

CHAPTER I

INTRODUCTION

1.1 Background of the study

The year 2020 has turned out more challenging than people could have ever imagined, as the world plunged rapidly into a health crisis. The rapid spread of the coronavirus has directly threatened lives and health, and significantly impacted many countries, business activities and other aspects of society across the globe. The urgent and unprecedented movement restrictions imposed by many countries to slow the spread of COVID-19 led to a worldwide disruption of economies and supply chains, with social and family consequences that are still playing out. It was a very challenging and unpredictable time for many businesses, which saw market demands, sales value and volume severely impacted for most of the year. It might take years before we could see it restore to pre-COVID levels.

Entering 2021, the world is expected to gradually leave behind the pandemic crisis and begin the new year on a more solid footing. Since the beginning of 2021, the number of people vaccinated against COVID-19 continued to increase globally. This trend is expected to continue along with improve vaccine availability and distribution. The world saw increasing market confidence, even if the future remained riddled with uncertainty.

Indonesia's recovery has been relatively gradual until the first quarter of 2021 but has accelerated more recently. Indonesia's recovery gap difference between real GDP and its pre-crisis trend is narrowed from -7.5 to -7.1 percent between Q2 and Q4 2020. By comparison, the average 'recovery gap' among regional and G20 peers shrank from -13.6 to -5.1 percent. The recovery gap remained elevated at -7.9 percent during the first quarter this year. Consumption and investment growth have been subdued due to the still weak labor market and high uncertainty while trade has recovered more strongly. The recovery gap in contactintensive services sectors,

such as transport and accommodation, has also been elevated compared to manufacturing industries due to social distancing and stronger external demand in manufacturing. But retail sales increased by 11 percent between March and April while the manufacturing continued to expand suggesting a stronger rebound during the second quarter (World Bank, 2021).

Table 1. The Recovery is Projected to Strengthen but Uncertainty Remains Exceptionally High

| | | 2019 | 2020 | 2021 | 2022 | 2023 |
|-------------------------------------|-------------------------|------|------|------|------|------|
| Real GDP growth | (Annual percent change) | 5.0 | -2.1 | 4.4 | 5.0 | 5.1 |
| Inflation | Percent | 2.8 | 2.0 | 2.3 | 2.8 | 3.2 |
| Current account balance | (Percent of GDP) | -2.7 | -0.4 | -1.5 | -1.8 | -2.0 |
| Fiscal balance^(a) | (Percent of GDP) | -2.2 | -6.2 | -5.4 | -4.1 | -3.0 |
| Public debt | (Percent of GDP) | 30.2 | 39.4 | 41.2 | 42.6 | 43.0 |

Source: BI; Central Bureau of Statistics (BPS); Ministry of Finance; World Bank staff calculations; ^(a) 2020 is based on unaudited accounts.



The economy is expected to start rebounding in 2021 and to gradually strengthen in 2022. Growth is projected to reach 4.4 percent in 2021 driven by a base effect and a gradual improvement in domestic demand, and positive spillovers from a stronger global economy. On the domestic front, this is predicated on containing the pandemic and a gradual strengthening in labor market conditions. On the external front, the US fiscal stimulus package would have positive spillovers on global growth and Indonesia's export commodity prices. Growth could accelerate to 5.0 percent in 2022 driven by reduced uncertainty and improved confidence provided that the vaccine rollout reaches a critical mass of the population starting in the fourth quarter of 2021 (World Bank, 2021).

KLBF, as one of the largest pharmaceutical companies in Indonesia, was also affected by the pandemic. During the year 2020, the Prescription Pharmaceuticals Division had to endure weakening demands, as hospitals nationwide experienced a drop in the number of non-critical patient visits for fear of virus infection. In 2020, the Prescription Pharmaceuticals Division experienced a 3.5% drop in net sales, from Rp5,166 billion in 2019 to Rp4,984 billion in 2020 and contributing 21.6% to Kalbe's total net sales. The lower net sales performance was mainly attributed to a nationwide decline in number of patient visits to hospital facilities during 2020.

