

THE VALUE CHAIN ANALYSIS OF COFFEE PRODUCTION AT PT. FORTUNA INTI ALAM

ANALISA RANTAI NILAI PADA PRODUKSI KOPI DI PT.FORTUNA INTI ALAM

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Abstract: Value-chain business activities are divided into primary activities and secondary activities. And from those activities, companies build a competitive strategy for improving product or services. This research aims to analyze the value chain in a coffee factory. The purpose of this study is to analyze the implementation of the value chain in the coffee factory at PT. Fortuna Inti Alam. This research uses qualitative research that explores theories from several journals, articles, books and previous research. So, the type of this research is descriptive research and it describes or explains the two categories of the value chain inside. The result of this thesis regarding of PT. Fortuna Inti Alam is found the lack in several activities inside the company. From primary activities are the marketing & sales, inbound logistics and service. While in Support activities are the technology development and HRM. But in the other way technology development is also have an advantage and following with the rest of several activities inside. The recommendation for the company is about improving several activities that still lack and need an improvement to maximize company's performance

Keyword: *value chain analysis, factory, support activity, primary activity*

Abstrak: *Aktivitas bisnis rantai nilai dibagi menjadi aktivitas utama dan aktivitas sekunder/pendukung. Dari kegiatan tersebut, perusahaan membangun strategi kompetitif untuk meningkatkan produk atau layanan. Penelitian ini bertujuan untuk menganalisis rantai nilai di sebuah pabrik kopi. Tujuan penelitian ini adalah untuk menganalisis penerapan rantai nilai pada pabrik kopi di PT. Fortuna Inti Alam. Penelitian ini menggunakan penelitian kualitatif yang mengeksplorasi teori-teori dari beberapa jurnal, artikel, buku dan penelitian sebelumnya. Jenis penelitian ini adalah penelitian deskriptif dan menjelaskan atau menggambarkan dua kategori rantai nilai yang merupakan kegiatan utama dan kegiatan pendukung di dalam pabrik. Hasil penelitian pada PT. Fortuna Inti Alam adalah ditemukannya kekurangan dalam beberapa aktivitas bisnis. Dari aktivitas utama adalah pemasaran dan penjualan, logistik masuk dan layanan. Aktivitas pendukung adalah pengembangan teknologi dan HRM. Namun di sisi lain perkembangan teknologi di perusahaan ini juga memiliki kelebihan dan diikuti dengan beberapa aktivitas di dalamnya untuk membantu dalam meningkatkan produk dan kualitas kegiatan. Rekomendasi untuk perusahaan adalah tentang meningkatkan beberapa kegiatan yang masih kurang dan perlu perbaikan untuk memaksimalkan kinerja perusahaan.*

Kata Kunci: *rantai nilai, pabrik, aktivitas pendukung, aktivitas utama*

INTRODUCTION

Research Background

Coffee is a popular drink worldwide. It is estimated that over 2.25 billion cups of coffee consumed globally each day (Ponte, 2002). Currently, coffee industry is truly globally. It is the second of the most important commodity in global market after oil. That is produced approximately in 50 countries such as in Latin America, Africa, and Asia. Meanwhile, Indonesia's position in coffee production is the world fourth-largest producer after Brazil, Vietnam, and Columbia also Indonesia as the seventh country in coffee consumption according to International Coffee Organization / ICO, (2017). Indonesia also included as top 10 coffee growing countries in Coffee Fair, (2009) that has been distinguished under four regions: Africa, North and Central America, South America, Asia and Oceania regions. Across these regions, Brazil, Columbia, Indonesia, Vietnam, Mexico, Ethiopia, India, Guatemala, Cote de Ivory and Uganda.

In Indonesia, North Sulawesi is chosen as one of city that has a great potency in producing coffee and increasing the quality. There are five of coffee producing regions, such as Bolaang Mongondow District, East Bolaang Mongondow Regency, Kotamobagu City, South Minahasa Regency, and Southeast Minahasa District.. From the results of the production achievement, Bolaang Mongondow was ranked as the first producer in North Sulawesi. In 2012 production in North Sulawesi reached 3,178.93 tons with a production area of 8,239.37 hectares (Ditjenbun, 2013) and Bolaang Mongondow still in the first place as the biggest coffee producer.

