

DISTRIBUTION SYSTEM ANALYSIS OF PT AGRICON IN OIL PALM PLANTATION SECTOR

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Abstract

Indonesia is an agrarian nation, which means that agriculture is the main activity and job for the citizen in this nation, this fact making pesticide a common product to be used by the farmers. Agricon has been largely known as a producer of high quality pesticide products for food and horticulture crops, while the plantation market side has not been seriously handled. Currently Agricon is aiming new sector of market, palm oil plantations. In the past, mainly independent distributors handled the marketing and distribution of Agricon's pesticide products in the plantation sector market. Agricon now wants to directly deal with plantation companies. This report will discuss about the distribution system of Agricon's pesticide products in the plantation sector, analyzing its current system and finally making a conclusion about which is the best distribution system regarding the marketing in the oil palm plantation sector. By using direct selling and channeling strategy theory in conducting in depth interview to analyze the system. Therefore, PT. Agricon is suitable and should conduct direct selling and distribution to the big buyer but still utilize distributor as assistant and using distributor and wholesaler for medium and small buyer. To Analyze PT. Agricon current distribution system and improving it by making the suitable distribution system. By analyzing current condition and distribution system of PT. Agricon as base of the research then analyzing the system suitability by using direct selling by manufacturing and channeling strategy theory. Conducting in depth interview to PT. Agricon executives as primary data and distributor and competitor as supporting data as comparison. The researcher discover that PT. Agricon is still in the state of preparing the employees; direct selling should be conducted to big buyer to avoid price war, PT. Agricon should still use distributor for assistance and in dealing with medium and small buyer because distributor can be

a competitor also so they still must be used. PT. Agricon should improve their method in the agreement with distributor. The research only to choose the best distribution system of PT. Agricon and only in the oil palm plantation sector. The outcome and output of this research is the suitable and probably the best distribution system of PT. Agricon in oil palm plantation sector. The analysis about oil palm plantation market condition and the best distribution system for local pesticide industry.

Keywords-component; Pesticide, Oil Palm Plantation,

Category: Distribution Channel; Marketing

Introduction

Agriculture or farming is human works that is the utilization of natural resources to produce food, raw materials or source of energy. The utilization of natural resources that are included in agriculture is called crop cultivation. Biggest amount of citizens of earth depends their life on cultivation. Indonesia is basically an agrarian nation, which means that agriculture is the main activity and job for the citizen in this nation, this fact making pesticide a common product to be used by the farmers. According to the *Biro Pusat Statistik* (Indonesian Bureau of Statistics), in the year of 2000, the total of labor force in Indonesia has reached the sum of 95 million people and half of them are working in the sector of agriculture. In 1984 Indonesia controls 20% of the total market of world pesticide.

There are currently local and multinational companies that competing in Indonesia's pesticide market. Multinational companies

currently residing at the upper side in the top 20 pesticide industry players in Indonesia. At the top 20 lists, local companies still residing at the bottom side, the top player from the local side residing at the number 8 is Agricon. Currently developing rapidly, Agricon has been largely known as a producer of high quality pesticide products for food and horticulture crops, while the plantation market side has not been seriously handled. Currently Agricon is aiming new sector of market, such as palm oil, rubber and sugarcane plantations. Agricon needs a new source of growth, as the oil palm sector has grown tremendously over the years, the oil palm sector will be PT. Agricon's top target.

In the past, mainly independent distributors that directly dealt with the plantation companies handled the marketing and distribution of Agricon's pesticide products in the plantation sector market. It is a different 'game' when it comes to the plantation market, because unlike the food crop market, characterized mainly by smallholder farmers, the market in the oil palm plantation sector is dominated by companies owning large tracts of plantation acreage. Agricon now wants to directly deal with plantation companies, setting up a plantation team particularly to provide technical support to its customers.

What in the past is just a 'minor league' in Agricon, is now becoming the company's top priority. Focusing on different kind of customer and different kind of market, PT. Agricon must make a suitable distribution system in the oil palm plantation sector in order to gain the new growth source and thus exceeding the multinational companies, which are currently the market leader in the pesticide industry. Thus this report will discuss about the distribution system of Agricon's pesticide products in the plantation sector, analyzing its current system and finally making a conclusion about which is the best distribution system regarding the marketing in the oil palm plantation sector.