Non COVID 19 patients that need non-critical treatments prefer to postpone their hospital visits for fear of coronavirus infection. In addition, the implementation of large-scale mobility restrictions in some regions also discouraged non-critical patients away from hospital visits (Kalbe Farma, 2020).

On the other hand, Consumer Health Division registered Rp3,633 billion net sales, growing by 4.7% from Rp3,471 billion achieved a year ago and contributing 15.7% of the Company’s consolidated net sales. This performance was supported by strong demands for supplements, multivitamins, as well as preventive and herbal-based products, as consumers sought to boost their immunity during the pandemic.

Table 2. Sales Growth from Prescription and Consumer Health Division

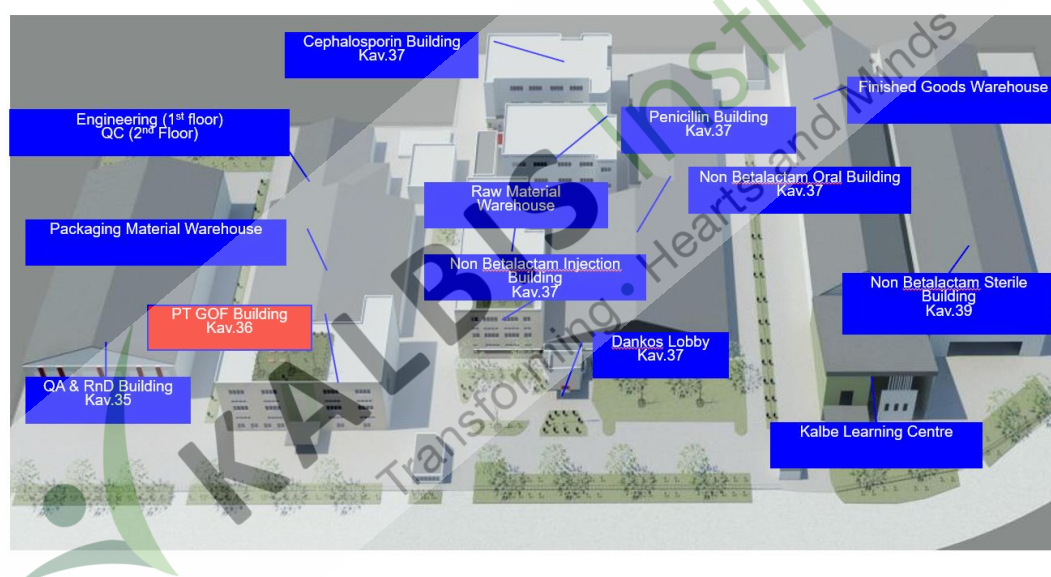
| Prescription Division | Consumer Health Division |
|--|--|
|  <p>Rp4,984 billion Penjualan Bersih Net Sales</p> <p>-3.5% Pertumbuhan Growth</p> <p>21.6% Kontribusi terhadap total penjualan bersih Perseroan Contribution to Company's Total Net Sales</p> |  <p>Rp3,633 billion Penjualan Bersih Net Sales</p> <p>4.7% Pertumbuhan Growth</p> <p>15.7% Kontribusi terhadap total penjualan bersih Perseroan Contribution to Company's Total Net Sales</p> |

Demands for preventive products, as well as supplements and herbal products are expected to remain robust, along with the public’s growing awareness on their health and wellbeing. The COVID-19 pandemic in some way helps accelerating the sales growth of the Consumer Health Division’s product portfolio. In response to this positive trend, this Division long term’s strategy is to expand its product portfolio and continue to focus on its preventive products, health beverage, as well as supplement and herbal products (Kalbe Farma, 2020).

Until 2021, KLBF consumer health products are manufactured through a number of production facilities. Some OTC products share production plants with the Prescription Pharmaceuticals Division, given that these products share the same manufacturing technology. The main factories producing OTC products are KLBF, HJ (both are located in Cikarang, West Java), and DF (Jakarta).

