# PORTFOLIO STRATEGY OF PANGERAN GROUP USING BCG MATRIX

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## Abstract

*This research is made to develop one of Hospitality company group based on family business. The companies that will be discussed are companies that are domiciled in Sumatra such as PT Ustano, PT Istano Pangeran Permai, and PT Hotel Pangeran Pekanbaru. The owner of these three companies is still too involved in the operational activities of the company. The expansion and development of the companies was delayed for several years because the owners were focusedin taking care of the existing companies. In addition, these three companies are still run individually and still not centralized. Finally, the works become ineffective and the owners already realized about that. The owner of these three companies already felt that these companies need a holding or parent company so that the company will run effectively.Actually researcher was doing this research using formulation and implementation of strategic management theories. But, this paper only focuses on BCG Growth-Share Matrix and GE Business Screen to analyze the portfolio strategy of 'Pangeran' Group. The purpose of this research is to identify the positions of 'Pangeran' Group's subsidiaries to determine the strategies that will be implemented after. The theories that needed for this research are Portfolio Strategy. These theories mostly collected from Strategic Management and Business Policy Book by Wheelen and Hunger (2006). Researcher used multiple sources of evidence, which combining a lot of data to get valid results for the methodology. To collect the data, interviews, observation, and group discussion forum conducted to the owner as well as several corporate management teams. In addition, researcher also collected secondary data for comparison purpose. According to BCG Growth Share Matrix, all of Pangeran Group business occupies the Stars position in which Business Growth rate and Relative Competitive Position is high. But if viewed from Business Growth rate point of view, actually Pangeran Pekanbaru Hotel is placed in the critical position and situation, which nearly moved to Cash Cows quadrant.From the GE Business Screen, those three companies are still in the Winner position and placed in the top left corner that symbolizes the Industry Attractiveness and Business strength are still strong. From the portfolio analysis results of this analysis can be concluded that Pangeran Group are in a very good position. Things that will be examined are the issues that related with the effectiveness of those three companies. The Observation would be done with interviewing the owners of 'Pangeran' Hotels. The respondents that will be interviewed are already expert with the current situation of 'Pangeran' Hotels.The implication of this research is to know the profile of the business and to make the resource allocation. This paper consists of portfolio analysis, which is one of method to access a corporate strategy. This research will be useful for the development of the corporate.*

*Keywords-component; Portfolio Strategy; BCG Growth-Share Matrix*

*Category: Corporate Strategy*

## Introduction

In Indonesia there are many tourism destination that attract many local and international tourist. So, it's very prospective to developed hospitality industry. As an Indonesian hospitality industry, it is important for Indonesian company to capture the opportunity quickly. If not, global company will take the opportunity. In Indonesia, there is a lot of Hospitality Company based on family business. But only view of them that have corporation, in the end those individual companies will defeat by company that already had parent or holding company. Those corporate hotels were growing

more rapidly because they work consistently and more centralized. Having a parent-subsidiary relationship allows financial flexibility, and has major income tax advantages.

PT Ustano, PT Istano Pangeran Permai, and PT Hotel Pangeran Pekanbaru are three hospitality companies that have the same owner. These companies are family business that still young and has just run by the first generation and second generation. PT Ustano is the first company that establish between the 'Pangeran' Group's hotels. This company was founded on April 17,1979, under the name of 'Pangeran' City that located in Padang Downtown. Ten years later, on December 21,1989, PT Istano Pangeran Permai was build in Padang beach area and named 'Pangeran' Beach Hotel. The original purpose of the construction of 'Pangeran' Beach is in order to solve the lack of numbers of rooms in 'Pangeran' City. After years of running, in 2002 PT Hotel 'Pangeran' Pekanbaru established in Pekanbaru. These three companies were headed directly by the owner and his family. This Group hasn't opened a new business yet. Whereas, the company still has personal capital and high trust from bank to borrow cash.