To every taste that coffee produced is depended on how the farmer and the firm manage the processing of coffee beans itself. For all these activities, if it is improperly performed then its quality would critically be affected. The small things in those activities also can be strengthen to the way to compete with other industries. The strong competition in coffee business implicated to the players to pay attention in every value chain in every step of production. The chain in industry involves forward integration with transportation and packaging industry, to supply the finished products to the retailers and finally to the customers.

Value-chain business activities are divided into primary activities and secondary activities. The primary activities are directly related to the creation of a good or service, while the support activities help in enhancing the efficiency and work to obtain a competitive advantage among peers. Value chain directly gets involve since the raw-material either form local or foreign source reaches to the manufacture setup. A closely-aligned of value chain that contains linked players such as farmer(s), processor(s), distributor(s), and retailer(s).

One of the companies that utilize coffee beans from North Sulawesi until right now continues competing with other industry of coffee is PT. Fortuna Inti Alam. This company is one of the third companies that compete in coffee production in North Sulawesi. Yet, this becomes the right choices to be an object of research, as well as studying of how their value chain strategy works and how their control the activities. The analysis will start from how the coffee processing/ the raw material process, into distributor and retailer. Therefore, this research is entitle "*The Value Chain Analysis of Coffee Production at PT. Fortuna Inti Alam*"

Research Objectives

The objective of this research is to analyze the value chain activities of coffee processing in PT. Fortuna Inti Alam.

THEORETICAL FRAMEWORK

Value Chain

Porter (1985), observes that a firm must have a competitive strategy if it must maintain its performance and going concern and it must also establish a profitable and sustainable position against forces that determine industry competition. According to Nazir, *et al* (2015), the value chain as a business model that enables the organization of operational activities around the value adding activities that result in a better service or product, then relates them to an analysis of the competitive strength of the organization.

Value Chain Analysis

Value chain is needed in organizations because it is to improve every activity by analyzing and exploring every chain inside before its meet the needs of customers. According to Hill, Jones, and schilling (2014), the term value chain refers to the concept that a company's chain of activities for transforming inputs into outputs with purpose to deliver value to the customer. According to Rushton, Croucher, and Baker (2009),

the value chain analysis (VCA) provides a rational and systematic framework to describe and evaluate the role and relationship of people and organizations.

Value Chain Activities

Value chain is the sequential set of primary and support activities and has connectivity between each other to formulate a competitive strategy to build a result such as a great performs of goods to the customer. According to Lynch (2003), the value chain analysis essentially entails the linkage of two areas. Firstly, the value chain links the value of the organizations' activities with its main functional parts. Then the assessment of the contribution of each part in the overall added value of the business is made. UNIDO (2009), believe that a value chain describes the entire range of activities undertaken to bring a product from the initial input-supply stage, through various phases of processing, to its final market destination, and it includes its disposal after use. To them, value chains encompass activities that take place at the farm or rural level, including input supply, and continue through handling, processing, storage, packaging, and distribution.

