CORPORATE LEVEL STRATEGY PT. KALBE FARMA, TBK

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Abstract

A corporate level strategy is expected to help the firm earn above average returns by creating value. Some suggest that few corporate level strategies actually create value. The financial crisis, which blossomed from the United States into a global economic crisis, was a novel challenge faced by Kalbe in 2010. A combination of declining consumer purchasing power against escalating prices of raw materials, packaging, distribution costs (as the result of high oil prices), chemical substances and other commodities, and exacerbated by the depreciation of the Indonesian Rupiah from October 2010 – all this ultimately resulting in a compression in Kalbe's gross margin, from 50.7% in 2009 to 48.3% in 2010. To address such a challenge, Kalbe responded by implementing measures to renew its strategies to promote efficiency as one of core emphases. This is to be implemented by streamlining the management of the supply chain and controlling operational expenses, boosting employee productivity and upgrading the composition of products sold. Kalbe will also continuously prioritize product innovation, in its quest to accelerate growth.

Keywords : *Corporate Level Strategy, Strategy*

Introduction

Business strategy deals with the ways in which a single-business firm or an individual business unit of a larger firm competes within a particular industry or market. Corporate strategy deals with the ways in which a corporation manages a set of businesses together (Grant, 1995). In companies with intermediate parenting levels, such as divisions, the grouping of businesses into divisions is also important. Lack of clarity on the added value role of different levels, groups and individuals within the parent leads to redundant cost, confusion, and reductions in net value creation. Where the parenting tasks are shared between different individuals, their respective responsibilities also need to be clearly defined and complementary. Getting the unit definitions and corporate structure right is an important precondition for a successful corporate strategy.

Established in 1966, PT Kalbe Farma Tbk has come a long way from its humble beginnings as a garage-operated pharmaceutical business in North Jakarta. Throughout its more than forty year history, the Company has expanded by strategic acquisitions of pharmaceutical companies, building a leading brand positioning and reaching out to international markets to transform itself into an integrated consumer health and nutrition enterprise with unrivalled innovation, marketing, branding, distribution, financial strength, R&D and production expertise – thus furthering its mission of improving health for a better life. Vision To be dominant in the healthcare business in Indonesia and be a part of the global market with strong brands, enabled by excellent management, science and technology. Mission To Improve Health for a Better Life. Values : Giving the Best to Customer, Striving for Excellence, Strong Team Work, Innovation, Agility, Integrity. Motto : The Scientific Pursuit of Health for a Better Life.

The Kalbe Group has a broad and strong portfolio of brands in prescription pharmaceuticals, OTC pharmaceuticals, energy drinks and nutritional products, complemented with a robust packaging and distribution arm covering over one million outlets. The Company has succeeded in promoting its brands as undisputed market leaders – not only in Indonesia but also in international markets, establishing such household names as Promag, Mixagrip, Woods, Komix, Prenagen and Extra Joss across all health care and pharmaceutical segments. Also, fostering and expanding alliances with international partners has accelerated Kalbe's advances in international markets and sophisticated R&D ventures, as well as facilitating the latest pharmaceutical and healthcare developments, including stem cell and cancer research.

1966	The Company was founded under the name PT Kalbe Farma
1977	PT Dankos Laboratories was acquired
1981	The distribution businesses were transferred to PT. Enseval in line with government regulations
1985	PT. Bintang Toedjoe and PT. Hexpharm Jaya were acquired
1989	PT. Igar Jaya and PT Dankos Laboratories Conducted their Initial Public Offering
1991	PT. Kalbe Farma went public, and carried out an Initial Public Offering (IPO)
1993	PT. Sanghiang Perkasa was acquired, and the nutritionals businesses consolidated within this subsidiary company
1994	Entry into the energy drink business with the launch of extra joss
	PT. Enseval Putera Megatrading went public and carried out an Initial Public Offering (IPO)
1995	An initial 50% share ownership in PT Helios Arnott's Indonesia, which operates in the food business, was sold.
1997	The remaining 50% share ownership was sold to PT Helios Arnott's
	The glass packaging company was sold to Schott Glasswerke Beteiligungs GmbH
	The Woods' brand was acquired
	An 80% share ownership of PT Saka Farma was acquired
2005	Consolidation of the Kalbe Group carried out
2006	Regional coverage expanded
	Global brand and infrastructure created
	Business focus increased through business mergers and acquisitions
	Innovative medicinal development increased
	Global networks and partnerships created
2007	Launch of new corporate logo as part of transformation process
	Products enter every ASEAN country (except Laos)
	Opening of the Stem Cell and Cancer Institute
	End-to-End supply chain management improvements implemented
	Information technology systems integrated