DF is located in Pulogadung Industrial Estate, East Jakarta. It has 3.8 Ha land area with 2.9 Ha building area. Its main production facilities are divided into 5 buildings based on its product category: Non Betalactam Oral, Non Betalactam Injection Kav.37 and Kav. 39, Penicillin, Cephalosporin, and Oncology Kav.36.

Picture 1. DF Manufacturing Facilities



At the end of 2019, top management determined that the Oncology facility was converted into a company named PT. GOF, specialized in oncology products. Then the production of two backbone products in Non Betalactam Oral building: Mixagrip and Fatigon was transferred from DF to SF factories in Deltamas, Cikarang. This situation had a significant loss effect for DF.

The author works as a formulation scientist in R&D Department in DF. He realizes that the replacement of the oncology products and 2 backbone products must be prepared. It is never easy and has a high risk of finding new idea as a solution to a problem, but not trying to find and idea has a much greater risk. In

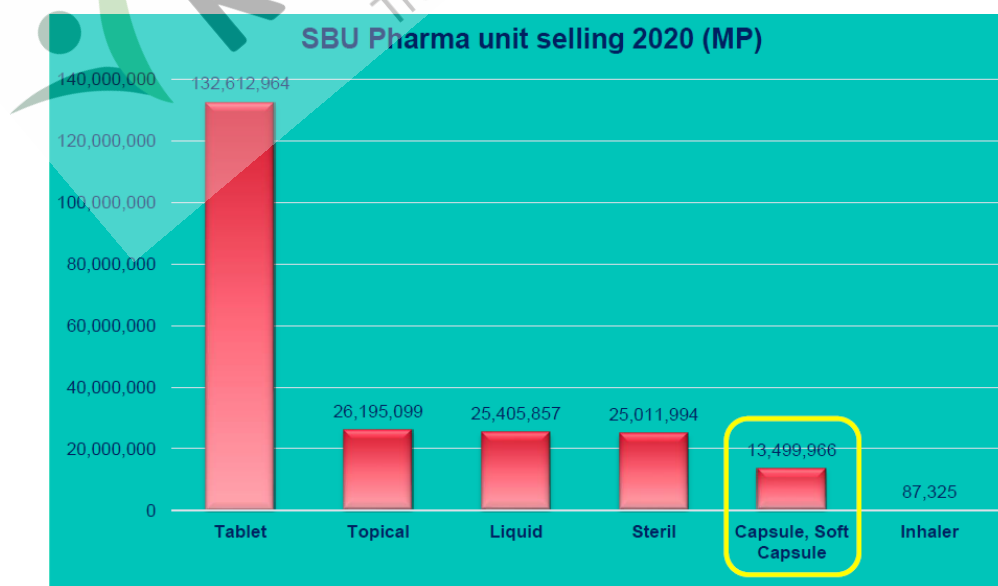
order to deal with this situation, the author tries to find a production line that has the potential to grow in the future.

Based on the fact that consumer health division long term's strategy is to expand its product portfolio and continue to focus on its preventive products, health beverage, as well as supplement and herbal products, the author sees an opportunity to reduce the impact of losses DF has experienced by exploiting the production line which has the capability to produce OTC and supplement products.

Table 3. Annual Production Capacity for Health Supplement in KLBF Group

| No. | Sediaan Type | Satuan Unit | Kapasitas per Tahun Annual Production Capacity | |
|-----|---|-----------------------------|--|---------|
| | | | 2020 | 2019 |
| 1. | Serbuk Effervescent Effervescent Powder | Ton Ton | 55,000 | 20,000 |
| 2. | Bubuk Powder | Juta Sachet Million Sachets | 1,108 | 1,108 |
| 3. | Cairan Liquid | Juta Liter Million Liters | 9 | 20 |
| 4. | Tablet Tablet | Juta Million | 1,200 | 1,200 |
| 5. | Permen Hard Candy | Juta Tablet Million Tablet | 460,800 | 460,800 |
| 6. | Kapsul Capsule | Juta Million | 168 | 168 |
| 7. | Kapsul Lunak Soft Capsule | Juta Million | 59 | 59 |
| 8. | Suplemen Kesehatan Health Supplement | Juta Million | 980 | 980 |