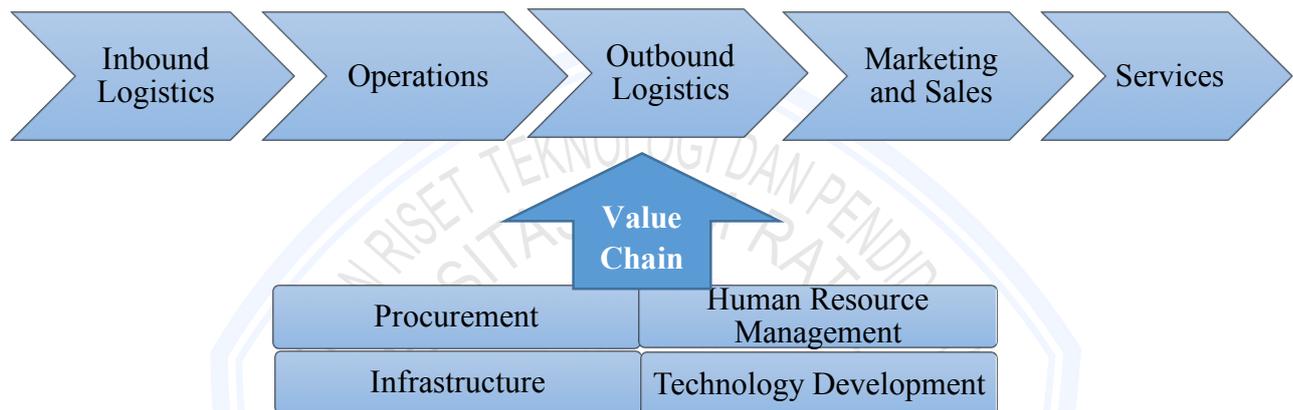


Figure 1. Concept of Porter Value Chain

Source: Michael Porter's framework (1985)

Previous Research

Acharyulu, Subbaiah, and Rao (2015), this research aims to describe the value chain activity in steel manufactory in India. The generic value chain model developed by Porter is extended to a steel manufacturing sector due to expansions of steel plants has become a continual process for their growth and survival. Also, this research can be used as stepping stone for developing the value chains for other sectors. In this paper a value chain model for steel manufacturing sector is developed considering five primary activities and six support activities. This can be extended to identifying critical activities of proposed value chain model for steel manufacturing sector and evaluating its overall assessment.

Bashir and Lahore (2014), this paper highlights the important aspects of soap value chain in which value addition takes place in every step. Moreover, the issues are also highlighted along with the solutions of these issues currently facing by the soap industry of Faisalabad, Pakistan. The data is obtained through 26 personal interviews by the researcher with the owner of the firms which include micro, small, medium and large setups of soap manufacturing with different product line. The major importance of getting the know-how of the soap manufacturing value chain is to highlight the issues faced by the soap firms in achieving ideal level of quality which equally competes with the multi-nationals products and become aware of the constraints from the grass- root level of raw material purchasing to transforming it into highly quality finished products for the customers.

Wullur (2016), Saerang *et al* (2018) Aren (*Arrenga pinnata* Merr) is one of the palm families that has high economic value and thrives in tropical regions such as Indonesia, Thailand, the Philippines and other neighboring tropical regions. Aren cultivated from the sap is processed to produce brown sugar that has a very broad international market. The purpose of this study is to identify the value chain of brown sugar in Tomohon with a case study on Nira farmers. The analysis obtained, indicated that: (1) the flow of brown sugar's value chain generally involves three main contributors, namely the farmer/processor-trader consumer. (2) The value chain of brown sugar is divided into two main activities; with the first activity consisting of incoming logistics, operations, logistics exit (output), and marketing of brown sugar. And secondly, activities based on the

infrastructure of brown sugar production, human resource development, technology development, and procurement. (3) From the SWOT analysis, brown sugar business is able to survive the long term although there is more need for development.

Conceptual Framework

The conceptual framework is a comprehensive understanding about this research. The figure shows about value chain activities that consist into two parts which is Primary activities and Support activities inside of PT. Fortuna Inti Alam.

