Formulation of B2B Strategies for Steel Structure Product at a Construction Company in Domestic Market

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Abstract

The company that will be discussed is one of those engaged in Indonesia's construction industry. Because demand in foreign markets has decreased, this construction company is currently moving its target market to the domestic market with its main product in the form of steel structures. Based on sales data, the profit margin tends to be very small when compared to the increase in sales volume. The purpose of this study is to identify the main causes of the low annual profit of steel structure products in the domestic market and to formulate appropriate alternative strategies based on the company's condition. The methods used in this study were Porter's five forces, paired comparison, IFE, EFE, IE, SWOT, and QSPM. The results of the analysis show that the cause of the low annual profit of steel structure products is intense competition in the industry and the strong bargaining power of buyers. The SWOT matrix produces five alternative strategies, which are synthesized into three strategies, and in order of priority based on the QSPM matrix, the price adjustment strategy, the expanding market share strategy, and lastly, the maintaining loyalty strategy.

1. Introduction

The construction sector is an activity whose end result is building/construction that is integrated with the land where it is located, whether used as a residence or other facilities. Construction activities may include the construction of infrastructure, housing, offices, communication networks, and others [1]. According to Muhlis and Windiasari, since 2010, the construction industry has continued to increase until 2021 [2]. Apart from being supported by population growth, the increase is also supported by increasing government spending in the form of the construction of toll roads, public facilities, and other infrastructure. With this, it can be seen that the construction industry remains one of the most promising industries for economic growth and has the potential to continue to be developed.

One company is included in the Indonesian construction industry and will be used as the object of this research. Since 2009, all requests that have entered the company have been supplied by the parent company from Japan, with the main product being components for coal-fired power plants, especially for overseas markets. However, the existence of green energy policies in various countries has caused a significant reduction in the number of requests for power plant components. Finally, in 2020, the parent company decided to reduce project supply to the subsidiary company and encouraged them to start seeking demand independently and focus more on the domestic market with steel structure as its main product.
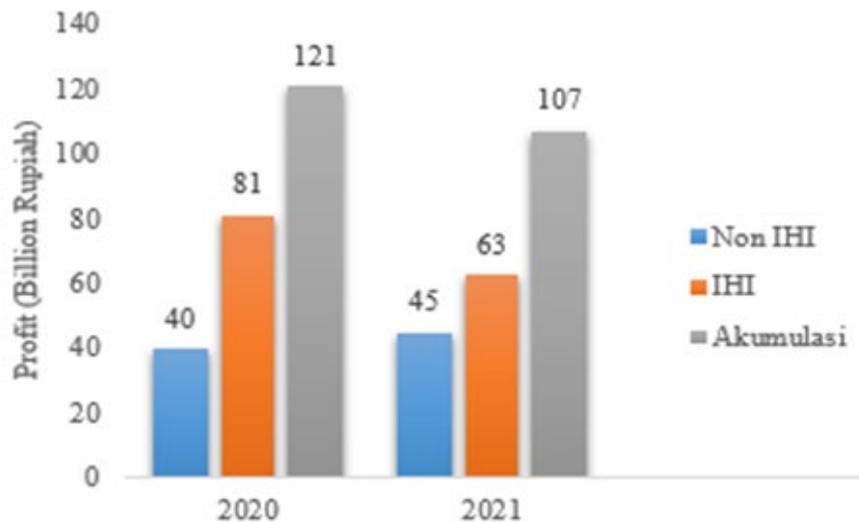
Sales data for steel structure products at the subsidiary company are divided into two, namely sales (Rupiah) and volume (Tons). As shown in Fig. 1, the annual sales volume from 2020 to 2021 has increased, but sales in Rupiah have actually decreased. This is because the total sales volume in 2020 is dominated by projects originating from the parent company, while in 2021, the number of parent company projects and non-parent company