The research questions of this journal are:

1. How is the current situation of PT Ustano, PT Istano Pangeran Permai, and PT Hotel Pangeran Pekanbaru?
2. What are the problems encountered by the three companies and the strategies employed by the Pangeran Group to thrive their business?
3. What theoretical strategies could be recommended to improve the performance of PT Ustano, PT Istano Pangeran Permai, and PT Hotel Pangeran Pekanbaru?

This research will be started with the explanation about the purpose of doing this research in background. After that, there will be the objective of this research that will be translated to be research question. Before begin the analysis, literature review must be gathered as the foundation of the analysis. The theory that will be used is Portfolio Strategy. Then, data that have to be found based on literature review have to be collected and then analyzed using BCG Growth-Share Matrix and GE Business Screen.

**Theoretical Foundation**

Portfolio analysis is how to manage a corporate finance by handling the cash from a more advanced unit in corporation to create new products [1]. The way to perform portfolio analysis is to find out the level of attractiveness of an industry by regulating the cash flow from the business unit. There are two forms of business screen that popular such as BCG Growth-Share Matrix and GE Business Screen.

*BCG Growth-Share Matrix*
BCG Growth-Share Matrix is the easiestand the simplest way to examine the portfolio of Investment Company [2]. Business units that have a relatively strong competitive position will be in the dominant position such as "star" and "cash cow". The weakest unit that places below will get the "dog" position. BCG Growth-Share Matrix has a Relative market share as the X-axis and business growth rate on the Y-axis. Market share is the percentage of total product sales by a company compare to the rivals of the company. Relative market share is different with market share. Relative market share is the percentage that calculated by dividing the company market share with the highest market share between the company and the competitors. Market growth is used to measure the market's attractiveness.

To determine the X-axis which is business growth rate, researchers examine the revenue of the last three years of each hotel and using the formula for determining the company's CAGR growth.

$$CAGR = \left( \frac{Ending\ Value}{Beginning\ Value} \right)^{\left( \frac{1}{\#\ of\ years} \right)} - 1$$

(1)

The circle is Represent the market share that relative one to another. In the end, the results of this Business Screen are four types of criteria, namely: Question Mark, Stars, Cash Cows, and Dogs.

Stars are the market leader and the peak of the lifecycle. Stars are able to generate enough cash to maintain their high share of market. When the growth rate slow stars become cash cows. Cash cows are the declining stage of lifecycle. Company or product, which positioned in this

criteria are milked for cash that will be invested in new company in question mark position. When the growth rate becomes slow, it will become dogs. 'Dogs' is a position when the company has a low market share and don't have potential in expand the business. This type of company or product should be sold or manage with small amount of money that they can generate.The circles in this graphic are representing the amount of market share compares with company's rival in its industry.
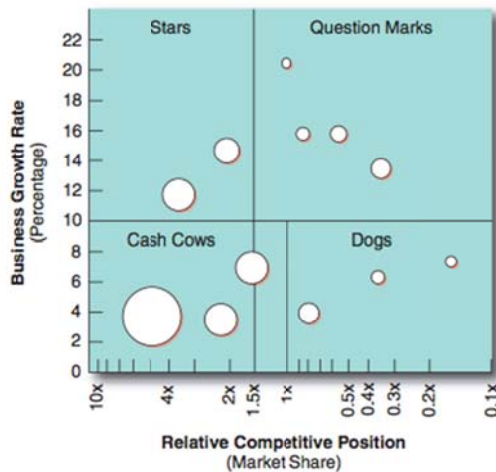


Figure 1 BCG Growth Share Matrix [3]

*GE Business Screen*
According to Wheelen and Hunger (2006), GE Business Screen or General Electric Business Screen is an improvement from the BCG Growth-Share Matrix. The advantage is, in the GE Business Screen, the user can decide the most appropriate criteria and reflect the current state of the unit that will be used. GE Business Screen has two indicators, namely Industry attractiveness and Business Strength or Competitive Position. It has nine cells, which may indicate that the units are the winners, question marks, average businesses, profit producers, or losers.

