix 12.

The small productivity difference between small-sized companies and medium-sized companies showed that technology and management systems may not make a significant difference in average output. This makes it easier for newly entering small companies to gain a foothold in Indonesia's furniture industry. In the Indonesian furniture industry, the capital required to enter the furniture industry is considerably low. Furthermore, the productivity difference between the small-sized companies and the large-sized companies is not large. The combination of all this

evidence indicates that the entrant barrier into Indonesia's furniture industry is relatively low.

According to ASMINDO (Indonesian Furniture Industry and Handicraft Association), up to now there is around 23 producers furniture in Indonesia. The largest part in Java and a small part still exist in Sulawesi and North Sumatra.

Table 4.3 the Indonesia Furniture Company

No	Company Name	Location	Type of Product
1	PT Cahaya Sakti Furintraco	Bogor	Bed Set, Living, Office, Kitchen, Children
2	PT Aromana Sejati Wood Industri	Bekasi	Wood Furniture
3	PT Rimba Niaga Idola	Palu	Wood Furniture
4	PT Alam Calamus	Tangerang	Wood Furniture, Rattan
5	PT Alam Inrotama	Mojekerto	Wood Furniture, Rattan
6	PT Aneka Regalindo	Sidoarjo	Rattan
7	PT Batavia Cyclindo Industry	Tangerang	Aluminium Furniture
8	PT Belladona Primaraya	Cirebon	Wood Furniture, Rattan
9	PT Bumi Indah Raya	Tangerang	Bed Set, Table
10	PT Cahaya Sejati Cemerlang	Sidoarjo	Wood Furniture, Rattan
11	PT Delta Santa Wood	Jakarta	Wood Furniture
12	PT Estu Sami Mekar Agyasa	Jakarta	Bed Set, Chair, Rattan, Children
13	PT Firafit	Surabaya	Wood Furniture, Rattan
14	PT Grand Furnitama International	Tangerang	Wood Furniture, Kitchen, Office
15	PT Hadinata Brothers&Co, Ltd (Ligna)	Bogor	Bed Set, Office, Kitchen
16	PT Palapa Utama (Palma)	Jakarta	Bed Set, Office, Kitchen
17	PT Inkamex Makmur	Tebing Tinggi	Bed Set, Living, Office, Kitchen, Children
18	PT Intraco	Semarang	Living, Kitchen, Office
19	PT Kali Jaya Putra	Makassar	Bed Set, Living, Office, Kitchen, Children
20	PT Tulus Tri Tunggal	Surabaya	Wood Furniture, Rattan
21	PT Victor Indah Prima	Jakarta	Office Furniture
22	PT Timur Jaya Prestasi	Jakarta	Office Furniture
23	PT Song Jaya	Bekasi	Wood Furniture, Bed Set

Source: Asmindo, 2006

The Indonesian furniture industry's wood supply depends heavily on imported lumber and other wood product in this case is particle board. Thus, the dramatic rise in production of the Indonesian furniture industry has precipitated a huge wood products demand. This increase in demand is fulfilled by imports. Low labor cost is the most important advantage of the Indonesian furniture industry. However, there is evidence showing that there may be a labor shortage in qualified workers in heavily industrialized areas. In responding to the shortage of qualified workers, some provinces are considering increasing the minimum wages to attract more workers. Even at this wage level, the competition for labor is still intense. On the other hand,

higher labor costs are forcing less productive manufacturers out of business. As international oil prices increase, naturally, the energy price in Indonesia will continue to increase and will eventually have a negative effect on furniture manufacturers as well as all industries.

4.5. New Market Offering

In the beginning of 2000 as a starting point of foreign retail company step into Indonesia, start with Continental that already acquisition by Carrefour International, Giant, and local very big retail company like Hypermart (Lippo Group). Its becomes an early moment of displacement expenditure pattern from traditional market to modern market that offered so much benefit to consumer in term of price, service, hygiene, and amenity of paying (Furnimart's data, 2005).

The effect of the big modern retail company is the power of bargaining position and many expenses that have to pay. That's way, in order to reduce uncertainty condition because of their penetration and channel problems, Olympic Group through Furnimart tries to build a specialist furniture store refer to modern store and disseminated by areas that closed to consumer in order to help consumer easy to gets a furniture products. Precisely on September 2005, the first Furnimart store was opened in Bogor West Java.

There is positive sale growth from 2005 to 2007 that because of increasing store amount from 3 stores in 2005 become 15 stores in 2006 and 37 in 2007 and directly affects to significant sales revenue. This condition are supported also with growing to the number of stock keeping unit, however affected to high expense of stock management because of managing bad inventory turn over at the store. The sale growth of Furnimart store is referred as follow:

Table 4.4 Store Development and Company's Performance

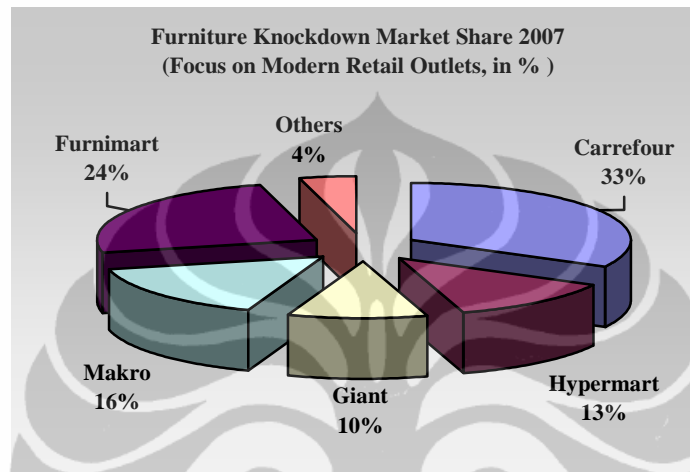
Performance Indicator	2005	2006	%	2007	%
Sales Qty (Unit)	1.085	7.289	571,8	13.509	85,3
Sales Value (Million)	530	8.820	1.564,2	17.030	93,1
Number of Store	3	15	400	37	146,6
Consumers	1.680	22.900	1.263,1	50.398	120,1
Operating Profit (Million)	(430)	(215)	50	270	125,6

Source: Furnimart's Data

And till December 2008 the amounts are 102 stores that disseminated in some areas especially in West Java, Central Java, and East Java.

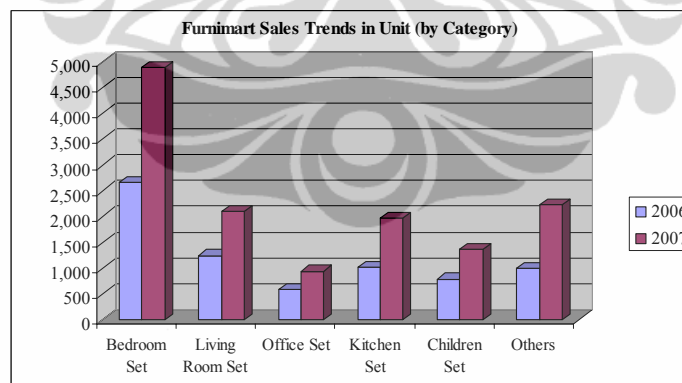
The advantages of Furnimart are closed to consumer because number of store, affordable price, free delivery and assembling, and always develop regular promotion every month. Furnimart market share shows in the figure below.

Figure 4.1 Furniture Knockdown Market Share 2007



Source: FMS Sales Report 2007

Figure 4.2 Furnimart Sales Trends by Category



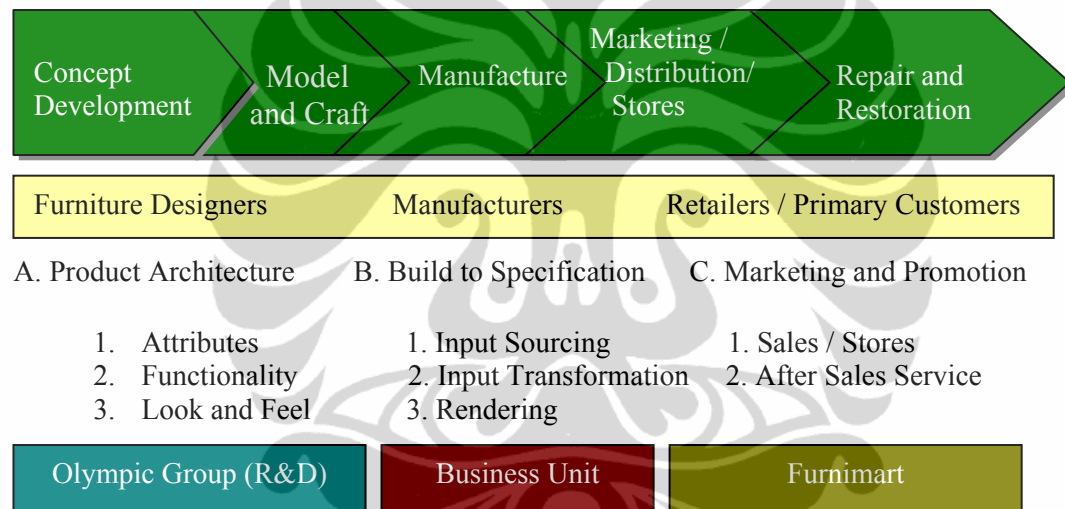
Source: FMS Sales Report 2007

According to Industry Furnishing Trends (2002), analysis of industrial sectors in term of the structural and dynamic components on their value chains is an essential tool for upgrading Furnimart competitiveness. In today's economy, firms in country must increasingly compete – even in local markets with firms from across the globe; especially Furnimart has to compete with the foreign modern retail outlets.

Firm level and industry level competitiveness are therefore related. To succeed in local or global markets, entire industries or value chain must be able to deliver a product to the consumer more efficiently, with higher quality and or in more unique form than the value chains in competing countries like Indonesia today.

In order to achieve sales and market share growth, Furnimart focused on cut short distribution link was from finish goods to consumer directly pass by store Furnimart that disseminated flatten in some cities in Indonesia. Value chains encompass the full range of activities and services required to bring a product or service from its conception to sales in its final markets. This concept shows in this figure below.

