

EXPANSION PLAN ASSESSMENT TO CAPTURE MARKET GROWTH

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A. CASE

OPENING PARAGRAPH

Company has been suffered with overcapacity due to company sales growth exponentially. The limitation of manpower to intensively remind and discuss technical specification that cause inappropriate engineering process and project delay. These errors created negative customer experience, reduce customer engagement and more complaint. The company strategy is to set up a workshop expansion to be able to capture the market growth. But, how to measure the feasibility of workshop expansion plan and accommodate the expansion plan itself and how company grab the potential market in order to support company plan to increase workshop capacity. The Board of Director should take decision in implementing the company strategy within Financial Year 2019.

COMPANY BACKGROUND

PT. SUN.S Indonesia (formerly known PT. SUN.S Turbo Services Indonesia) is a well-established company that was founded in 1994. SUN.S is headquartered in Winterthur, Switzerland where it began in 1834. The company service center is located in Purwakarta, West Java and the sales office is located in South Jakarta. The company has complete workshop facilities that provides a wide range of services to the rotating equipment market to be the leading independent rotating equipment service center in South East Asia. The company caters services solution such as shop and field engineering services, repair, upgrading, retrofit including the remanufacturing of parts and reconditioning of turbine, Compressor, Pump, Generator and Electric Motor

SPECIFIC AREA OF INTEREST

With wide range of services to the rotating equipment and high competent resources, the company has to keep the organic growth on the sales volume especially in Indonesia market. Excellence and dominance in each business is a challenging objective for PT. SUN.S Indonesia.

SPECIFIC PROBLEM

With a huge available market in Indonesian and in South East Asia, PT. SUN.S Indonesia must focus how to enlarge the market share and beat the competition. However, PT. SUN.S Indonesia has been facing capacity constraint in terms of workshop space and resource to capture normal business growth.

Meanwhile, with some internal records there have just been recognized that there was process variant occurred that produce service errors, project delays and customer complaint. For instance, due to limitation of manpower to intensively remind and discuss technical specification that cause inappropriate engineering process and prolong customer waiting time.

ALTERNATIVES

The alternative solution of this case is propose workshop expansion plan to be able to cater to the market growth. By investing in the workshop expansion, company expects to minimize the weakness and threat. The workshop expansion which require financial investment will be assessed through feasibility study. Assumption in this case, the sales growth without expansion would can only reach 8% growth, the biggest factor to capture the growth is capacity constraint (space and resources) to capture normal business growth especially on large equipment. By utilizing the existing space and resource, company will unable to increase market share.

Company expects the sales growth will increase 18% by utilizing the new expansion workshop. Four years will experience same growth and will decrease in the fifth year, due to next presidential election. In the process of evaluating and selecting the company investment, capital budgeting will be the formula that will be applied in this case. PT. SUN.S Indonesia is subsidiary of SUN.S Ltd, the company's share listed on the Swiss Stock. Exchange. PT. SUN.S Indonesia workshop expansion project is funded

by SUN.S Ltd. The company WACC is given by the headquarter SUN.S Ltd = 17%. The total investment in the first year is IDR 98,980,439,700,000.00 and IDR 70,592,737,500,000.00 in the second year.

Net Present Value, Internal Rate Return and Payback Period

Considering the company sales revenue will grow 18% and company WACC = 17%, the calculation will be shown in table 1.1 below:

Table 1

Net Present Value (NPV)	24,173,770
Internal Rate of Return (IRR)	19.77%
Payback Period (PBP)	6.4

Sensitivity Analysis

The sensitivity analysis will be analyzed through Monte Carlo simulation in Crystal Ball software. This process is carried out repeatedly 5,000 trials.