Table 4. Strategic Business Unit Pharma Unit Selling 2020



Attention is focused on the soft capsule production line in Non Betalactam Oral building. As we all know, soft capsule is well known as fish oil supplements, multivitamins, and herbal extracts. These products are currently needed much and have a good prospect in the future. The soft capsule production line in DF is very unique because it is the one and only in KLBF group. It is also the smallest production line in DF with only 3 products. Based on annual report data 2020, it is stated that the annual production capacity for soft capsule dosage form is 59 million units, but in 2020, only 13.5 million units were produced in house, the rest were coming from toll out and import. The in house capacity is very limited because the machine is basically a small scale machine and has been in use since 1990.

The challenge here is how DF can exploit the soft capsule line from the smallest contributor to become a promising new source of income in the future. The purpose of this study is to assess the prospect of soft capsule product in the future, reformulate the business strategy considering the external factors and internal capability, followed by the new business model proposal that DF can implement in order to face the opportunity in consumer health market, which is in line with top management expectation.

1.2 Problem Statement

Based on the background described above, the author can identify the following problems :

1. There is a huge internal challenge since the loss of two pareto products and DF has not yet found a prospective replacement products.
2. There are big external challenges and opportunities for pharmaceutical companies in the era of covid 19 pandemic, with the increasing public interest in supplements. Soft capsule is one of the most popular dosage form for health supplements, unfortunately soft capsule is the smallest production line in DF and has only two products.
3. DF has not evaluated whether the current soft capsule business model is still relevant to the latest internal and external conditions.

1.3 Research Questions

Based on problem identification stated above, the research questions are:

1. How to evaluate DF's internal environment and to reveal its strengths as well as weaknesses?
2. How to evaluate DF's external environment and to reveal its opportunities and threats?
3. How to formulate new strategies and propose new business model in soft capsule area based on internal and external evaluation?

1.4 The Scope of Research

This research is limited to:

1. Area focus: Consumer health (OTC) products. This sector witnesses soaring demands for vitamin and health supplement products, as customers across the nation seek ways to boost their immune system to stay healthy.
2. All related aspects to manufacturing activities of Non Betalactam building, DF plant, Pulogadung Industrial Estate, East Jakarta and the involvement of other KLBF subsidiary related to vitamin and health supplement products.

1.5 Research Purposes

Based on research questions above, the research purposes are:

1. Evaluate DF's internal environment and reveal its strengths as well as weaknesses.
2. Evaluate DF's external environment and reveal its opportunities and threats.
3. Formulate new strategies and propose new business model in soft capsule area based on internal and external evaluation.

1.6 Benefit of Research

The benefits of this research are:

1. For the author:

Through this study, the author can practice analytical and strategic skills that align company's vision. By making everyone involved in this project aware of company's goals, how and why the author chose those goals, and what the team can do to help reach them, the author hopes he can create an increased sense of responsibility throughout organization.

2. For PT. DF

The result of this study can be a reference for companies to see market growth opportunities and the strategic plans needed to get there. Besides being useful for PT. DF, the results of this study are also expected to be useful for other strategic business units in KLBF group.

3. For Kalbis Institute

This research can be a real example of the application of strategic management courses in industry, and how strategic management is the basic knowledge for innovators in the world of business before designing new business models for their companies.

1.7 Writing System

The systematics of writing in this thesis are as follows

➤ **CHAPTER I: INTRODUCTION**

This chapter contains background of the study, problem identification, research questions, the scope of research, research purposes, benefit of research, and writing systems.

➤ **CHAPTER II: THEORETICAL REVIEW**

This chapter contains the study of the theory used in connection with the research carried out in compiling this thesis.

➤ **CHAPTER III: RESEARCH METHOD**

This chapter contains about how the author conducts research in compiling this thesis.

➤ **CHAPTER IV: RESEARCH RESULT AND DISCUSSION**

This chapter contains the analysis and discussion of the research conducted by the author.

➤ **CHAPTER V: CONCLUSION AND SUGGESTION**

This chapter contains conclusions on the result of the study along with suggestions to provide benefits for readers.