Figure 4.3 the Furnimart Production Value Chain



Source: Furniture Industry Research (2000)

4.6. The Measures of Market Demand

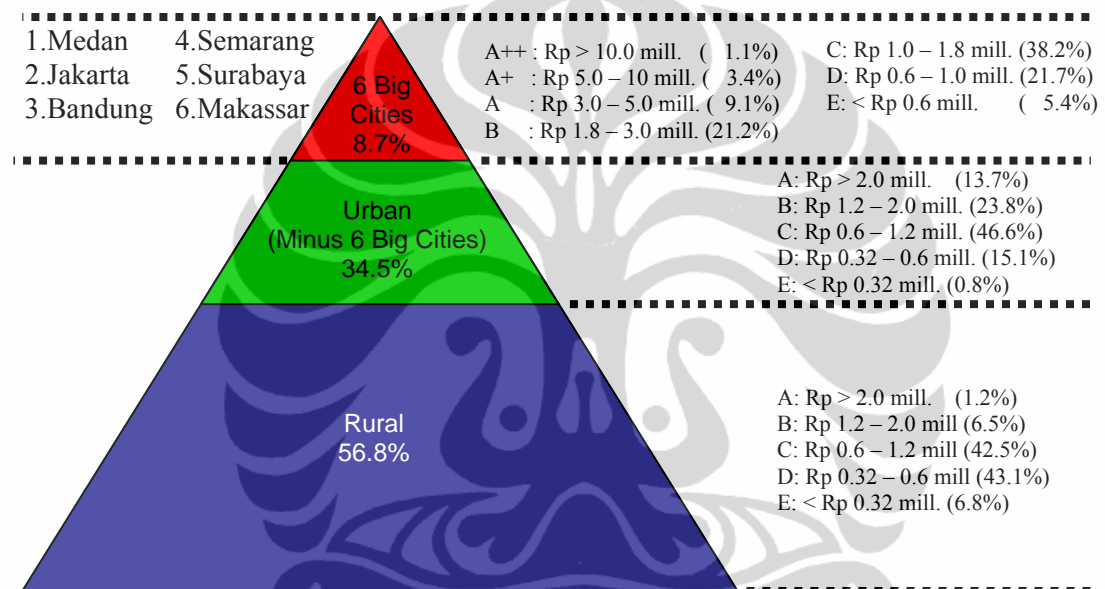
Based on Frontier analysis, an assumption that used in measuring potential market of furniture knock-down for household is:

1. Projection of resident amount that processed from BPS.
2. The average of resident amount per family, that is 4.7
3. Resident proportion of 6 metropolises : Urban : Rural = 8.7% : 34.5% : 56.8%

4. Proportion SES for resident in 6 metropolises (Medan, Jakarta, Bandung, Semarang, Surabaya, and Makassar) based on data survey Frontier ICSI 2005.
5. The potential markets are relied on level of household expenditure for each segment and region.

The resident composition in Indonesia based on expenditures level can be seen in this figure below:

Figure 4.4 Expenditure levels



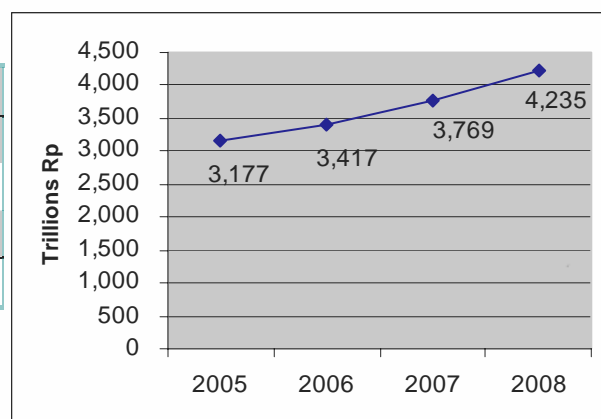
Source: BPS and Survey Frontier ICSA 2005

So, based on that figure above Furnimart can measure the estimation potential markets of furniture knock down is (for details calculation on appendix 7-10):

Table 4.5 Furniture Potential Market (in Rp. 000.000.000)

Year	Potential Market	Growth
2005	3.177	
2006	3.417	7.6%
2007	3.769	10.3%
2008	4.235	12.4%

Source: Frontier Analysis, 2005



4.7. Customer Oriented and Strategic Development

Furnimart also realize that the final objective is how to increase customer value through product development for the first priority and the second is how to market this product through store branding especially in Furnimart. On the demand side of the industry especially in retail market, Furnimart market research suggests that customer value is made up of seven components: Price, Product Quality, Design, Range Product, Flexibility and Customizability, Service, and Brand.

Price, Product Quality and Design have been identified as consumers' primary value drivers, helping to explain the increased market share captured by fashionably designed, affordable, and high quality products. On the other hand, Furnimart will treat designers to responsible for conceiving and crafting product architecture. While the design process is not consistent across all firms, furniture design is generally conducted as an iterative process. More efficient in design product especially in using standard material will effect to cost of product. Furnimart designers operate in a highly competitive and crowded market. Because set up costs for designers are small, the barriers to entry in this market are low.