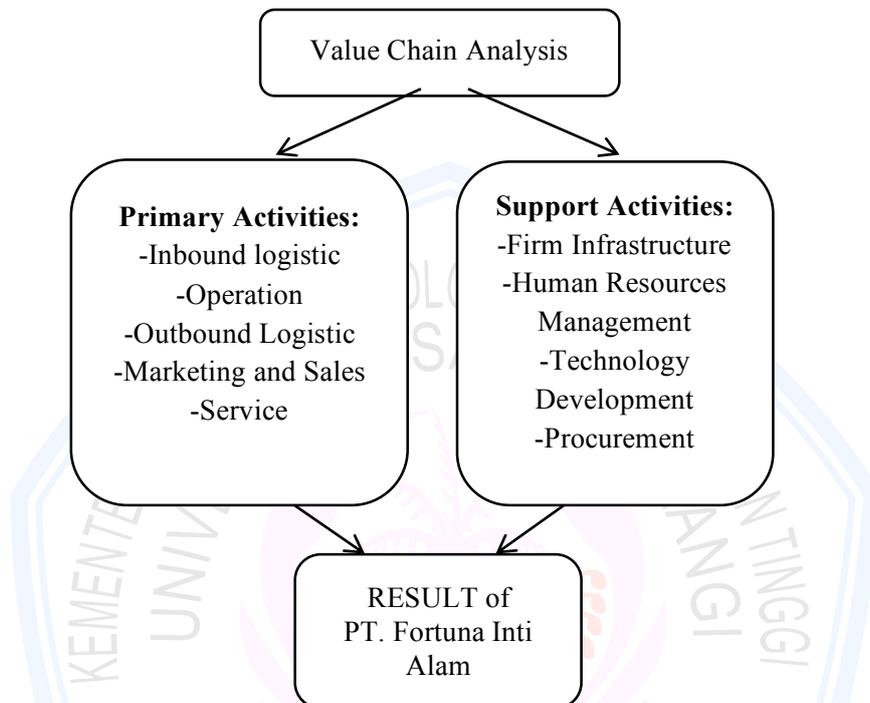


Figure 2. Conceptual Framework

Source: Processes data (2018)

RESEARCH METHOD

Research Approach

This research is qualitative research methodology that is to analyze the value chain activities in PT. Fortuna Inti Alam. According to Sekaran and Bougie (2009), the purpose of qualitative research is to gain a deep understanding, knowing the comprehension of others and can assess how people organize and give meaning to everyday life. This research use case study approach because this research will be analyzed the activities in a manufacture and collecting the information through interviewing the employees, or individual that working in that manufacture. The type of this research is descriptive method, which according to Sekaran and Bougie (2010:105) a descriptive study is undertaken in order to ascertain and be able to describe the characteristics of the variables of interest in any situation.

Population, Sample and Sampling Technique

According to Spradley in Sugiyono (2007), in qualitative research there is no population term but only social situation, which consists of three elements: place, actors and activity. The social situation of this research is the employees of PT. Fortuna Inti Alam. This research will be using sampling techniques which is purposive sampling in order to conduct the interview. According to Cresswell and Plano Clark, (2011) and Tulung *et al* (2018) this sampling technique identifying and selecting individuals or groups of individuals that are especially knowledgeable about experienced with a phenomenon of interest.

Data Collection Method

The data used in this research consist of two types of data, which is primary and secondary data. Primary data are gained from in-depth interview and observation and from secondary data are taken from several books, journals, and previous research.

Operational Definition of Research Variables

There are two main variables that consist of nine indicators, which is Primary Activities (Inbound Logistic, Operation, Outbound Logistic, Marketing and sales, Service), Support Activities (Procurement, Technology Development, Firm Infrastructure, Human Resource Management).

Instrument Testing

The instrument testing are the tools that the researchers prepare for measurement while conducting the research. The key instrument of this research is the researcher itself. The researcher was under supervision and has good understanding about the aspects of this research. The researcher was equipped with a note book, recorder, and camera in order to conduct interviews also the observation.

Data Analysis Method, Validity and Reliability

The data analysis method in this research is a guide in the process of analyzing data to find the final result of the research. According to Hair (2007), there are generally steps in qualitative data analysis: Data Collection, data reduction, data display, drawing and verifying conclusion. Test the validity of data in research is often only emphasized on the validity and reliability test. The approaches of this qualitative research are validation as investigation, as communication, and as action.

RESULT AND DISCUSSION

Result

The respondent of this research is the finance manager in PT. Fortuna Inti Alam. Mrs. Selvie already works since 1995 and still occupies the same position until now. Mrs. Selvie has been appointed by the company in handling students for doing research because she is the employee that has been working since the beginning, so Mrs. Selvie already know about every activity inside of it.

PT. Fortuna Inti Alam has become a coffee factory since 1995. The coffee beans itself are bought from a coffee farmer which is from Modayag, Kotamobagu. And this company only engaged with the same supplier. This supplier always knew what kind of beans that this company's want. For example, like it has been sorted first by the farmer which coffee beans that company needs and because of a good relation that builds since a long time ago, this company always received the coffee beans with a high quality. About the purchasing of raw materials, in delivery process to the manufacture is not according to the scheduled that set in every week but it comes from the request by company itself when the supplier should bring it. And regarding of the price for coffee beans approximately around 20,000/kg.

