

## **BUSINESS-LEVEL STRATEGY ANALYSIS AND PLANNING CASE: "DUCREME" STARTUP COMPANY**

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**Abstract** - The first year of startup business operated is a crucial year where the business success rate is low. The success of a startup business is determined by business-level strategy that can be implemented to existing market condition and market competition. Food and beverage business in Bandung is very competitive, so startup company need the right strategy in order to survive in this competitive market. Ducreme is a startup company that was established in February 2015. The Ducreme's vision is to create acceptable innovative food and beverage products to satisfy customers so that it can enter the national retail market in the future. The main product of Ducreme is milk tea with six variant flavors. This research is made to analyze the startup business-level strategy, and the results of the strategy's implementation to the performance of business startup for the first year its operates. Ducreme choose to implement differentiation strategy due to its strength to create innovative product. In general, Ducreme can grow in food and beverage market that is already competitive and its products can be accepted by customers. The results of this analysis showed that the startup company's sales performance is very depended on the distributor. The positive impact of the cooperation with the distributor is a broader marketing area coverage to reach more customers. The negative impact of this dependence is the decline in sales when there are problems happen to distributor so they can't perform in sales. Culinary exhibition also gives a significant impact on sales because of greater margin obtained due to price mark-up. After analyze and make conclusions on the Ducreme performance, the author make recommendation of business and functional-level strategy plan for the second year based on the results of the performance analysis in the first year by considering company internal condition. This strategy is expected to increase Ducreme performance in order to face competitive market. In 2016, Ducreme choose to implement focused differentiation strategy in order to maximize their strength in already competitive market. Ducreme wants to develop new product in sachet package ready to brewed. This product will be targeted to B2B customers. The market size of this product is not large enough compared to the mass market that has been taken by the product in bottle package, but it is more profitable market in terms of quantity and sales turnover if Ducreme could established cooperation with the B2B customer. For the existing bottled-product recommendations; (1) Ducreme should participate in more culinary event to gain more profit and to increase brand awareness, (2) Ducreme should try another marketing methods so that do not rely only on existing channels. This recommendation to avoid decreasing in sales due to reseller/distributor problem, (3) Ducreme should increase the number of channel distribution to increase more sales, (4) Ducreme should optimize its social media because it has not been fully utilized to increase brand awareness, and (5) Ducreme should try to increase brand awareness by using the selebgram endorse. For the planned sachet product recommendations; (1) Ducreme should develop a product that is acceptable to B2B market segment. This should consider quality and price level acceptance of customers, (2) Ducreme should create a list of potential B2B prospects that are ready to be product sampled before product launched to the market, (3) Feedback generated is used to develop products to fit with the majority of the target market's preference, and (4) Ducreme should spread product proposals and product samples to the target market, and follow up who interested to products.

**Keywords:** Business-level Strategy, Functional-level Strategy, Business Performance, Startup Business

## Introduction

### *Research Background*

Ducreme is a startup company that was established in February, 2015. Ducreme's vision is to create acceptable innovative food and beverage products to satisfy customers so that it can enter the national retail market in the future. The main product of Ducreme is milk tea with six variant flavors. Ducreme currently has six employees with four of them as a company's founder. At first Ducreme was only focused its marketing in Bandung by participating at the campus bazaar and culinary night events. But realize that the market potential and customer appreciation to the products, Ducreme started to participate in culinary exhibition in Jakarta to expand its marketing scope. By participating in culinary exhibition, Ducreme get positive feedback with the result of several partners interested in becoming product distributor in Jakarta.

Ducreme's total sales in 2015 was approximately IDR 263 million and most of this sales come from reseller/distributor and culinary exhibition participation. This data shows to us that although Ducreme started with little amount of capital, Ducreme is still able to grow by focusing its available resource in marketing programs.

Although during 2015, Ducreme has always get sales in every month, for the last two months there are decline in sales due to some external factors. This indicates that Ducreme is too dependent on distributor sales performance and sales from culinary exhibition participation.

This final project is made to analyze the Ducreme's business-level strategy performance during the first year business operated. Some of the factors that being focused in this final project are monthly sales performance, distribution channel contribution to company sales, and the number of favorite flavor sold.

The results of this final project is expected to be a reference to determine what is the best strategy in the second year business by considering strengths and weaknesses of this company. The conclusions and recommendations are made by considering available resource and potency of this company, so Ducreme can continue to grow in the intense competition of food and beverage industry.