Literature Review

Direct Selling by Manufacturers

Cravens and Piercy (2009) consider four factors that influence the distribution decision, which are:

- **Buyer Considerations**

Manufacturers look at the amount and frequency of purchases done by buyers, as well as the margins of manufacturing costs that are available to pay for direct selling cost. Customers' needs for product information and applications assistance may determine whether a company sales force or independent marketing intermediaries can best satisfy buyers' needs.

- **Competitive Considerations**

Distribution channel might be an important aspect of how a company differentiates itself and its product from others, and this may push decision makers towards increased pressure on direct channels. The Internet can change the economics of distribution in favor of direct marketing.

- **Product Characteristics**

Complex goods and services often require close contact between customers and the producer, who may have to provide application assistance, service and other supporting activities. Another factor is the range of products offered by the manufacturer. A complete line may make distribution by the manufacturer economically feasible, where the cost of direct sales for a single product might be 'too much'. High volume purchases may make direct distribution feasible for a single product. Companies whose product designs change because of rapidly changing technology often adopt direct sales approaches. Also qualified marketing intermediaries may not be available, because the complexity of the product and the requirements of the customer. Direct contact with the end user or customers provides feedback to the manufacturer about new product needs, problem areas and other concerns. Many supporting services may be web based.

- **Financial and Control Considerations**

The costs and benefits need to be evaluated. Direct distribution gives the manufacturer control over distribution, because independent organizations cannot be managed in the same manner as the company's employees. Other reasons for manufacturers entering the retail marketplace may focus on the need to manage the brand experience more closely than using independent intermediaries or retailers.

A. Channeling Strategy

Cravens and Piercy (2009) consider the decisions that are necessary in developing a channel of distribution strategy.

1. Determining the type of channel arrangement

The major types of channels are conventional channels and vertical marketing systems (VMS), although horizontal marketing systems and emerging digital channels are suitable in some situations.

2. Deciding the intensity of distribution

The second step in channel strategy is selecting distribution intensity. This step is best examined in reference to how many retail stores carry a particular brand in a geographical area. If a company decides to distribute its product in many retail outlets in a trading area, it is using an intensive distribution approach. If one retailer or dealer in the trading area distributes the product, then the company uses an exclusive distribution strategy. The strategy that falls between the intensive and exclusive strategy is called selective distribution.

3. Selecting the channel configuration

The third step is deciding how many levels of organizations in the vertical channel and the specific kinds of intermediaries to be selected at each level. The type of channel and the distribution intensity help in deciding how many channel levels and what types of intermediaries.

Methodology

Problem Identification

This research begins with identifying the problems that exist in the PT. Agricon. In this step, research question and research objective obtained by analyzing the existing problem. The problem was obtained by reading an article about PT. Agricon that consist of their current condition and future target, further information is gathered by doing pre-interview with PT. Agricon's General Manager, Mr. Bambang Widjanto. The pre-interview was conducted in order to know the true condition, target and problem in Agricon.

Literature Review

The literature study is a critical look at the existing research that is significant to conduct the research. Literature study also provides number of theories that will be applied as a basic knowledge for conducting this research. By conducting literature study, researcher could analyze PT. Agricon and its distribution system in oil palm plantation sector. The literature is found from books, journal, Internet, etc.

Interview

Interview will be conducted from three aspects of the distribution system itself, the company, the channel and the competitor side. The basic of these questions will be set by taking a theoretical foundation as a base and will be improved as the interview take place. FGD or focus group discussion will be conducted in order to know the perspective from two sides, the manufacturer and the distributor. Using direct selling consideration and channeling strategy analysis will formulate the research question. Researcher will compare the two analysis based on the end user characteristics and condition.

Table 3.1 Direct Selling Considerations

Direct Selling	
Factors	Questions
Buyer Considerations	How is the intensity of the order?
	How many for one order?
Competitive Considerations	How is the differentiation of Agricon products with competitors?
Product Characteristics	Is there any product customization?
	How is the customer need for assistance?
	How is the process of assistance?
Financial & Control Considerations	How is the cost for direct selling?
	What kind of distribution control that Agricon wanted?

Table 3.2 Channel Strategy Analyses

Channel Strategy	
Steps	Questions
Channel Arrangement	How is the current Agricon distribution channel?
Distribution Intensity	How is the current Agricon distribution intensity?
Channel Configuration	What are the functions of Agricon's channel?
	What are the characteristics of Agricon's current channel?
	Does Agricon handling all the manufacturing process?