The piece of pie inside the circle is the market shares of product lines or business units. GE Business Screen can be implemented by doing some steps, first select the criteria to assess the industry, secondly determine the key factors that need, such as choose the criteria to examine the industry, then choose the key factors that needed, after that plot of each product line's or business unit's current position on a matrix, and finally plot the firm's future portfolio.
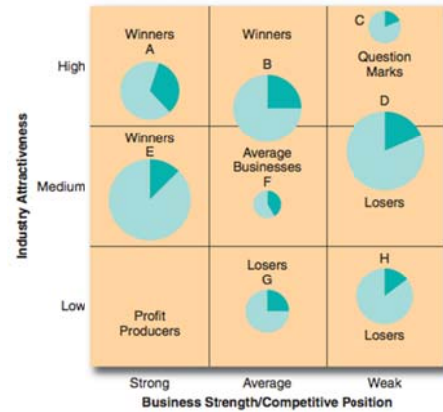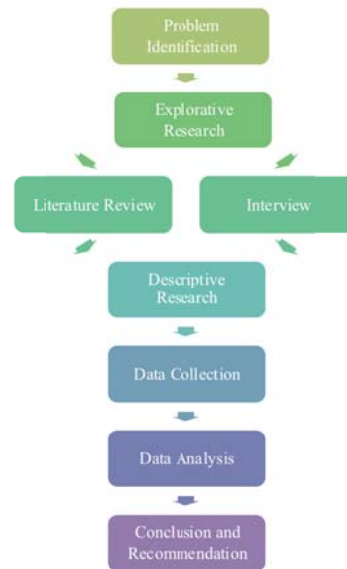


Figure 1 GE Business Screen (source: Strategic management and Business Policy)

**Methodology**

The steps in methodology chapter are problem identification, explorative research, literature review, interview, descriptive research, data collection, data analysis, and conclusion and recommendation.



*Problem Identification*
This research begins with the identification the problems in the 'Pangeran' Group. In this step, research question and research objective are formulated by identifying the existing problems in order to have more structured report.

*Explorative Research*
The second step is carried out to determine the key factors that will be the standard in rating

the corporate. In this step, two kinds of exploration activities are conducted to collect the data, they are:

*1) Literature Review: To have a scientifically theoretical basis of the research, a literature review is required to get the relevant and appropriate theory to be employed in this research. It is done by carefully studying the related books and journals and exploring pertinent source in Internet.*

*2) Interview: The interviewees are those responsible for decision-making process and understand the positions of PT Ustano, PT Istano Pangeran Permai, and PT Hotel Pangeran Pekanbaru. The items of the interview are designed based on the related theories and will be improved as the interview begins.*

*Descriptive Research*

This is a descriptive research in nature requiring qualitative data to solve the research problem. Data will be collected from different sources and compared to have the valid research findings.

*3) Primary Data: The primary data will be collected through interviews addressed to the owners of PT Ustano, PT Istano Pangeran Permai, and PT Hotel Pangeran Pekanbaru and the manager that once experience managing every hotel in Pangeran Group to get the information on the current condition of the company. There will be interview addressed to three loyal customers of each hotel but only for GE Business Screen method because the research focuses on the internal issues of the companies.*

*4) Secondary Data: Secondary data are required to support the primary data in order to have a valid result of the research. These secondary data are related articles, theories, annual reports, and other sources from the companies themselves.*

*5) Multiple Sources of Evidence: Questionnaire will not be used in this research because the research data will be collected by employing multiple sources of evidence method. Thus, a lot of samples of various sources are not indeed needed.*

*Data Collection and Analysis*

As previously described, the primary and secondary data will be collected from multiple sources of evidence. After data collection process is completed, the data will be analyzed by using some method based on the framework that has been made before.