### *Research Objectives*

The main objectives of this final project is to determine business-level strategy plan for Ducreme in the second year of business operated. Then, the author also want to know the best functional-level strategy should be applied in this company for facing intense market competition and keep growing. This final project is very important to analyze how well the Ducreme growth and to give solutions/recommendations of every problems faced.

### *Research Limitations*

To make specific research, researcher make the following limitations:

The study will only conducted on Ducreme startup company. The main reason is because this startup is owned by author so that company's real data can easily retrieved and this data based on real experience author doing this business.

Ducreme's data were analyzed only data during the first year its business operated. Author will only focus on analyzing this data to know business performance in its first year business operated. It includes marketing, finance, and operation factors.

## Theoretical Foundation

### *Porter Five Forces*

Originally developed by Harvard Business School's Michael E. Porter in 1979, the five forces model looks at five specific factors that help determine whether or not a business can be profitable, based on other businesses in the industry (Arline, K., 2015).

The five forces model of competition expands the arena for competitive analysis. Historically, when studying the competitive environment, firms concentrated on companies with which they competed directly. However, firms must search more broadly to identify current and potential competitors by identifying potential customers as well as the firms serving them (Hitt, M.A., 2007:53).

### *SWOT Analysis*

A tool that identifies the strengths, weaknesses, opportunities and threats of an organization. Specifically, SWOT is a basic, straightforward model that assesses what an organization can and cannot do as well as its potential opportunities and threats. The method of SWOT analysis is to take the information from an environmental analysis and separate it into internal (strengths and weaknesses) and external issues (opportunities and threats). Once this is completed, SWOT analysis determines what may assist the firm in accomplishing its objectives, and what obstacles must be overcome or minimized to achieve desired results (Investopedia Team, 2016)

### *Business-Level Strategy*

Business-level strategy is an integrated and coordinated set of commitments and actions the firm uses to gain a competitive advantage by exploiting core competencies in specific product markets. Business-level strategy indicates the choices the firm has made about how it intends to compete in individual product markets. The choices are important, as there is an established link between a firm's strategies and its long-term performance. The purpose of a business-level strategy is to create differences between the firm's position and those of its competitors. To position itself differently from competitors, a firm must decide whether it intends to perform activities differently or to perform different activities (Hitt, M.A., 2007:106)

### *Functional-Level Strategy*

Functional strategy is the approach a functional area takes to achieve corporate and business unit objectives and strategies by maximizing resource productivity. It is concerned with developing and nurturing a functional capability to provide a company or business unit with competitive advantage (Wheelen and Hunger, 2012:238).

The organizational structure creates a business hierarchy to increase the efficiency and effectiveness of the business operations. Different small businesses operate in different ways, so there is no one-size-fits-all solution every small business should choose for an organizational structure (Lorette, 2016)

### *Marketing Strategy*

According to Kotler & Armstrong, marketing is the process by which companies create value for customers and build strong customer relationship in order to capture value from customers in return (Kotler & Armstrong, 2012:5)



Figure 2.1 Simple Marketing Process

Situation analysis is a thorough analysis of the situation in which the firm itself serves as the basis for identifying opportunities to satisfy unfulfilled customer needs. The firm must understand its own capabilities and the environment in which it is operating. The situational analysis thus can be viewed in terms an analysis of the external environment and an internal analysis of the firm itself. Market research will provide specific market information that will permit the firm to select the target market

segment and optimally position offering within that segment. The result is a value proposition to the target market. The marketing strategy then involves: segmenting, targeting, positioning and value proposition to the market. The marketing decisions generally fall into four controllable categories which are product, price, place and promotion (NetMBA, 2016)

### *Financial Strategy*

Financial strategy examines the financial implications of corporate and business-level strategic options and identifies the best financial course of action. It can also provide competitive advantage through a lower cost of funds and a flexible ability to raise capital to support a business strategy. Financial strategy usually attempts to maximize the financial value of a firm (Wheelen and Hunger, 2012:239).

Initial capital is the initial investment or money used to start a business. The funds, or capital, may come from a bank loan, a government grant, outside investors, or the business owner's personal savings. The money is used to cover such startup costs as purchasing building, purchasing equipment and supplies, and hiring employee (Business Dictionary Team, 2016).

Capital budgeting is the process of identifying, analyzing, and selecting investment projects whose returns (cash flows) are expected to extend beyond one year (Van Horne, J.C. & Wachowicz, J.M., 2008:308).