For every time of delivering, there is a transportation fee requested by the agent and all payments will be paid to the supplier after got the result of weighing. Because when it arrives the coffee beans must to weighing again by the company for follow the procedure of checking. So, when the goods arrive at the processing room, the company will re-check and start to continue the next procedure of production process such as roasted with a roasting machine coffee bean and next it is grinded in a grinding machine which is called as *Gothot machine*. Those machines are running with electric-powered and for the grinder itself has a capacity until 600kg for every grinding.

After processing the coffee beans into ground coffee, the next procedure is packaged in several sizes which are 20 grams, 30 grams, 60 grams, 500 grams to 1 kg. The packaging itself has two types, the one is aluminum foil pouch and the second one is packaged with transparent plastic. It divided in two different packaging because PT. Fortuna Inti Alam releases 3 types of coffee powder namely Formula 1, Fortuna, Fortorang. Between of these three products only Fortuna using different packaging which is used aluminum foil pouch. For the packing area, there is also an automatic packing machine to make it easier for workers. After being wrapped in the package it is immediately packed into the box and then stored in the warehouse of finished goods to be ready for market. Usually the product is not taking too long inside the warehouse because mostly it is directly taken by the salesman to be directly marketed.

The products are marketed in several places from small kiosks such as stalls, and then to the shops or supermarkets. Regarding of distribution outside of Manado, the products from this company also has been sold in parts of North Maluku, Gorontalo and Balikpapan. The shipping is carried out using sea transportation/ ship.

Even though this company has been produced since 90's but only several people and probably only who is closest in that company's area or whoever purchased that know about the product. This is because marketing management inside has not used the current method of advertising.

About the workers, there are 11 people that take a part in roasting, grinding, and packing and for the controller itself is not separated by sector. So anyone who are works in the office can also be the controller. In PT. Fortuna Inti Alam there are 5 people in office but 1 is the owner and 4 are the employees starting from the manager, finance manager, sales manager, HRD, and production manager. These people in the office can control the processing production. For the workers itself this company follows the labor regulation that has been set by the government.

Value Chain Analysis

Value chain analysis is a tool to analyze activities process inside a company. Value chain itself is a range of activities that linkages each other start from the processes of the companies create a valuable product from input until it ready to be delivered to the customer. By analyzing the value chain, companies can build a strategy tool to improve the activities and provide the competitive advantage in advance. Value chain separates into 9 activities and split into two categories which are Primary activities and Support Activities.

Primary Activities

1. Inbound Logistics: Receive from coffee farmer, storing, and then distribute it.

Raw material handling:

- a) Bought from coffee farmer
- b) The farmer carried directly with their transportation to the manufacture
- c) The coffee beans are stored in the dry warehouse to keep the quality of beans before it being processed
- d) Supplier:

There is no schedule in deliver the goods but it is from the request by when the company is needed.

2. Operation: Transforming the product from input until to the final process of product.

Process of production

- a) First step of processing the coffee beans is roasted with roasting machines
- b) Next process is grinding with *Gothot* machine
- c) And then it becomes ground coffee that ready to be packing

Packaging

- d) Used two types of packaging, Aluminum foil pouch and transparent plastic
- e) Used automatic packing machines in wrapping
- f) Separated into several sizes 12.5 gram, 20 gram, 30 gram, 40 gram, 80gram until 1kg
- g) For Fortuna it is only available in 30 gram and packing with aluminum foil pouch
- h) Formula 1 and Fortorang available in many choices of sizes and packing with transparent plastic
- i) Packed into the box

3. Outbound Logistic: Activities after processed the coffee beans.

Collecting after processed

- a) After package, put the product to the finished good warehouse
- b) The distribution inside is done by salesman
- c) Schedule of distribution
- d) There is no schedule, after packing it is directly distributing to the several markets.