This domestic competition is intensified by the strong competition from local and international players. That's way, the most important thing is how to make functional product with less than ten components, in order to make cost reduction and to make easy in installation. In this case, manufacture is responsible for sourcing and transforming material to produce furniture according to design specifications. Historically, designers have dictated these specifications. However, increasingly retailers are having a greater influence in the product architecture.

Furnimart manufacturing output is divided between domestic (residential furnishings) and commercial (office furnishings and hospitality) because Furnimart target markets cover its market. Domestic products represent almost two thirds of the total output. In the past, manufacturers have sold products to consumers on the back of strong brands. However, retailers increasingly demand that products be 'white branded' (where the brand of the manufacturer is hidden from the customer), relying on the retailer's own brand to move the stock and display brand virtues. For commercial manufacturers the issue is a different one. Rather than fighting for a share of the consumer's interest, commercial producers have to focus on price and

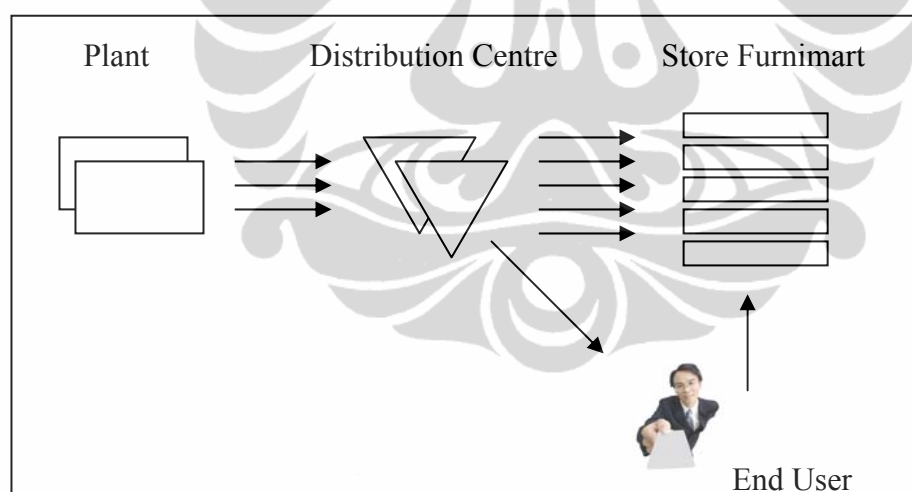
costs to compete with cheaper imports. In addition, the average lead-time (the length of time between order placement and fulfillment) is 6-8 weeks, well below the best performers in the market. Best practice manufacturers have implemented work cells and constraint management techniques to optimize output and reduce lead-time.

Furnimart has to consider the production capacity or economies of scale concept related to the target market. To produce in high volume is more effective and efficient for Furnimart to reach and penetrate the market.

4.8. The Framework of Retailing

By cutting distribution link from factory or distribution centre – retailer or store – final consumer, then Furnimart can reduce operational cost in order to use to strengthens promotion activity, in other word with expense more efficient, consumer will get a product with very affordable price without lessen in quality. The figure can be seen below.

Figure 4.5 Furnimart Distribution Network



Source: Furnimart's Data

By using direct business unit, Furnimart can monitor their output of production then expected on schedule and also stock handling or delivery product from direct factory to the store become quicker and efficient.

Furnimart adopt “retail business model” where it focus on furniture knockdown business. Standard furniture is ordered in large batches from these producers by domestics or importers and can have a lead time of several months

before it is received in the import warehouse for final inspection and distribution. Sometimes customers have to wait several months for delivery when the importer's forecasts are erroneous. Furnimart business model is needed that leverages company's strengths, and reduces the negative impact of weaknesses. Furnimart main weaknesses, which are labor and production costs, but Furnimart have strengths, too. Nearness to market is in company view, Furnimart most important competitive advantage. If Furnimart can devise and implement new methods to speedily deliver unique, high quality products to domestic customers, Furnimart will have a sustainable competitive advantage.

Two observations serve as the basis for Furnimart for a business model focusing on mass customization and speed of delivery. Furniture manufactured to the customer's specification cannot be economically shipped from offshore assembly plants and arrive within the month. Furnimart think the combination of mass customization and speed of delivery is the starting point for the renewal of the Indonesia household furniture industry. Manufacturing needs to become an integral part of the business model. In fact, changes in manufacturing rightly belong in the section "Changes in Business Model", but due to its importance, it is treated separately. Furnimart think furniture manufacturing in the future will gravitate toward an assembly type process where customized furniture is manufactured on demand.

How can the industry work together to take advantage of the fact that Furnimart is close to the retail market and the source of the most important raw material wood in this case is particle fiberboard and medium density fiberboard for making furniture? Which product designs and marketing efforts can help the industry move away from the commodity market into a customized and individualized possession a personal statement that conveys values and tastes to the onlooker? How does the industry take best advantage of the opportunities available by adopting modern technologies, with communication technology being just one example of many? If Furnimart consider the opportunities and problems inherent in new, evolving technologies, the entire domestic wood products industry chain will ultimately benefit.

