

CHAPTER 1

INTRODUCTION

1.1 Background

Nowadays, the expansion of furniture product comes from China and also the pressure of developed countries through World Trade Organization (WTO), has been forced national furniture industry going to be to difficulty situation. From data Asosiasi Industri Permebelan dan Kerajinan Indonesia (ASMINDO) mentioned, there are some troubles that start bother the growth of industrial furniture. Some problems are referred for example its minim supply of raw material, cheaper price of furniture from China, technology low in furniture industry, and difficult of financing searching for furniture UKM from banking or financial institution and still monotonous design product furniture home affairs.

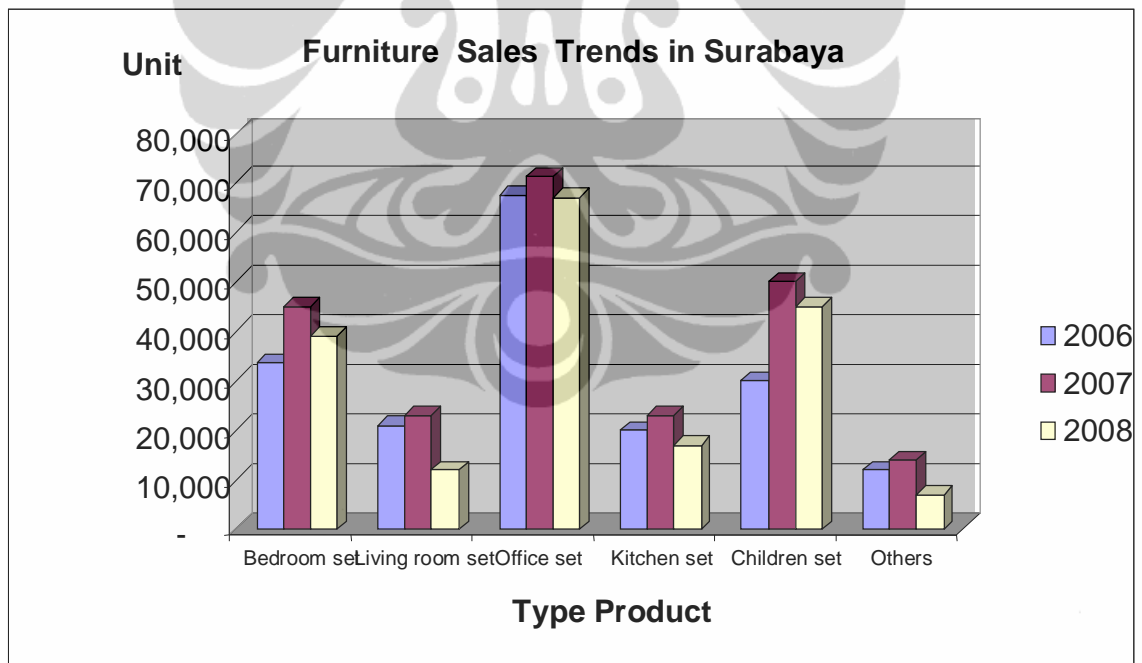
Diah Maulidah, General Director of Foreign Trade Department, said that industry of furniture in Indonesia must innovative again in its form searching and direction to compete with external product.

One of important factor that enough have an effect on to industry furniture is raw material problem. Nevertheless unhappily until now its raw material management and distribution do not flow properly. That also expressed by President Director PT.Jakarta International Expo (JI Expo), Jakarta organizer Fair 2008, Siti Hartati Murdaya. Right now that the implementation of law enforcement maximally becomes one of cause illegal logging that affects to raw material difficulty,` said Hartati that also entrepreneur of furniture industry.