*Conclusion*

In this final step, research findings are concluded and on the basis of this conclusion, recommendation will be formulated to be given to 'Pangeran' Group and thus this research is expected to be useful for the quality improvement of 'Pangeran' Group.

**Data Analysis**

Portfolio analysis is assessing the conditions of 'Pangeran' Group subsidiaries. This research uses BCG Growth-Share Matrix to analyze the hotels. The data for these tools are collected by using multiple sources of evidence from interviewing the two of 'Pangeran' Groups owners and one manager that had experiences in all three hotels.

*BCG Growth-Share Matrix*

BCG Growth-Share Matrix has a Relative market share as the X-axis and business growth rate on the Y-axis. To determine the X-axis which is business growth rate, researchers examine the revenue of the last three years of each hotel and using the formula for determining the company's CAGR growth.

Table 4.1 Table of Relative Market Share, Business Growth Rate, and Market Share

| Company | Relative Market Share | Business Growth Rate | Market Share |
|---|---|---|---|
| Pangeran City Hotel | 1 | 22% | 61.19 |
| Pangeran Beach Hotel | 1 | 20% | 37.04 |
| Pangeran Pekanbaru Hotel | 1 | 13% | 18.67 |

As the result, the highest growth established by the 'Pangeran' City Hotel with 22%, followed by 'Pangeran' Beach Hotel with 20%, and the lowest is the 'Pangeran' Hotel Pekanbaru with 13%. On the Y-axis, Relative Market Share can be accomplished by dividing the brand's market share with the largest competitor market shares. The market share data is gathered from the year comparison of each hotel in its level and area. 'Pangeran' City's market share is compared to another two star and three star hotels in Padang,

'Pangeran' beach is compared to another four star hotels in Padang, and 'Pangeran' Pekanbaru is compared to another Four star and five star hotels in Pekanbaru. The results of calculating the relative market share of the three hotels are the same. This hotel is the market leader in its level and area.

After determining the position of those three hotels to the BCG Growth-Share Matrix, it can be seen that the position of the 'Pangeran' City Hotel, 'Pangeran' Beach Hotel, and 'Pangeran' Pekanbaru Hotel are in the Stars quadrant. The graphic also shows the market share of each hotel in its level and area. 'Pangeran' City had the biggest market share compared to 'Pangeran' Beach and 'Pangeran' Pekanbaru. However, the position of 'Pangeran' Pekanbaru Hotel is in the critical position. 'Pangeran' Pekanbaru Hotel had a threat to move to Cash Cows position. In order to improve its position, 'Pangeran' Pekanbaru Hotel has to grow better. This matrix also determined the allocation of funds for each company or product.
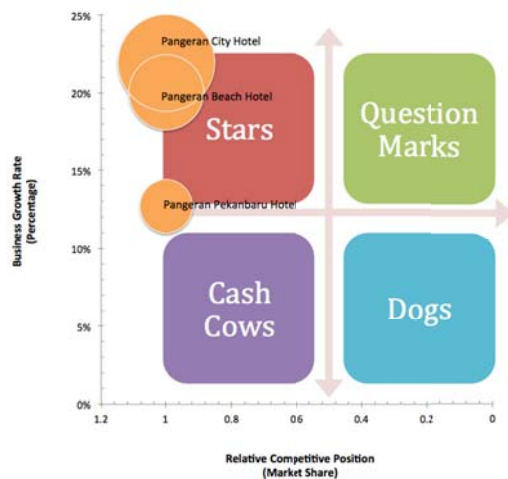
Figure 2 BCG Growth-Share Matrix of 'Pangeran' Group

*GE Business Screen*
The analysis of GE business screen is divided into two steps based on its axis. The axes are industry analysis and business strength. This matrix is using multiple sources of evidence method of gathering data. The industry attractiveness data are gathered from the travel and tourism competitiveness index and being confirmed to the owner of Pangeran Group about the data. Business strength is divided into technological position, profitability, and size [4]. The technological positions data are gathered from interviewing two of the owners of Pangeran group, one manager that has

experience in three of Pangeran Group's hotels, and three loyal customers of each hotel to confirm the interview of Pangeran Hotel physical conditions. The profitability and size data are also gathered from interviewing two of the owners of Pangeran group and one manager that has experience in three of Pangeran Group's hotels but, the data is confirmed with secondary data from Pangeran Hotel.