Furnimart feel that furniture is an important part of customer life experience, thus offering tremendous opportunities for differentiation. Can Furnimart imagine offering services beyond just delivering furniture to the front door of the customers? Could it be possible that customers want someone maintaining their furniture, making sure that the doors work all the time, that surface scratches are taken care of, or that professional help pack and then set-up the furniture in the new home after a move? The path to the future for the Indonesia Furniture industry must be based on the only sustainable competitive advantage we have proximity to market. This, combined with innovative and novel ideas in all aspects of the furniture industry – design, supply chain, manufacturing and distribution, service, and customer relations – presents the opportunity for the industry to take advantage of the positive market outlook for furniture sales for future decades.

4.9. Store Based Strategy Mix

Furnimart as retail business have to require creativity in making every store operational activity, for example start with selecting of store location, store operating procedure (still developed), innovation product offered refer to consistency product architecture above, pricing tactic to influence consumer comes to store, atmosphere store, service offered, and promotion method that effective to target market.

Furnimart always selects strategic store location matching with their target market, it's the first priority to determine Furnimart business concept, with strategic store location will help in improving consumer traffic comes to store and easy to increase store awareness. Accessible location easily, wide parking area will make consumer likes buy furniture in Furnimart. Its include in the eleven reasons to buy Furniture in Furnimart (on appendix 5)

With the target market middle to low customer, pricing strategy is critical point to get more attention. The product election when promotion take place must made balance with analysis of consumer purchasing ability. Perceive value of product is combined with heavy sales promotion or in-store promo can be ascertained will create impulse buying that can improve store traffic and sales volume improvement.

After promotion can influence consumer to come to store then still one step to make consumer buy product offered, of course it needed a nice store atmosphere and good service in helping consumer fulfills its need and give good solution about election home furniture concept.

4.10. Pricing in Retailing

There are two type pricing policy that already applied in Furnimart. The first one is perceived value of product that often used by consumers to estimate the quality offered. Actually perceived value is generated by perceived price (the price that the consumer has to pay: purchase price added by start up costs (e.g. installation cost, acquisition cost) + post purchase price (repair and maintenance costs) and perceived benefits (the combination of physical attributes, services, and technical support that can be enjoyed by consuming the furniture product). The second one is price thresholds or physiological price, Furnimart see consumers have limits or threshold in the way their perceive prices. Perceived relative differences between prices greatly influence consumer's sensitivity to prices, price changes, and price differences. Therefore in using price as a tool to win the market (e.g. giving cash discount, bonus buys).

Actually Furnimart try to set up effectively price in order to compete and increase customer traffic in the store. Three variables in setting consumer price:

1. Identify the competition and market

The type of market and the dynamic of competition especially in the retail market should also be considered. A Furnimart has to be able to see not just its own competitive advantage, but also the competitive advantage of its local as well as international competitors in order to make the right move.

2. Identify the demand

The second factor to consider is the dynamic of the demand of the market: how big the demand is, whether the market demand is very sensitive to price changes. This information and product clustering are needed in order to consider whether a regular price or promotion price can be set.

3. Identify the costs

Furnimart has to know its cost structure: which costs are directly related and which ones indirectly influence the furniture production, which costs are traceable, which are considered common costs.

Related to those variables, some pricing strategy of Furnimart in retail business is price bundling. Furnimart sets one price for a bundle of products sold in one unity through “it’s cheaper to buy package or buy one get three free”. Category products like bed room set, living room set, kitchen set are cheaper if consumers buy in package than individually.

4.11. Retail Competition

The Role of modern retail market since 2002 increasingly. For consumer goods category, the contribution of modern retail from just 29% in 2002 becomes 39% in 2005. Predicted in 2010 contribution modern retail market will become 51% (based on Frontier Analysis, 2005)

For furniture category, the contribution of modern retail market at this time are predicted just reach 20%, and will increasingly become 30% in 2010. Modern retail more tends to use exclusive brand rather than main brand.

Existence furniture from China in Indonesia market also strong growing, proven by increasing of import product that many disseminated either on traditional market and modern market. Also proven 100% display product that exist in modern retail like Index Furnishing and Mitra 10 come from China and the other modern retail still mix with local product however its portion have been ever greater and price offer that much more cheap.

This anticipation has been conducted Furnimart by divide product category for price oriented and product that value oriented, so Furnimart will continues to compete in the market even though there are so many import products comes to Indonesia.

4.12. Store Image

In order to improve customer’s mind and store awareness, following agenda that continued developed by Furnimart:

1. Develop new store with target total store 150 Furnimarts in 2009, this condition are conducted to be more close to consumer and depresses production cost with economies of scale concept, so Furnimart will offer product that affordable and good quality with wide support of distribution network.
2. Give better standard service through SOP, to improve consumer satisfaction shops at Furnimart (SOP still developed and will be applied on March 2009)
3. Build community through member get member and develop furniture community through “FurniClub”, every purchasing with Furnimart card member gets direct cash discount as high as 5%. This condition is conducted to improve loyal consumer Furnimart.
4. Furnimart also active conducts public relation by follow active entangles journalists at any given activity event that obliged to performed one time a month
5. Regular store promotion by making catalogue promo that disseminated in environment store and pass by free salesman that cooperate with leasing company that active conduct door to door sales promotion
6. Active in placing print advertising through national and local newspaper at least two times per month with hard selling concept to influence customer comes to store (sample design on appendix 2 and 3)

4.13. Retail Promotion Mix

Integrated communication strategy is the key important point in retail promotion mix that combined between below the line and above the line activity. In this case, Furnimart tries to implement integrated marketing communication through heavy activities both national and local promotion, start with the basic concept is to review store communication to the customer in order to increase store awareness and make customer realize that store Furnimart is provide a better furniture with many range products for home furnishing solution with affordable price.