Source : Yearly Report PT. Kalbe Farma, 2009

A corporate level strategy specifies actions a firm takes to gain a competitive advantage by selection and managing a group of different businesses competing in different product market(Ireland, 2011). A corporate level strategy is expected to help the firm earn above average returns by creating value. Some suggest that few corporate level strategies actually create value. Evidence suggest that a corporate level strategy's value is ultimately determined by the degree to which the business in the portfolio are worth under the management of the company than they would be under any other ownership. The effective corporate level strategy creates, across all of a firms's businesses, aggregate returns that exceed what those returns would be without the strategy and contributes to the firm's strategic competitiveness and its ability to earn above average returns.

Achieving greater market power is a primary reason for acquisition. Market power exist when a firm is able to sell its goods or services above competitive levels or when the costs of its primary or support activities are lower than those of its competitors. Market power usually is derived from the size of the firm and its resources and capabilities to compete in the marketplace. It also affected by the firm**'s s**hare of the market. Therefore, most acquisitions that are designed to achieve greater market power entail buying a competitor, supplier, a distributor, or a business in a highly related industry to allow the exercise of a core competence and to gain competitive advantage in the acquiring firm's primary market. (Ireland, 2011)

A merger is a strategy through which two firms agree to integrate their operations on a relatively coequal basis. An acquisition is a strategy through which one firm buys a controlling, or 100 percent, interest in another firm with the intent of making the acquired firm a subsidiary business within its portfolio. After completing the transaction, the management of the acquired firm reports to the management of the acquiring firm. (David, 2005)

Firms realize Merger and Acquisition also at the aim to increase competitiveness, market power, speed to market, and to block the moves of a competitor. Through mergers, firms maximize their ability to offer attractive products or services, increase efficiency, reduce costs and share the risks in activities that are beyond the capabilities of a single organization. In an international context, firms use acquisitions as a means of entry into foreign markets or a means of obtaining a competitive advantage (Shan & Hamilton, 1991).

Discussion

Kalbe maintained its lead in the health products business with a market share of 13% for prescription pharmaceuticals, a 15% market share of OTCs and 38% of the energy drink market. In addition to its broad market share, the business divisions achieved a balanced contribution in terms of sales. The Prescription Pharmaceuticals Division, the Consumer Health Division, Nutritionals Division and Distribution and Packaging Division have contributed between 21% to 27% of sales. This provides a solid foundation, particularly in facing a currently unfavorable economic condition, as well as looking forward to subsequent years.

In 2009, several of Kalbe's products, such as Cerebrofort, Cerebrovit, Promag, Mixagrip, Prenagen and Milna, have been selected as winners for the Indonesia Best Brand Award. This award acknowledged them as the consumers' choice of trusted brands in Indonesia, and is based on the results of survey by an independent survey organization and a prominent marketing publication. Kalbe's commitment to produce innovative products is evidenced through its dedication to the field of research and development. One of Kalbe's several significant accomplishments in 2008 is the commercialization of Thera CIM in two countries: Indonesia and the Philippines. This product resulted from research undertaken by Innogene Kalbiotech Pte. Ltd., a subsidiary of Kalbe, under collaborative efforts with other international biotechnology corporations. The license for commercialization of Thera CIM in Indonesia and the Philippines is the seed of Kalbe's transformation into a world class healthcare enterprise.

Kalbe also launched several new products in each of its divisions, with the objective of deriving another trusted and reliable Kalbe product in the future. In addition, the Stem Celland Cancer Institute (SCI), established in 2007, is equipped with a research laboratory with facilities and Standard Operating Procedures consistent with the Good Laboratory Practice (GLP) – internationally recognized standards. SCI has also made a breakthrough development in finding treatment for burn injuries and chronic injuries, using umbilical cord blood. Such expansion in Kalbe's business portfolio is expected to support the growth potential of the Company in coming years.