### *Operation Strategy*

Operations strategy determines how and where a product or service is to be manufactured, the level of vertical integration in the production process, the deployment of physical re-sources, and relationships with suppliers. It should also deal with the optimum level of technology the firm should use in its operations processes (Wheelen and Hunger, 2012:242).

## **Methodology**

This final project will use qualitative research method, which is Case Study, on a author's startup company called Ducreme. It may involve the collection of documents, archival records, and direct observation (Atlas.ti, 2002).



This research begin with problem identification. In this stage author search the problem and potency that really happening at his startup company. Functional analysis to determine startup growth strategy becomes interesting topics for author because this research will applied to his startup company that seeks the best way to grow in this competitive market.

The second stage of this study is determine research question. The third stage is literature review that support this research. The fourth stage is data gathering from startup company including marketing, finance and operation data. Fifth stage is about data analysis about the stage before. Then, the final stage is about conclusions and recommendation for startup company growth strategy.

### *Business-Level Strategy Analysis and Planning*

#### *Exisiting Business-level Strategy*

Based on the research, in the first year of startup company operating, Ducreme choose to implement differentiation strategy in order to maximize their strength in already competitive market. The Ducreme's strength is the ability to create unique flavors that differentiate from competitors and

choose to target mass market rather than specific. Ducreme choose to target broad market and this decision was taken in order to maximize market scope and potential sales. For positioning, the main focus for Ducreme is to create perception in customer's mind that Ducreme's products is premium because of the creamy taste and elegant packaging. In order to increase brand awareness, Ducreme also participate in culinary exhibition in Bandung and Jakarta.

The initial investment required to start this business was IDR 16 million rupiahs. It doesn't mean that to start business always necessary required big amount of capital. Ducreme choose to outsource all production in order to minimize cost that is not really needed in at the beginning of starting a business, such as machinery and the labor cost of production so that it can only focus on marketing to immediately generate money. In this first year of Ducreme operated, there is no budget funds that specifically allocated to execute a business program. There is no specific percentage of profit obtained directly allocated to each business division program.

All products all manufactured by our business partners. This outsource strategy help to reduce the amount of investment needed to start this business. The maximum amount of inventory of Ducreme that able to be stored is 960 bottle due to the limited amount of cooling machine owned by startup company. Along with the increasing of brand awareness, many customers who order products via online and want to have the product delivered to their place. Ducreme employs a operational staff to deliver customer's order in Bandung city area.

#### *Existing Business-level Strategy Analysis*

The total sales during the first year of company operated was IDR 263.005.000 but only IDR 12.817.000 profit gained. Ducreme only able to get a little profit in the first year. Although the total sales looks great, the total expense is also very large when compared to total sales. From the first month of Ducreme launch its business, we can see that there is increase in sales performance. The decline of sales the last three months of 2015 is happen because of external factors that directly impact in startup performance. The Ducreme sales performance is highly dependent on reseller/distributor so that if reseller/distributor having problems then it will have a direct impact on overall company's sales performance.

Ducreme had launched six variant flavors in the first year of the company runs its business. There are three main flavors that most purchased by customers that is Green Tea, Thai Tea, and Red Velvet. Culinary exhibition contribute for 27% of total unit sales if compared to 63% from reseller/distributor, the total sales of culinary exhibition almost same as much as from reseller/distributor. This happen because the profit margin are greater due to mark up price during exhibition.

#### *Business-level Strategy Plan*

Ducreme choose to implement focused differentiation strategy in order to maximize their strength in already competitive market in the second year of Ducreme operated. Ducreme wants to develop new product in sachet package. This product will be targeted to B2B customers. This market segment is not too large compared to the mass market that has been taken by the product in bottles, but it is more profitable market segments in terms of quantity and sales turnover if startup company could established long term cooperation with the B2B customer.

The initial investment required to start this product development is estimated IDR 7 million. This amount of capital will be generated from the profit in the last year business operation. Capital budgeting of this strategy will be allocated for the purchase of powder mixer, heat sealer, and also aluminium foil sachet packaging. This amount capital needed is still only an estimation, Ducreme should conduct a survey to determine the quality of the machines required and the vendor to produce sachet packaging in affordable price.

All sachet products all manufactured by Ducreme's operational division. This internal source strategy help to reduce the expense and maximize profit that possibly generated. All material purchasing will

be taken care by startup company. The distributor selection process will take into consideration of the raw material quality and price range. The quality of product will be the main priority of this strategy.