*6)* Industry Attractiveness: In 2008, the world was facing global crisis. This phenomenon is affecting several countries in the world, but Indonesia was not affected. Indonesian GDP was increasing to 6.5% in 2011 (source: World bank). The increasing GDP is affecting industries in Indonesia. Due to the increased population status, so the demand to spend money is bigger.

The hospitality industry is one of the industries that affected by GDP. Indonesian hospitality industry competitiveness ranking in general was increasing from 81 positions in 2009 to 74 in 2011. Compared to Malaysia, Indonesia still lost its ranking. In Asia pacific, Indonesia was ranked 13th, while Malaysia was placed 7th. This shows Indonesia needs to improve all aspects to become better. Indonesian ranking could lift into 74th position is because of some factors. According to Travel Tourism and Competitiveness Report there are several aspects which are needed to determine hotel industry rank which is similar to PESTEL (Politic Economy Social Technology Environment Legal) model such as T&T regulatory framework (legal), T&T business environment and infrastructure (economy and environment), and T&T human, cultural, and natural resources (social).

Factors that affecting Industry Attractiveness are market growth rate, Industry profitability, size, and pricing practices. Market growth rate and Industry profitability can be represented by Travel Tourism Competitiveness index. As already explained before, Indonesian Travel Tourism Competitiveness Index was in good performance and increased from the rank in 2009. It can be concluded that market growth rate and industry profitability from hotel industry is in a good position because it includes one of the industries in travel and tourism area. Although, pricing practices means price competition and it is one of factors that affects travel and tourism competitiveness index so it

doesn't have to be mentioned in industry attractiveness table. Indonesia placed 4th as a country that has high competitiveness in price. For the calculation, Indonesia which placed in 74th position with score 3.96 will be compared to world highest travel and tourism competitiveness index with score 5.68 (6). This figure below is Travel Tourism competitiveness index framework. The number beside the category is Indonesian rank compared to another countries in the world.

Size in industry attractiveness means the customer hotel room demands compared to the supplementary. The data that will be used is the hotel occupation rate of Indonesia. Occupation rate can be used to represent demand because; the occupation rate is the comparison of booked room compared to the number of rooms in Indonesia. Indonesia occupation rate data in 2011 was 70.70% (source: PHRI).

The rate of market growth rate and industry profitability of hospitality industry is got by dividing the value with the difference of the highest score for country's total score in Travel Tourism Competitiveness Index.

*7)* Business Strength: In constructing GE Business Screen, business strength is used to measure the level of businesses quality in comparison with the competitors. On the business strength assessment of Pangeran Group subsidiaries, the factors used are the technological position, profitability, and size.

Profitability factors assessed based on the profit that obtained by the Pangeran Group Subsidiaries. The amount of profit from this hotel can be scored by comparing the profit of Pangeran Group to the surrounding hotels. According to the Owner and the management team of the Pangeran Group, three of Pangeran Group subsidiaries have a great profit margin if compared with its competitors. This can be proven as well with market share data in 2011 from the hotels in Padang and Pekanbaru that suggest that Pangeran Group is a market leader in its classes and regions.

Size factor can be seen from company assets. This factor can be assessed from the asset that is owned by a company. Based on the results of the interview, Pangeran Group stated that they have high amount of asset compared to its classes and regions. The Total asset of Pangeran

City Hotel is IDR1,448,800,094 while Pangeran Beach Hotel is IDR34,681,257,885 and Pangeran Pekanbaru Hotel is IDR50,640,566,745.