Innovation is also reflected in the working process improvements carried out by Kalbe. Various Business Process Improvement programs continue to be developed and carried out to increase productivity, efficiency and effectiveness of operations. Various international best practices, such as Continuous Improvement, 5R and Lean Manufacturing have been applied on an ongoing basis. Kalbe is confident that innovation will help it maintain a reputation as a company with up-to-date knowledge and advanced technology. Commitment to improvements in operational performance at Kalbe is shown in the formation of the Supply Chain Task Force in early 2010, assigned a mission to revitalize the strategy of Kalbe Group's end-to-end supply chain and align each component within the supply chain, starting from procurement of raw materials, production, marketing, sales and distribution and logistics. In 2008, management of the supply chain has been carried out for the Prescription Pharmaceuticals and OTC, and the result is indicated through fewer Days of Inventory, shrinking from 149 days at end-2008 to 142 days by end-2009. The success of the implementation of the end-to-end supply chain management has created a basic foundation for continuous application of the supply chain management process in other divisions within the Kalbe Group.

Kalbe's success in its initiatives for operational cost efficiency and supply chain management improvement is reflected in the lower ratio of operational costs to net sales (declining by 0.8% to 33.8% in 2010) and improvement in Days of Inventory (by 7 days). The lower Days of Inventory and improvement in several indicators of its working capital is also revealed in the increase of net cash flow from operating activities, marked at Rp 808 billion at end-2008, up from Rp 363 billion in the previous year. Kalbe continuously focused on various efforts to support its proven success in penetrating international markets. To strengthen its position in export sales, Kalbe has established branch offices in 10 countries, namely, Singapore, Philippines, Malaysia, Vietnam, Myanmar, Cambodia, Sri Lanka, Nigeria, South Africa and India. Up to today, Kalbe has a number of popular brands, such as Woods', Procold, Mixagrip and Neuralgin, emerging as strong brands in Malaysia, Singapore, Cambodia and Myanmar. In fact, Extra Joss is the leading energy drink in the market in the Philippines. Kalbe also reformulated its international marketing strategies to gain a greater focus on sales per area, moving away from sales per product. This was supported by introducing changes in the organizational structure and by positioning a competent team in each area of operation. Kalbe is optimistic that it will continue to enjoy expansion in international markets.

To attain its aspiration to become an acknowledged international competitor, Kalbe is committed to building operational excellence through continuous improvement and expansion of its production facilities. Such a commitment is also reflected in its success in obtaining a Certificate of Manufacturing from the Government of Singapore in early 2010, through the Health & Sciences Authority, for Kalbe's production facilities to manufacture intravenous solutions. This certification certifies that Kalbe has applied the current Good Manufacturing Practices for production facilities, as prevails in European Union nations.

Related to Kalbe's strategies projecting into the future and facing the increasing business challenges, it is necessary for the Company to implement an organizational management system

such that Kalbe will become a "World Class Company" with a competitive edge. By end-2010, all business units at Kalbe had implemented a management system as shown in the improved planning process for formulation of long-term strategies, better known as Kalbe Long Term Development Plan, a long-term plan with clearly defined, specific and measurable targets. This is to be followed up by defining strategies into divisional and individual action plans; further, to ensure proper implementation, Kalbe has introduced an integrated review pattern.

In 2010, Kalbe executed a new agreement with Aguettant, a pharmaceutical company based in France, and a leading player in the hospital sector. This collaborative partnership is expected to strengthen Kalbe's standing in the parenteral nutrition segment. Kalbe also intensified efforts in developing strategic alliances with international partners, resulting in the introduction of new products with the potential to reinforce Kalbe's position in the market.

At the onset of 2011, Kalbe will redouble efforts on a number of ongoing programs. These include developing customers as part of strategic account growth in the hospital and pharmacy segments, as well as launching innovative products in the oncology sector to meet consumer demands, and other products in line with future disease trends.