Below is the promotion activity of Furnimart which are all located both national and local.

1. Store Communication

Furnimart try to communicate logo “Home Furniture Chain Store” and Furnimart tagline “Furniture...it is only in Furnimart” or “direct from the factory to the store” and conducted activity above the line to improve store awareness pass by public relation activities especially in print media and online advertising. Through marketing event or furniture exhibition, Furnimart always tries to educate consumer with easy to buy program and free interest with fix installment.

2. General Advertising

Newspaper and magazine is the first alternative that has been gone in 2008 rather than TVC because of budget expense (TVC advertising is relatively expensive and now there is so many new TV station and sometime make communication difficult to measure), the budget can be seen on appendix 6. Alternative that now will be developed is SMS blasting cooperate with telecommunication company and leasing company, because of very cheap and can direct contact to selected target customer, and usage website as one of alternative online shopping that can reach consumer anywhere, anyplace and anytime (on appendix 4)

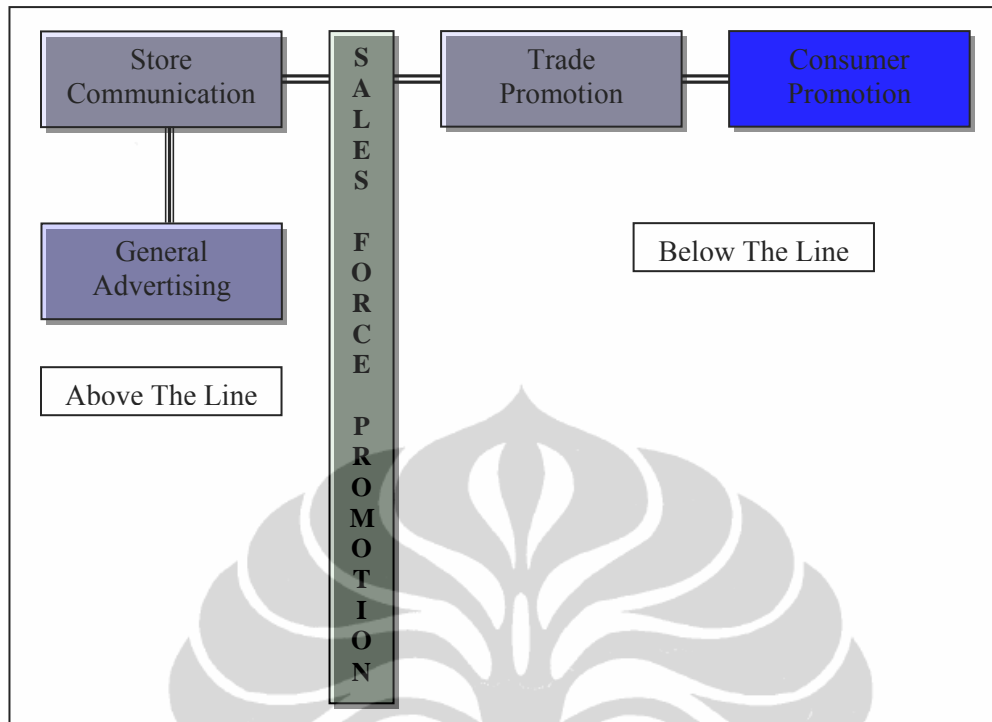
3. Trade Promotion

Furnimart trade promotion was usual conducted pass by printing regular ad print catalogue that published 1 time a month. In-store promo also has been run by regional store and actually this program can run every time depend on the stock product and the creativity of store head (on appendix 2)

4. Consumer Promotion

Furnimart consumer promotion is more emphasized at hard selling activity through voucher discount, trade in promo, bonus buys and easy to buy program that cooperate with leasing company. Consumer promo is expected not only can improve sales volume however also can improve consumer traffic to come to store (appendix 2 and 3)

Figure 4.6 Integrated Communication Strategies



Source: Furnimart's Data (2008)