projects tends to be balanced. In fact, sales of products originating from parent company projects tend to have a larger profit margin than domestic projects.
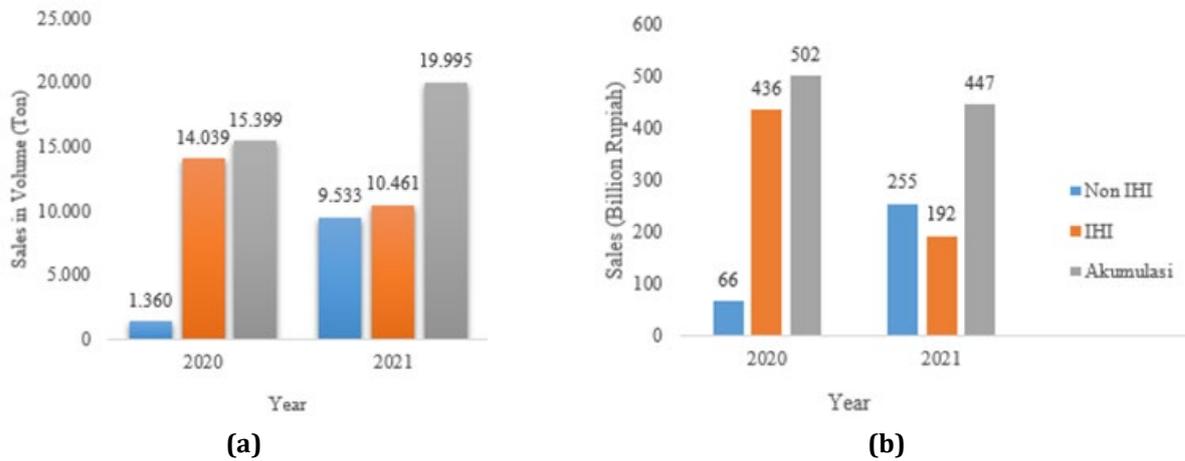
Fig. 1 *Annual sales data (a) Sales in volume (Ton); (b) Sales (Billion Rupiah)*

Fig. 2 shows that the profits earned from 2020 to 2021 have decreased and are still dominated by profits from the parent company. Profits derived from non-parent company projects also tend to only experience a very small increase.

Fig. 2 *Annual profit data*

Based on the description of the data above, it can be seen that the main problem faced by the subsidiary company is the low sales of steel structure products in the country (non-parent company projects) since two years ago, when the parent company decided to reduce the supply of projects from abroad. As a result, the subsidiary company needs more efforts to analyze the causes of the low sales of steel structure products and formulate the right sales strategy to boost annual sales of steel structure products, especially for the domestic market.

2. Methods

The research was conducted at a fabrication and construction company located in Cilegon, Banten, Indonesia. Research time starts from June to September 2022. The data needed in this study are primary and secondary data. Primary data was obtained through interviews and filling out questionnaires at the company. While secondary data is obtained through data collection at the company, statistical data, literature, books, and other supporting data.

The respondents in this study were employees who worked at the construction company. Respondents were selected through non-probability sampling methods, particularly purposive sampling techniques, in which they were not randomly or intentionally selected. The selected respondents were employees of a construction company who were considered to understand the company's internal and external conditions. The respondents are consisted of general managers of fabrication, financial managers, engineers in the business and development division.

The data obtained during the research will be processed using the descriptive analysis method, analysis of internal and external factors, analysis of alternative strategies, and analysis of priority alternative strategies. The descriptive analysis method was used to identify the general description and existing condition of the company, the causes of low product sales through the five forces, and the internal and external factors of the company. Internal and external factor analyses were performed using the IFE, EFE, and IE matrices. An analysis of alternative strategies was used to determine the appropriate strategy through the SWOT matrix. Finally, analysis of alternative strategic priorities is used to determine the priority of alternative strategies through the QSPM matrix.

3. Results and Discussions

3.1 Identification Causes of Problems

Identification of the causes of the low annual sales profit of steel structure products at a construction company in the domestic market is carried out through Porter's Five Forces analysis which is divided into five aspects, namely threat of new entrants, threat of substitute products, competition in the industry, bargaining power of suppliers, and bargaining power of buyers [3].

- Threat of entrants
Based on the results of the analysis that has been carried out, the capital requirement in entering the fabrication industry, especially steel structures, is very high, with high production costs per unit. Until now, the switching costs faced by consumers in changing sellers have been quite low because generally, the products are sold by players with the same qualifications. Until now, construction companies have not been able to increase their level of consumer utility or dependence on the products they make. Distribution channels in this industry have free open access with relatively low resistance from incumbents. As for the government's role in the Indonesian steel structure industry, it is not considered impartial, with policies still lax regarding product imports. As a result, the threat of new entrants to this industry is low. According to Porter, high entry costs and economies of scale can be significant barriers to new entrants [4]. Other studies have shown that industries with low consumer switching costs are more vulnerable to new entrants [5]. The government's role in protecting domestic industries is crucial. In countries with strict protectionist policies, the threat of new entrants tends to be lower [6].

- Threat of substitute products
Steel is considered the most profitable basic frame product in the fabrication industry. To date, there have been no steel substitute products that pose a significant threat to steel structures. Consequently, the threat of substitute products in this industry is considered weak. According to Porter, when substitute products are non-existent or uneconomical, the threat of substitution is low [4]. For example, in the construction industry, materials like steel have few substitutes that can offer similar characteristics at competitive costs [7].