In 2008, the Prescription Pharmaceuticals Division provided 27.1% of the Company's total revenue, equivalent to Rp 2.13 trillion, and achieved growth in sales of 18%. The Consumer Health Division provided 20.9% of the Company's total revenue, equivalent to Rp 1.65 trillion, for a decline in sales of 11.2%. The Consumer Health Division is divided into two product categories: Over the Counter Products (OTCs) and Energy Drinks. With an increasing number of new players entering the market, Extra Joss correspondingly suffered a dilution in its market share. Nevertheless, Extra Joss remains the undisputed leader in the energy drink market, controlling a 38% share, based on data provided by research powerhouse *AC Nielsen*.

Kalbe has actively initiated updates and improvements, encompassing changes in its marketing and sales team all the way to product marketing strategy and concept. Reorganization of its marketing team was completed in 2010, whereas Supply Chain Management (SCM) targeted comprehensive improvement from the initial stage of raw material procurement through product distribution; hence, product penetration could be enhanced and extended. In 2009, Kalbe will be preparing to launch a new product that emphasizes a healthier product concept, and plans to rejuvenate the energy drink category, fine-tuning to anticipate changes in the needs of consumers. In 2010, the Nutritionals Division provided a 24.5% contribution to Kalbe's total revenues, for a total of approximately Rp 1.93 trillion, amounting to a 20.5% growth in sales. Kalbe's Distribution Division, under PT Enseval Putera Megatrading Tbk (Enseval) and PT Tri Sapta Jaya (TSJ), commands a wide distribution network, supported by 3 Regional Distribution Centers, 40 Enseval branches and 20 TSJ branches; extending throughout Indonesia, the Company counts more than 1,000 distribution fleets and 4,500 employees.

Moreover, Kalbe has obtained ISO 9001:2000 international certification in 2010 for its Regional Distribution Centers (located in Jakarta as well as Surabaya). In 2010, Kalbe also formed PT Renalmed Tiara Utama to manage distribution of medical equipment for hemodialysis clinics treating patients afflicted with kidney failure. Total revenue from the Distribution and Packaging Divisions has reached Rp 21.7 trillion, a figure 24.5% higher than the Rp 1.74 trillion revenue noted in 2007. This accounted for 27.5% of Kalbe's total revenue for 2010, from a 2009 figure of 25%. This improvement was attributed to higher growth in revenues generated from non-affiliated customers.tribution and Packaging Division.

Net Sales by Business Segment (Rp billion)

	2010		2009		Increase/	Change
	Rp Billion	%	Rp Billion	%	(Decrease)	(%)
Prescription Pharmaceuticals	2,131.40	27.1	1806.3	25.8	325.1	18
Consumer Health	1648.5	20.9	1856.2	26.5	-207.7	-11.2
Nutritionals	1927.3	24.5	1600	22.8	327.3	20.5
Distribution and Packaging	2170.2	27.5	1724.4	24.9	427.8	24.5
Total Gross Profit	7877.4	100	7004.9	100	872.5	12.5

Source : PT. Kalbe Farma

Gross Profit by Business Segment (Rp billion)

	2009		2010		Increase/	Change
	Rp Billion	%	Rp Billion	%	(Decrease)	(%)
Prescription Pharmaceuticals	1,395.90	36.7	1194.9	33.6	201	16.8
Consumer Health	1058.8	27.8	1169	32.9	-110.2	-9.4
Nutritionals	1060.7	27.9	960.6	27.1	100.1	10.4
Distribution and Packaging	288.2	7.6	227.1	6.4	61.1	26.9
Total Gross Profit	3803.6	100	3551.6	100	252	7.1

Source : PT. Kalbe Farma

Conclusion

Diversification, a primary form of corporate level strategies, concerns the scope of the markets and industries in which the firm competes as well as how managers buy, create and sell different businesses to match skills and strengths with opportunities presented to the firm. Succesful diversification is expected to reduce variability in the firm's profitability as earnings are generated from different businesses. Because firms incur development and monitoring costs when diversifying, the ideal portfolio of businesses balances diversification's costs and benefits. Acquisitions are also used to diversify firms. Based on experience and the insights resulting from it, firms typically find it easier to develop and introduce new product in markets they are currently serving. In contrast, it is difficult for companies to develop products that differ from their current lines for markets in which they lack experience.

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