On the other side, in overcoming competition is also needed standardization to gets goods with top best quality. `SNI (Standard National Industry) its are must paid attention correctly. `That clearly furniture industry or furniture in Indonesia almost improve competitive ability. (Public Relations JI Expo 2008)

PT Cahaya Sakti Furintraco (Olympic Group) has been established on November 29, 1983 which located around 16 ha in Bogor Indonesia. Olympic has kind of industry as furniture manufacturing and trading company. It's target market are brand Albatros for middle up market, brand Olympic for middle market and brand Solid – Inovatif for low middle market. Nowadays Olympic furniture is a market leader for knock down furniture in Indonesia and also has been done for export since 1989 to more 100 countries in five continents.

And right now Olympic has more and more order from customer both domestic market and international market. One of the potential market comes from branch office in Surabaya East Java. Based on sales aspect, we can see Olympic furniture sales trends in figure 1.1. The top five product type are bedroom set, living room set, office set, kitchen set and children set.



Source: Olympic Group Sales Report 2006-2008

Figure 1.1. Furniture Sales Trends

All the orders have been being still supported and manufactured in Bogor factory and delivered to brand office Surabaya. This condition caused the production capacity in Bogor factory over capacity to fulfil average 160,000 – 200,000 units per month or value 2 – 2.5 Billion per month.

Now the capacity of production has been already 720,000 units per year or value 250 Billion per year but it is still not enough to cover the orders. In order to fulfil the order and to reduce delivery cost from manufacturing Bogor to customers in Surabaya, Olympic has to increase the production capacity by expansion factory in Surabaya.

Firstly, we need an analysis of the viability of this idea to help the essential question of “ should we proceed with the proposed project idea?”. To answer this question, we have to conduct a business feasibility study to determine the viability this factory expansion in Surabaya. An additional information beside potential market aspect why we expand in Surabaya is to reduce investment cost because we have already land and building included warehouse building. In this feasibility study, we focus in two parts, first one is marketing analysis (marketing strategy, possible market shares) and second one is financial analysis (investment, financial tools, production capacity and cost). (Behrens & Hawraneck,15)

1.2 Formulation of the problem

On the basis of background above, then problem formulation at this research shall be as follows:

How is business feasibility study of factory expansion based on marketing and financial analysis? Beside traditional method namely NPV, IRR, Payback Period, Profitability Index, we combine Real Option Analysis and SIVA Model.

1.3 The goal of thesis

In these thesis, I would like to examine the profitability in commencing the expansion of new factory in Surabaya and the feasibility of the business through the

use of financial tools namely Payback Period, Profitability Index, Net Present Value (NPV) and Internal Rate of Return (IRR).

1.4. Methodology

The methods which will be applied in these thesis are the quantitative and qualitative method by making the analysis, doing the surveys as follows:

a. Literature Study

Data collecting uses this way is very useful to get input regarding information and knowledge that support this successful of business feasibility study. Library Research is also used as reference materials in conducting analysis and a basic plan of strategic decision implementation. Source of library research is text book, research data and internet.

b. Field Research

It conducted by collecting data both primary data and also secondary data to involved department in Olympic Group. And then all the data will be analyzed and provided systematically .

1.5. The Systematic of writing

Chapter 1: Introduction

This chapter will contains the background of why the writer decided to elaborate the issue based on the problem identification. This chapter will also contain the Objective of the study, the methodology and the systematic of the writing.

Chapter 2 : Theoretical Framework

This chapter will elaborate theories related with the discussion in the Thesis. Writer will explore more about the theory of feasibility study, capital budgeting, sensitive analysis.

Chapter 3: Organization Overview

In this chapter, the writer will describe generally about PT Cahaya Sakti Furintarco (Olympic Group) background and how their business practice. Analysis about the company's Product and Market characteristic will be discussed in this chapter.

Chapter 4: Analyzing

In this chapter contains market analysis, marketing strategy, financial calculation based on payback period, discounted payback period, net present value (NPV) and Internal Rate of Return (IRR).

Chapter 5 : Conclusion

Based on analysis and discussion in the previous chapters, writer will carry out the conclusion whether the factory expansion feasible or not and also giving a recommendation to take a right decision for the company.