Table 4.6 Cost of Sales and Marketing Activities 2008

No.	Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Sales Revenue														
1	FM Exclusive - DC	1,687.00	1,745.00	1,856.00	1,881.00	1,981.00	1,677.00	1,705.00	1,581.00	1,098.00	1,043.00	1,275.00	1,455.00	18,984.00
	<i>Sub Total</i>	<i>1,687.00</i>	<i>1,745.00</i>	<i>1,856.00</i>	<i>1,881.00</i>	<i>1,981.00</i>	<i>1,677.00</i>	<i>1,705.00</i>	<i>1,581.00</i>	<i>1,098.00</i>	<i>1,043.00</i>	<i>1,275.00</i>	<i>1,455.00</i>	<i>18,984.00</i>
Marketing Tools														
1	Newspaper Both National and Local	55.0	55.0	45.0	30.0	30.0	30.0	30.0	25.0	25.0	25.0	25.0	25.0	400.0
2	Radio Program				25.0							25.0		50.0
3	Spanduk	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	5.0	5.0	10.0	10.0	110.0
6	Anniversary												50.0	50.0
7	Produk Catalogue		20.0					20.0						40.0
8	Launching Product			25.0								25.0		50.0
9	Gimmick (Mug,Kaos,Tas dll)	15.0	15.0											30.0
10	Product Sample	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	12.0
11	Direct Marketing (SMS Blasting)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	24.0
	<i>Sub Total</i>	<i>80.0</i>	<i>103.0</i>	<i>80.0</i>	<i>65.0</i>	<i>40.0</i>	<i>40.0</i>	<i>63.0</i>	<i>35.0</i>	<i>30.0</i>	<i>30.0</i>	<i>85.0</i>	<i>85.0</i>	<i>766.0</i>
Sales Promo														
12	Event /Local Promotion (Flyer)	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0				10.0	90.0
13	Banner (X-banner, Giant, Printing)	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	60.0
	<i>Sub Total</i>	<i>15.0</i>	<i>15.0</i>	<i>15.0</i>	<i>15.0</i>	<i>15.0</i>	<i>15.0</i>	<i>15.0</i>	<i>15.0</i>	<i>5.0</i>	<i>5.0</i>	<i>5.0</i>	<i>15.0</i>	<i>150.0</i>
	<i>Total Sales & Marketing Activities</i>	<i>95.0</i>	<i>118.0</i>	<i>95.0</i>	<i>80.0</i>	<i>55.0</i>	<i>55.0</i>	<i>78.0</i>	<i>50.0</i>	<i>35.0</i>	<i>35.0</i>	<i>90.0</i>	<i>100.0</i>	<i>916.0</i>
	%	6%	7%	5%	4%	3%	3%	5%	3%	3%	3%	7%	7%	5%

Source: Furnimart's Data (2008)

Furnimart always provides 4-5% from total sales revenue every year for sales and marketing activities, specifically for improving store awareness of Furnimart and to influence customer comes to the store with several of alternatives promotion.

4.14. Technology in Retailing

The growth of Information Technology is very support to Furnimart business process, beside as a catalyst of efficiency process also can be made link media to take a short cut distribution link. Pass by software development “Furnisoft” that will provide online system service in all stores Furnimart so will help to analyze stock, sales, payment, quickly transfer data and also real time (<http://203.130.228.187.2:8080/POS>). Usage website www.mebelstore.com and www.furnimart.co.id as an online shopping and promotion medium is alternative to promote Furnimart through online media (on appendix 4)

By joined media interactive, Furnimart can also develop concept of store activation that can conduct two ways communication with consumer wherever and any time. Regular promotion that conducted one time a month also can be accessed through website in order to help consumer knows a program that offered.

With strength of total store that disseminated flatten in any city of Indonesia combined with easy to access online website, expected can give consumer easy to go shopping Furniture at Furnimart. Consumer can access product information from internet, conduct confirmation order, and then quickly goods of consumer order will be sent pass by store Furnimart closest without hit delivery expense, and even payment can be conducted when goods has been accepted so security in transaction can maintain without having to detrimental consumer.

Utilization of data member that managed in computerize also becomes alternative addition in giving benefit to consumer of having the shape of regular delivery catalogue promo in free and can conduct confirmation order by calling contact number as soon as possible consumer want.

4.15. Financial Analysis

Since Furnimart had a plan to expand store development with penetrating existing and new products in local market, Furnimart will invest development of new

warehouses to become distribution centre in West Java, Central Java and East Java. For each DC, Furnimart need \pm 500 m² to manage distribution of finish goods from plant to store or direct to the customer.

With developing new distribution centre, of course Furnimart will increase the number of labor in doing store and warehouse operational activities. The forecast net cash flow is based on these assumptions:

a. Capital spending:

1. 4 locations of DC, each DC is \pm Rp. 4 Billion,- for 5 years rent period
2. Depreciation: straight line method classified as 5 year

The total Investment will be \pm Rp. 4 Billion

b. Costs, other income and Tax

1. COGS : 50% of sales
2. Sales and Marketing expenses : 31% of sales
3. GA and other expenses : 10% of sales
4. Other income : 0.14% of sales
5. Corporate Tax : 30% of sales

c. Sales

Table 4.7 shows that the 2009 company sales are forecasted to increase 16% from 2008 sales. The 2009 sales are believed to increase sales volume because the potential market still big to develop. The Furnimart sales is expected to growth by 35% in the 2010-2011 for acquire new market and the last two years declined due to increasing competitions that entered the furniture industry in Indonesia

Table 4.7 Projected Annual Sales

Year	Sales (Rp. 000.000)	Growth	Note
2006	8,820	-	Actual
2007	17,030	93%	
2008	18,984	11%	
2009	21,978	16%	Projected
2010	29,670	35%	
2011	40,055	35%	
2012	52,071	30%	
2013	67,693	30%	

Source: Furnimart's Marketing Department

Because of global economic downturn, the sale growth in 2008 was so far from the target. These conditions felt especially on the second semester of 2008. The weak of consumer purchasing power, employee's reduction and increasing interest rate, it becomes a trigger of sale degradation at the end of 2008. So, Furnimart try to setup the sale growth target in 2009 as big as 16% because Furnimart ensure that influenced global economic downturn is still felt until 2009.