- Competition in the industry
Based on interviews conducted with the company, it was noted that although the demand for steel products is high, the number of competitors owned by the construction company is also very large with a high industry growth rate. Total fixed costs are high, and exit barriers are difficult or expensive, causing the level of competition in the steel structure industry to be considered tight. Competition in industries with many competitors and high growth rates tends to be intense, especially if fixed costs are high and exit barriers are significant [4]. Such industries often experience price wars and rapid innovation to maintain market share [8].

- Bargaining power of suppliers
The number of steel suppliers in the steel structure industry is quite large, with raw materials that are easy to find. The availability of substitute raw materials is indeed expensive, but the switching costs faced by companies when exchanging suppliers are considered small or cheap. Therefore, it can be concluded that suppliers' bargaining power is weak. The literature mentions that when there are many suppliers and raw materials that are easily accessible, suppliers' bargaining power tends to be low [4]. The availability of cheap alternative suppliers also lowers supplier power [9].

- Bargaining power of buyers

Although consumers generally buy in large quantities, where one project can be valued at hundreds of millions to billions of rupiahs, the number of buyers in the steel structure industry is also very large. Steel structure consumers in the domestic market tend to be price sensitive to information related to the product that is easy to find. The low switching costs faced by consumers also contribute to their high bargaining power in the steel structure industry. Porter also indicates that when buyers purchase in large quantities and there are many price-sensitive buyers, their bargaining power tends to be high [4]. Additionally, low switching costs strengthen buyers' bargaining positions [10].

The results of Porter's Five Forces analysis show that the condition of the steel structure industry in the domestic market is that the threat of new entrants is low, the threat of substitute products is weak, competition in the industry is strong, the bargaining power of suppliers is weak, and the bargaining power of buyers is strong. As a result, it can be concluded that the reason for the low sales profit of steel structure products at the construction company in the domestic market is due to the intense competition in the industry and the strong bargaining power of buyers, especially related to sensitivity to the final price of the product.

3.2 Internal Analysis

An internal analysis of the company was carried out through in-depth interviews by considering several aspects, including management, production, finance, HR, and marketing. The results of the interviews show that the construction company has ten main strength factors and five main weakness factors. The weights on the internal and external analyses are generated through paired comparison assessments with a scale of 1 to 3 with the level of importance proposed by [11]. Furthermore, based on calculations on the IFE matrix listed in Table 1, the total weighted score obtained by the company is 2.812.

Table 1 *IFE matrix calculation results*

No	Internal key factors	Weight	Ratings	Weighted Value
Strength				
1.	High product quality standards	0.082	4.00	0.327
2.	Good employee and job management	0.072	3.00	0.217
3.	Good capital capability	0.085	3.67	0.311
4.	Strategic business location and has a private port	0.054	4.00	0.216
5.	Products can be customized/use a responsive supply chain	0.066	3.00	0.198
6.	There are many employee skill improvement programs	0.060	3.00	0.179
7.	Stable financial condition	0.087	3,33	0.288
8.	Superior human resources with a high level of work understanding	0.067	3.67	0.247
9.	Good level of work safety	0.063	3,33	0.209
10.	Most of the tools are fully owned	0.045	3.00	0.136
Weakness				
1.	Lack of difference with competitors' products	0.044	2.00	0.089
2.	Product prices tend to be high	0.095	1.00	0.095
3.	There are some tools with unfavorable conditions	0.039	2.00	0.078
4.	Irregular sales volume	0.090	1.33	0.121
5.	Lack of innovation	0.051	2.00	0.102
	Total	1,000	42,33	2,812

3.3 External Analysis

External factors at the company were generated through in-depth interviews with the company through consideration of three aspects according to David, namely social, cultural, economic, and environmental aspects; technological aspects; and aspects of competitive rivalry [12]. The results of the interviews showed that the construction company had eight factors of opportunity and seven factors of threats. Furthermore, based on the EFE matrix listed in Table 2, the total weighted value obtained by the company was 2.774. This value indicates that the company has been able to take advantage of opportunities and avoid threats in the company's external environment properly.