Multiple Source of Evidence

Multiple sources of evidence come from primary and secondary data. The researcher conducted an in-depth interview for the primary data. The secondary data were obtained from the products list and other information about Agricon from website, article, books, etc.

Data Collection and Analysis

All data in this research is gathered by explorative and descriptive research. Literature study and interview are used as the explorative research. Primary and secondary data are used as the descriptive data. The reseacher will first gather the relevant information about PT. Agricon current condition in oil palm plantation sector then analyzes it with the related theory then finally compare it with the channel and competitor perspective. This step shall be concluded with the formation of the conclusion and recommendation of this research.

Conclusion and Recommendation

This chapter contains the research result. Conclusion summarizes all the research thus making final conclusion, solution and recommendation regarding PT. Agricon distribution system in oil palm plantation sector. As for the recommendation, the researcher will formulate the suitable and probably the best distribution system for each of the buyers' type in order to compete well in the oil palm plantation sector.

Analysis

Oil Palm Current Market Condition

Basically there are three kinds of customer for the oil palm plantation market divided to its plantation size and purchasing characteristics. The big buyer is plantation with thousands acres of plantation, approximately fifteen thousands to twenty thousands acres and they are divided into companies which are belonged in the same group, because the regulation from the government is one company only has the maximum amount of land of twenty thousands acres. This buyer characteristic is making a big order for the whole group or independent order from a certain company who are also the member of the group. The big buyer is also comes from the government plantation. The order is in form of tender, which is spread and announced to the invited companies and distributor. The requirement of the tender is not only the pesticide but also the other supporting plantation instrument such as plastic, rubber,

etc. Order in form of not a tender is also common, if the amount of order is small or the need is incidental.

The medium buyer is plantation with medium amount of plantation acres, usually just a single private own company with plantation size of two thousands to ten thousands acres. Because of that, their needs are not so much and complicated, they rather make a direct order to the distributor or company. Although just making a direct order to the supplier, they also possible not to go to just one supplier, they tend to go to many suppliers in order to gain maximum benefit in the case of price, products, etc. This trait suggests an opinion that they also make a tender, but it is an 'informal tender'.

The small buyer is a small plantation; it can be just a small private own plantation or a part of a big group of plantation, the plantation size is just about two to ten acres. They needs are relatively small in amount, so their characteristic is just to make an ordinary buying to the retailer, wholesaler or free market.

Current Condition of PT. Agricon

Agricon current condition regarding to enter the oil palm plantation is they haven't ready at all. Agricon current condition right now is they still in the state of preparing to enter the oil palm plantation market. Right now, the main problem and the thing that Agricon still preparing is from the side of the human resource.

They are currently doing training and recruiting to support that cause. Thus making the main job and target for the company is to prepare the employees with training and education regarding the market. As from the other side of the readiness, PT. Agricon has making many improvements in the other aspects, such as tools, facilities, products, etc.

Other issues that will be faced by Agricon after they decide to finally enter the market is right now, every plantation or company that already exist, already have their own independent client or supplier. This issue is an obstacle in the way of Agricon to make direct selling. Right now, there hasn't been any approach to promoting or introducing the products of Agricon to the plantation, so basically there will be no demand if the target customers still don't know about the products. Thus making another point about

the importance of the readiness of the employees in order to make approach to the plantation to develop a good and profitable business relationship.

B. Direct Selling

By buyers consideration, PT. Agricon is suitable to make a direct selling to the big buyer, the fact that price war take a major impact makes Agricon should do direct selling to the big buyer in order to maximize profits. Regarding the medium and small buyer, its more suitable to use channel in this case distributor, in order to reach the plantation that are hard to reach by PT. Agricon.

By competitive considerations, the price minded consumer shall be dealt by using direct selling method and the customers who are not price minded could be reach by using a distributor who has the capability of supplying and has good reputation.

By the product characteristics considerations, the researcher concludes that with that kind of product characteristics, Agricon is suitable to do direct selling.

By the financial and control considerations, from the control side Agricon is suitable to make direct selling, but from the financial side, Agricon cannot make direct selling to all customers, and by that Agricon still need distributor to reach some of the customers that are too costly to be handled by PT. Agricon and to secure a streamlined payment.