Finally, technological position can represent the assessment of hotel physical conditions. It can assess the level of technology that is used until the design that applied by the hotel. The factors that used to measure technological positions are technology, green, interior, exterior, parking, food, and services. These factors were being chosen because it can affect the comfort and eligibility level of the hotel. These factors are very important because a hotel is a business service, qualities, such as technology, green and the others are very influencing consumer satisfaction. Finally, technological position can determine whether many customers are interested and loyal to Pangeran Group or not. The following table is the Owner and management assessment outline of the Pangeran Group, along with the confirmation from the customer to the technological position of Pangeran Hotel. The customer that was being interviewed were the loyal customers which often stay or make many events in Pangeran Hotels.

Score to assess the technological position of these hotels is taken from two points of view in order to make the opinions that can complement with each other. At first, the interviews were conducted from hotel management team and then confirmed to the owner directly. Then customers also being interviewed as the external opinion for the multiple sources of evidence purposes. The customers that being interviewed were three loyal customers of each hotel, which considered as the ones who know much about Pangeran Hotel condition because of their frequent visits to Pangeran Group's Hotels. This table below is the data of customers that being interviewed.

The result of this interview is the technology factor of Pangeran City got 6 points of the owner and management team while the customer scores higher in 8.17.According to the customers, technology of Pangeran City was adequate and already meets the standards of a 2-star hotel, but it would be great if it is developed and become better to keep up with the modern hotels. The Green factor judged not just by the plants in Pangeran Hotel, but also

the system in the management of waste and other small aspects that related to the environment. In this factor, owner, management team and the customer were accessing Pangeran City hotel seven out of ten. In this point the customers are satisfied enough, because they have never met things that bother them about the environment issue.

## Conclusion and Recommendation

*Conclusion*

BCG Growth-Share Matrix and GE Business Screen used for determines what a company supposes to do. The result will shows several actions that needs to be taken by company; if this company needs to develop, only used as a source of funds because it cant be developed anymore, have to be supplied by funds because it is potential, or have to be closed.

According to BCG Growth Share Matrix, all of Pangeran Group business occupies the Stars position in which Business Growth rate and Relative Competitive Position is high. But if viewed from Business Growth rate point of view, actually Pangeran Pekanbaru Hotel is placed in the critical position and situation, which nearly moved to Cash Cows quadrant.

*Recommendation*

The critical position of Pangeran Pekanbaru can be caused by the age of Pangeran Pekanbaru Hotel, which is younger than the other two hotels. For that reason, Pangeran Pekanbaru needs cash from Pangeran City Hotel and Pangeran Beach Hotel for develop

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## APPENDIX

*A. Summary of Interview Result*

## How is Pangeran Hotel's Relative market share?

Mr. Syafarudin Datuk Pangeran and Mrs. Nensie Hartati as the owners of Pangeran Group, and Mrs Atiek as the General Manager, which has experience to lead all of Pangeran Hotels of Pangeran Pekanbaru Hotel,think that Pangeran Hotels are in the first position and for Pangeran Pekanbaru, the market share is head to head with one of the competitors. But, Pangeran Group often to be in the first position in the market share rank. The data of daily comparison also proves the position of the rank.

## How is Pangeran Group's Hotels Business Growth Rate?

Pangeran Hotels doesn't know about the exact financial data of their rivals. But, According to Mr. Syafarudin Datuk Pangeran and Mrs. Nensie Hartati as the owners of Pangeran Group, and Mrs Atiek as the General Manager, which has experience to lead all of Pangeran, it has good business growth compare with its rivals. It can be determined because based on Mrs. Atiek observation; the main competitors of Pangeran Hotels had the same expenditure and income. Between Pangeran Group hotels, actually Pangeran Pekanbaru is the most developing hotels in terms of facilities. But the revenue of Pangeran Beach is the highest.