### Conclusions and Recommendations

#### Conclusions

Based on sequence data analysis and evaluation of business process, the conclusions about this research are:

In general, startup company can grow in a market that is already competitive and the products can be accepted by customers. The little amount of profit generated during the first year of startup company runs due to the high exhibition expense and not all of culinary exhibition participated could generate profit and even significant loss.

| Profit (IDR)          |             |
|-----------------------|-------------|
| <b>Total Sales</b>    | 263.005.000 |
| <b>Total Expenses</b> | 250.187.500 |
| <b>Profit</b>         | 12.817.500  |

There are three main flavors that most purchased by customers that is Green Tea, Thai Tea, and Red Velvet. This data can be reference to how much percentage of unit production for each flavors in the following years. This data also shows that green tea is the most favorite flavor from Ducreme's bottled product.

| Flavors Unit Sold |                  |             |                   |                    |               |
|-------------------|------------------|-------------|-------------------|--------------------|---------------|
| <b>Thai Tea</b>   | <b>Green Tea</b> | <b>Taro</b> | <b>Red Velvet</b> | <b>Cheese Milk</b> | <b>Banana</b> |
| 5614              | 7294             | 4484        | 4710              | 1598               | 1338          |

The sales performance of startup company is highly dependent on reseller/distributor, so when the reseller/distributor have problems it will directly impact on company sales performance.

| Contribution Channel to Sales (IDR) |               |                   |
|-------------------------------------|---------------|-------------------|
| <b>Reseller</b>                     | <b>Direct</b> | <b>Exhibition</b> |
| 130.333.000                         | 24.272.000    | 108.400.000       |

Culinary exhibition gives a significant impact on sales even though the percentage is less than reseller/distributor. This is because a greater margin obtained from this channel due to price mark up.

| Variable           | Channel Distribution |            |             |
|--------------------|----------------------|------------|-------------|
|                    | Reseller             | Direct     | Exhibition  |
| <b>Bottle Sold</b> | 15935                | 2325       | 6778        |
| <b>Percentage</b>  | 63,64%               | 9,29%      | 27,07%      |
| <b>Sales (IDR)</b> | 130.333.000          | 24.272.000 | 108.400.000 |

## Recommendations

### *Business-level Strategy (Existing)*

Startup company should participate in more profitable culinary exhibition to gain profit and to increase brand awareness. Selective event organizers with good track record while held event in their resume.

Startup company should try another marketing methods so that do not rely only on existing channels. This recommendation to avoid decreasing in sales due to reseller/distributor problem. Startup company should increase the number of channel distribution to increase more sales. The increasing of channel distribution also increasing the chance of product to get bought by customers.

Startup company should optimize its social media because it has not been fully utilized to increase brand awareness. Every people right now connected to the social media and startup company should branding their business by using this method.

Startup company should try to increase brand awareness by using the services from selebgram (endorse).

### *Business-level Strategy (Planning)*

1. Startup company should develop a product that is acceptable to B2B market segment. This should consider quality and price level acceptance of customers, in this market customers are business (cafe/restaurant) owners.
2. Startup company should create a list of potential B2B prospects that are ready to be product sampled before product launched to the market. This method is to reduce the possibility of product rejection before its officially launched to the market.
3. Feedback generated is used to develop products to fit with the majority of the target market's preference. By knowing what market wants is one of the best strategy before launching product to the market.
4. Startup company should spread product proposals and product samples to the target market, and follow up who interested to products. This method to minimize possibility of capital loss due to market resistance with the new planned product.

| PROGRAM            | MONTH |   |   |   |   |   |
|--------------------|-------|---|---|---|---|---|
|                    | 1     | 2 | 3 | 4 | 5 | 6 |
| Packaging Design   | █     | █ | █ | █ | █ | █ |
| Product Research   | █     | █ | █ | █ | █ | █ |
| Legal Aspect       | █     | █ | █ | █ | █ | █ |
| Package Production | █     | █ | █ | █ | █ | █ |
| Spread Sample      | █     | █ | █ | █ | █ | █ |
| Feedback Analyze   | █     | █ | █ | █ | █ | █ |
| Preparation        | █     | █ | █ | █ | █ | █ |
| Launch to Market   | █     | █ | █ | █ | █ | █ |

The table above shows the program implementation timeline in 6 months. These timeline is just the plan which is could take longer time due to some undesirable things could happen in the process. From the packaging design until launch to market, estimation time needed is six months. Every program above must be completed for realization of sachet packaging product.

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