C. Current Distribution System

The first channel is the direct selling from PT. Agricon straight to the end user. This kind of system only used in the big buyer plantation or in this case, tender form order.

The second channel is the majority or main system that currently being used by PT. Agricon, using distributor as a channel to interact with every other level of the channel. Making Agricon very dependant to the distributor. This kind of channeling usually serves the big and medium buyer.

The third channel is channel that is used when dealing with the small buyer. The steps are, distributor will buy from Agricon, then they will sell it to the wholesaler or in a special case, the distributor is also the wholesaler. Then after that the products will be delivered to the end users as a free market.

D. Channel Strategy

PT. Agricon current channel arrangement on every channel types is the conventional channel type, which each channel trying to do the bet

for themselves in order to achieve their own personal goals. But in some special occasion where there are other certain needs to be fulfilled, Agricon chose to make a vertical marketing system, a contractual VMS to be précised.

The current distribution intensity are The big buyer, which has the characteristics of making a tender have the occasionally purchasing intensity. The medium buyer, they usually make an order based on their current needs and situation. Their order is basically depends on their current inventory. It reflects to the purchasing intensity of the distributor to Agricon, they have a medium intensity of purchasing to Agricon. The small buyer, with needs so small and with simple requirements also, the small buyer usually make its purchase to free market, retailer who has their needs or they will go to the wholesaler, in this case it can also be distributor who can also be wholesaler. This characteristic makes the purchasing intensity of Agricon's distributor to be more intensive, they have to be in the state of ready stock of all time, because the purchasing intensity of the end user is somehow unpredictable and likely more intensive.

Conclusion and Recommendation

E. Current Condition

Their current state is still preparing the human resource to go to that direction. The employees haven't had enough knowledge and skill to be able to enter and perform well in the oil palm plantation sector regarding the promotion and making and maintaining a good and profitable relationship with the end user, in this case, the plantation.

The company should continuously make improvement in their human resource in order to reach their target. By making training to improve the employees' skill and knowledge so their current employees can conduct their job effectively in making and maintaining a good business relationship, because that is the most important part in dealing with tender. Other way to improve the human resource is to make recruitment, fresh employees and also taking from the competitors.

F. Distribution System

PT. Agricon is suitable and best served the big buyer with direct selling but in dealing with

medium and small buyer, it's more suitable to utilize channel to assist PT. Agricon in delivering value to the end user. Other reason why distributor should still used because distributor could be a competitor in the case of tender. The current channel characteristics of PT. Agricon is, they are loyal with Agricon, but they do not want to be exclusive for Agricon only, because they do not want to close any other possibilities. The real condition is, not every distributor can enter all Agricon's product end users, because of that reason, Agricon do not want to be depended to a certain channel or distributor only. This conclude that distributor and PT. Agricon share the same understanding.

PT. Agricon is suitable to make direct selling for its product. The researcher recommends the best distribution system of PT. Agricon to be multichannel system, different system should be conducted for different type of buyer. PT. Agricon should make direct selling to the big buyer. PT. Agricon should be the one who win and controlling the tender and its purchasing process, but although direct, PT. Agricon should still utilize distributor but only as a helper in the case of delivering, as can be seen in the broken line. As a result Agricon only give an amount of percentage for the distributor despite sharing profit. In handling the medium and small buyer, PT. Agricon should use distributor and wholesaler. The reason is because it's too costly for them to make direct selling to that kind of buyer.

G. Improvement in Distribution Channel

There is no such thing as exclusive distributor in the oil palm plantation sector, but good relationship between company and distributor is the substitute for exclusivity contract regarding the channel loyalty. Distributors agrees not choosing to become exclusive is because they wants to become flexible; they don't want to close any other business possibilities.

Research comparison with other competitor of Agricon concludes that, their distribution system is similar to Agricon. They are using independent distributor as main tools, the main reason is a regulation about multinational companies that they may not conduct a direct selling. Other differences, the competitors already have a good relationship with the plantations. This making Agricon has more strength in the field of direct selling, because

their main competitor in this case the multinational companies may not conduct direct selling.

The researcher also recommend PT. Agricon to improve its system in dealing with tender, they must control the tender or in this form is the direct selling. the researcher recommends PT. Agricon to make a contract or agreement with distributor regarding their cooperation ethic and process. The contract should contain several agreements like the confidentiality of information, the on time delivery, etc.

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