4. Marketing and Sales: How the company marketing the product to the customer

Promoting the product

- a) Marketing
By the salesman when comes directly in several markets
- b) Pricing
Retail price determined by the company first, and furthermore will be adjusted by the market's seller

5. Service: How to maintain a good relation also enhance corporate image

- a) For the customer

- Gives disc for purchases in dozen
- Claiming problems through the salesman

Support Activities

1. Firm Infrastructure: About company organizational structure and department inside

- a) Consist of five divisions:
General Manager, finance manager, sales manager, HRD, production
- b) The division is under controlled by the owner

2. Human Research Management: involves employee selection such as the recruitment, motivation, development

- a) Welfare for employee:
BPJS, Labor warranty, THR,
- b) Provides regular training or skills training to improve performance of employee

3. Technology Development: involves the use of technology to processes the goods

- a) Used great technology with electricity power: Gothot machine for grinding, 2 roasted machine, automatic packing machine
- b) There is no technology development inside the company, only use existing machines for production tools

4. Procurement: Purchasing the raw material

- a) For raw material,
The factory builds a relation with one supplier that is from Modayag, Kotamobagu

Implication of Research Result

Supporting Activities:

Firm Infrastructure

There are 5 people inside of the management in PT. Fortuna Inti Alam and one of them is the owner of company and for the structure inside the position of owner as the commissioner. About the organizational structure in this company consist of commissioner, General Manager, finance manager, sales manager, HRD, and Production manager.

For the general manager is handled of 2 positions and the one as production manager. All of divisions inside are under controlled by the owner. And regarding of the reports it is directly inform to the owner starting from finances until the production section. However for some basic activities in the factory can be controlled by all of divisions, it is because the employee inside have worked since the beginning. And for the several activities is about the controlling of raw materials when arriving at the factory, and also controlling activities during the production process. For this section most of the activity of firm infrastructure has followed the standard of a company's organizational because had division of each activity inside. But for more detailed it might be found any lack in several divisions.

Human Resource Management

The recruitment system in this company it is directly handled by HR department. There are no specific standard for applicants, such as the level of education, because after being receipt there is some regular training or skills training with the aim for developing the quality of the employees inside. Usually those who apply the applicants are the labor or local society around the factory that wants to get a job. Except for the part of management, there's still no acceptance because until this time those who work in the office are the same people who have worked since the beginning. About applying for a job still through manual system which is bring it directly to the office, Actually this company still need to have several standards for the applicants and may require several new employees in the office, because it might be able to bring a change in the future for the company.

Technology Development

Technology development is performed to either reduce the cost of a product, particularly through process improvements or to raise the commendable price by improving the adaptation of the product to buyer purchasing criteria. Technology development also relates to anything in regards to invention or innovations.

In PT. Fortuna Inti Alam there is still no innovation or invention inside. Also for several basic activities are still do in manually or traditionally. But for the adaptation as what any big factories usually do is this company has own also uses an advanced technology in the core processes as to improving the production process inside.

Procurement

Procurement is concerned with acquiring (procuring) and involves the process of selecting, establishing payment terms, and negotiation of contracts. PT. Fortuna Inti Alam cooperating with supplier from Kotamobagu and has been work with supplier since a long time. So, the good relation between other is helping in gives a great service by supplier in fulfilling the company's need. Because none of suppliers wants to lose their customers, it will cause a decrease in income for them and vice versa to the company because must look for the new supplier with a good quality of coffee beans and do an agreement about price again.

Primary Activity:

Inbound Logistics

Inbound logistics is the activities that start from transporting the raw material, receiving until of how the storage of the incoming goods. In terms of delivery, the raw materials to the company it does not have any schedule; it is according to the request by the company itself. The raw material is carried out by the suppliers and using their vehicles. For the receiving process is under controlled by anyone in the office. So, when the beans arrive it is directly put into dry warehouse to immediately do the weighing process. Sorted itself already do it by the supplier, and the company only re-checking. After transaction and payment are complete the coffee beans are stored in that dry warehouses and will be processed on the day or probably the next day. In this section there is no problem with the process of receiving or storing because company does it with the company's procedure.