Assume the SBI (Risk Free Rate): $R_F = 10.23\%$ and the market risk premium = 12.88% and β from furniture industry $\beta = 0.33$

So, Discount Rate = $10.23\% + (12.88\% \times 0.33) = 14.48\%$

Table 4.8 Cash Flow Projection

t	Year	Cash Flow (Rp.)	Cumulative Cash Flow (Rp.)	PV
0	2008	(4,000,000,000)	(4,000,000,000)	(4,000,000,000)
1	2009	1,680,692,730	(2,319,307,270)	1,468,110,351
2	2010	2,518,398,488	199,091,218	1,921,609,815
3	2011	3,666,763,692	3,865,854,910	2,443,959,812
4	2012	5,001,401,454	8,867,256,364	2,911,878,387
5	2013	6,752,853,150	15,620,109,513	3,434,307,685
PV Cash In Flow				12,179,866,051
Net Present Value				8,179,866,051
Pay Back Period				2.92 Years
IRR				65%

Source: Data analysis by researcher

From table 4.8, NPV is positive (Rp. 8,179 Billion) and IRR is 65%, it means present value cash inflow > present value cash outflow and rate of return is bigger than cost of capital, that's way Furnimart should take the invesment.

The payback period is 2.92 years, the calculation of payback period as follow:

$$\begin{aligned} \text{Payback period} &= \text{Year before full recovery} + (\text{uncovered cost at start of year} / \text{cash} \\ &\quad \text{flow during the year}) \\ &= 2 + (\text{Rp. 2,319 Billion} / \text{Rp. 2,518 Billion}) \\ &= 2.92 \text{ years} \end{aligned}$$

The profit and loss for that figure above can be seen below:

Table 4.9 Profit and Loss Projection 2009 - 2013 (in Rp. 000.000)

DESCRIPTION	2009	2010	2011	2012	2013	TOTAL
SALES REVENUE						
FM EXCLUSIVE-DC	21,978.00	29,670.30	40,054.91	52,071.38	67,692.79	211,467.37
SALES	21,978.00	29,670.30	40,054.91	52,071.38	67,692.79	211,467.37
COGS						
FM EXCLUSIVE-CSI	-	-	-	-	-	-
FM EXCLUSIVE-DC	10,989.00	14,835.15	20,027.45	26,035.69	33,846.39	105,733.69
COGS	10,989.00	14,835.15	20,027.45	26,035.69	33,846.39	105,733.69
GROSS PROFIT						
FM EXCLUSIVE-CSI	-	-	-	-	-	-
FM EXCLUSIVE-DC	10,989.00	14,835.15	20,027.45	26,035.69	33,846.39	105,733.69
GROSS PROFIT OF SALES	10,989.00	14,835.15	20,027.45	26,035.69	33,846.39	105,733.69
EXPENSES						
Sales Expenses						
Sub Total	6,741.25	8,744.31	11,423.50	14,515.39	18,511.39	59,157.65
GA Expenses						
Sub Total	1,924.37	2,597.91	3,507.17	4,539.32	5,927.12	18,515.90
Depreciation	250.93	338.76	457.33	594.52	772.88	2,414.42
TOTAL EXPENSES	8,916.56	11,680.98	15,387.99	19,669.24	25,211.39	80,087.97
P/L OPERATIONAL	2,072.44	3,154.17	4,639.46	6,366.45	8,635.00	25,645.71
Other Income						
Income						
Sub Total	-	-	-	-	-	-
Expense						
Sub Total	29.93	40.40	54.55	70.91	92.18	287.97
Total Other Income	(29.93)	(40.40)	(54.55)	(70.91)	(92.18)	(287.97)
EBT	2,042.51	3,113.77	4,584.91	6,295.54	8,542.82	25,357.74
Taxes 30%	612.75	934.13	1,375.47	1,888.66	2,562.85	7,607.32
Net Income	1,429.76	2,179.64	3,209.44	4,406.88	5,979.97	17,750.42

Source: Data analysis by researcher

Based on that table above, Furnimart can make an assumption:

1. The 2009 sales are forecasted to growth by 16% form Rp. 18.984 Billions in 2008 to Rp. 21.978 Billions in 2009, because of the macroeconomic conditions and the prediction of buying power still low in 2009.
2. Cost, other income and tax:
 - a. COGS : 50% of sales
 - b. Sales and Marketing expenses : 31% of sales
 - c. General and Administrative Expenses : 9% of sales
 - d. Other expenses : 0.14% of sales
 - e. Corporate Tax : 30%