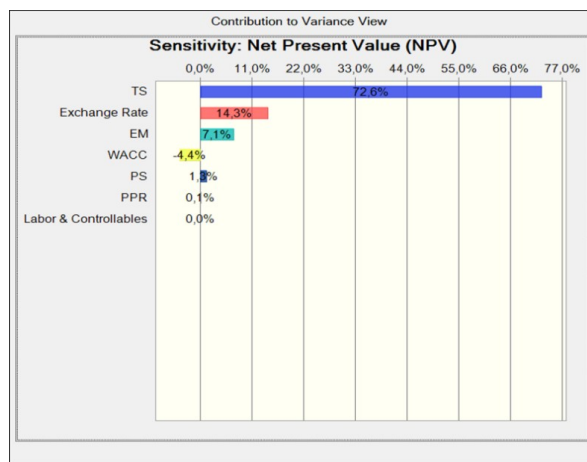


Figure 1

The above data shows that the most sensitive variables in the investment project is Sales TS with 72.6 % contribution to the project feasibility. This is as expected, considering company’s biggest sales contribution is from TS (Turbine Service). This figure also says if company cannot handle the sales from TS product unit very well it can impact company business significantly.

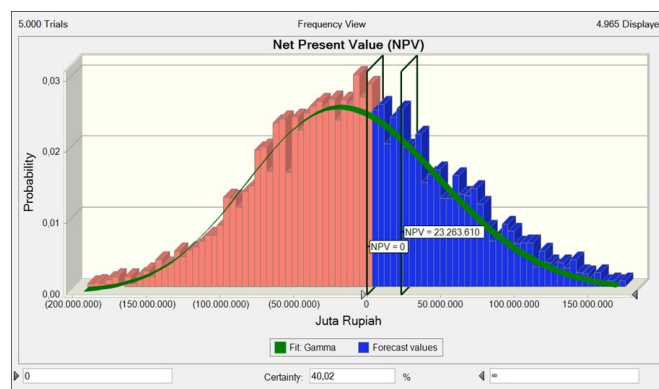


Figure 2

NPV value based on Monte Carlo simulation using Crystal Ball is kIDR 23,263,610. The Crystal Ball primary output is the distribution function of NPVs with the probability of a positive NPV project at 40,02%, which is highlighted in blue. This also means the NPV possibility below the based value is 59,98%. Even the investment project is feasible, but the risk is quite high.

CONCLUSION

PT. SUN.S Indonesia has a strong recognition, good recourse competencies, know-how and full capabilities in house, with the big potential market in Indonesia and in South East Asia Market company has big opportunity to grab the market and enlarge the market size. In current company capabilities condition, it is shown that there are some constraints to enlarge the market size, specifically company has had overcapacity of workshop capabilities and manpower.

The problem indications can be reflected through the research questions as below:

a. How company grab the potential market in order to support company plan to increase workshop capacity

- Company should assess suitability of current equipment and identify gaps, employ dedicated sales for each region to keep monitoring and communicating with customer intimately and regularly.
- Define standard sales process in each business unit so each business unit focus and independently monitor each project intensively.
- Sales manager offer customer the complete solution by utilizing company product mix which the other competitors do not have the capability of a full range of in-house services.
- In order to grow globally in South East Asia, company should identify key market segments within target countries for instance in Vietnam, company should more focus on hydro power plant.
- As part of supply chain, company should review of critical suppliers to support business effectively and continuously.

b. How to measure the feasibility of workshop expansion plan and accommodate the expansion plan itself

Facing capabilities constraints, Company expansion plan should be implemented in the current situation, as the potential market still massive the expansion strategy will be best solution for the future business growth.

The expansion workshop funding will only uses company capital as a source of funding, the feasibility study shows the project is feasible to implement with some justifications are as follows:

- Site survey and due diligence is to conduct on several potential workshops area nearby Purwakarta.
- The due diligence will focus on equipment/facilities available and local manpower support.
- On sales and marketing side, the marketing and sales activities use two activities: general sales and business development. The last activity is service consist of activities: warranty and customer satisfaction survey.
- As turbine service is company mature business unit and the biggest contribution to company sales therefore the sales activities should focus on the turbine services business, but yet the Pump services and Electromechanical service should be evaluating the desirability of market in order to grow and leverage the market size. Instead of getting more single transactional, future business strategy is to create a long-term service agreement with all advantages and benefits to the customers.