Operation

Production operation is the activities before selling the product. The several step of processing the coffee beans are start from the raw material that processes by machines inside the manufacture. When the beans have been checked, the next thing to do is roasting, for roasting itself there are two machines that used by company. After roasted, put the coffee beans into a grinding machine that has a capacity until 600kg for every grinding. After the coffee becomes powder, the next thing that is separated according to the size of the packaging. One of the three types of coffee it given a different taste and also different in packaging which is using aluminum foil pouch. And the other two types of products are packaged using the transparent plastic. After all the products being package and then put into the boxes. Regarding of the activities inside, the company has followed according to the processes procedure of the company.

Outbound Logistic

Most of several activities in Outbound logistic are about how the distributions inside. The focus of this one is to manage finished goods distribution in a way to meets customer. Distribution management involves order processing, material control and warehousing.

In this company, after production process is complete and packing activity also complete the next is the products are stored in the finished goods warehouse. Usually after being packaged, the product is immediately marketed. For the distribution it is carried out by salesmen. There is no schedule for distribution because it is do it after completion of packing activity or the next day. For distribution outside of Manado, the delivery is by ship. Regarding for this section ordering process or request product only can through the salesmen. So, customers need to wait for another day of distribution for ordering.

Marketing and Sales

The first regional sales of PT. Fortuna Inti Alam are only Bitung and Minahasa. And over the time the company had reached until several rim land, such as Bacan that is located in Maluku Utara. But this time, the product has been sold until Gorontalo and Balikpapan. Regarding of the marketing activities in PT. Fortuna Inti Alam mostly it's through salesmen, and several just through exhibitions that organized by government.

Actually this company runs the factory since 90's but until right now not many people know it. It because is still lacked in marketing and also because company hasn't used the current of advertising method.

Service

One of the things that some company should do to keep their customer still re-purchases the product is with the service that provides by company. Services that gives by PT. Fortuna Inti Alam to the customer is a disc if the customer purchases in dozen. Regarding for the claiming, it can only through the salesman and it will be notified to the company. So as soon as possible the company will be tried to fix it.

In this section, probably the company still lack in reaching the costumer because it is only use one way to communicate with the customer.

CONCLUSION AND RECOMMENDATION

Conclusion

Based on the result and discussion about the nine activities of value chain from the previous chapter it can be concluded some points which are:

1. Primary activities: There are three activities that still need more improvement.
 - a.) Marketing and sales; not many people know about the product also rare to find, it is because the lack of marketing inside.
 - b.)Service; For claiming something can only through the salesman, there is not provide yet any other service option
 - c.) Outbound Logistic; Order product can only through the salesman. Customers need to wait for another day of distribution for ordering.
2. Supporting activities: These two activities also need more improvement
 - a.) Human Resource Management; There is no standard for the applicants and never open recruitment for the part of management, it is only for labor. Applying for a job still through manual system which is bringing it directly to the office.
 - b.)Technology Development; Several activities still do in manually and there is still no any innovation or invention. But there is an advantage inside of technology development that is considered as one of important source of the competitive strategy.

For Firm Infrastructure, procurement, operation and inbound logistic are activities that have been implemented quite well, because if the company has many shortcomings inside it will hardship in competing with other companies that always improving to have good performance.

Recommendation

For PT. Fortuna Inti Alam

- a. For looking the new labor or employee company should uses the other channels, such as newspapers or website, not only bring directly to the office, also it will be good if company open recruitment to give a chance for one or two people as a part of the management inside because it might be able to bring a change in the future for the company.
- b. Company also should give a standard for recruiting the new applicants, so that anyone who wants to work will prepare themselves in all ways for entering the world of work.
- c. For marketing activity, company need to make something like an official website as a way to approach the customer or for prospective buyers. Because websites is one of the alternative that can attract and also to give knowledge about product to customer that wants to know more about the company and until product, and any offering itself. It will be improved the performance of marketing inside.
- d. Company should provide a service call to catch customer in order to fulfill what the wants, needs or problems with the product because if do it in one way like usually is not really effective.
- e. For technology development, it will be good if company can collaborate with the technicians inside to develop a technology that can more enhance the productivity in ahead.

For Universities

To give some information or knowledge for the students, lecturer and other parties in university regarding of the value chain analysis in a factory.

For the future researcher

This research can be useful as a reference, and for subsequent research it will be good if can also do research in a big manufacture to analyse activity in detailed in order to gain more various result.

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