Table 2 *EFE matrix calculation results*

No	External Key Factors	Weight	Ratings	Weighted value
Opportunity				
1.	Domestic business scale can still be enlarged	0.065	3.00	0.195
2.	High product demand	0.077	3.00	0.231
3.	Technological development	0.050	2.00	0.100
4.	Loans to foreign banks at lower interest rates	0.066	3,33	0.220
5.	Weak bargaining power of suppliers	0.077	3.00	0.231
6.	Newcomers find it difficult to enter	0.059	3,33	0.196
7.	Good relations with the community	0.037	4.00	0.146
8.	There are no substitute products	0.067	3.00	0.200
Threat				
1.	Raw materials and tools are relatively expensive.	0.079	3.00	0.238
2.	The presence of Covid-19 has affected a decrease in productivity.	0.042	3.00	0.126
3.	The existence of similar companies with a strong level of competition.	0.087	4.00	0.349
4.	The technology used is not much different from competitors.	0.052	2.00	0.105
5.	Weak customer loyalty.	0.098	2.00	0.195
6.	High bargaining power of buyers with high price sensitivity.	0.098	2.00	0.195
7.	Government policy regarding the import of construction services.	0.047	1.00	0.047
	Total	1.000	41.67	2,774

3.4 Internal-External Analysis

Based on the previous IFE and EFE analyses, the results obtained on the IE matrix are on the horizontal axis or the total score of the IFE matrix is 2.812, while on the vertical axis or the total score of the EFE matrix is 2.774. This causes the company to be in quadrant V, precisely at the coordinates (2.812; 2.774), which can be seen in Fig. 3. Quadrant V indicates that the construction company has internal and external situations with moderate or average values. Based on the quadrant position assessment proposed by David, the company is in quadrant V or holds and maintains its position [12]. Currently, the company needs to hold and maintain its internal strength and continue to take advantage of existing external opportunities.

Fig. 3 *IE matrix*

3.5 SWOT Analysis

According to Saridevi, a SWOT analysis produces alternative strategies that are divided into four types: SO, WO, ST, and WT strategies [13]. Based on the SWOT analysis, five alternative strategies were obtained, which were assessed according to the company's existing conditions. According to Kotler and Armstrong, these strategies are formed through a thorough assessment of a company's strengths, weaknesses, opportunities, and threats [14]. Meanwhile, the following is an explanation regarding the alternative strategies depicted in Fig. 4.

- SO1 Strategy: Price adjustment

  To win the domestic market, which is very sensitive to product prices, the company needs a price adjustment strategy through a product cluster strategy. The strategy is carried out through the creation of new products tailored to client needs, particularly based on the type of building structure. For example, for the manufacture of structural products for power plants or chemical plans, relatively high product quality is usually required. In contrast, general building structure products tend to require lower quality standards. This product quality standard adjustment will later affect the final product price which can also be adjusted to the needs and desires of domestic consumers.

- SO2 Strategy: Expand the market share

  The Indonesian market generally needs more diverse construction products, so the strategy that can be used is to continue to increase the number of product variations or increase product differentiation so that the market can be wider. In order to take advantage of the high number of needs, the construction company can also apply a strategy by increasing production capacity so that the company's productivity level.

- ST1 Strategy: Maintain loyalty

  In maintaining consumer loyalty, the strategy that can be implemented is to continue to improve product quality and durability, especially for consumers who require high product quality but still provide competitive prices in the market. Product quality can be improved by taking advantage of the low bargaining power of suppliers, so they can provide quality materials at low prices. In addition, quality improvement can be achieved by utilizing human resources in construction companies that have excellent job skills and abilities. Consumer loyalty can also be increased by extending the product warranty for a certain period of time to increase customer trust and loyalty.

- Strategy WO1: Make cost efficiency

  The pricing used by the construction company is primarily based on material and human resource costs. As a result, to reduce the total price of the final product, the strategy that can be applied is to bargain for raw materials at lower prices considering the weak bargaining power of suppliers.

- WT1 Strategy: Carry out various innovations

  Problems related to the lack of innovation carried out by a company can be solved through a strategy of carrying out several innovations for products that consumers need. So far, the company has only carried out projects according to consumer needs. The strategy that can be implemented is to provide references for several new innovations to consumers by utilizing existing technological advances. In addition, innovations that can be carried out internally include automation in various work fields. The more job automation, the less human resource costs needed.

	Strengths (S)	Weaknesses (W)
Opportunities (O)	(SO) Strategy 1. Price adjustment (S3, S4, S7, S10, O1, O2, O3, O4, O5) 2. Expand market share (S1, S3, S4, S5, S7, S10, O1, O2, O6, O8)	(WO) Strategy 1. Cost efficiency (W2, W3, W4, O3, O4, O5)
Threats (T)	(ST) Strategy 6. Maintain loyalty (S1, S2, S3, S6, S7, S8, S9, T3, T4, T5, T6, T7)	(WT) Strategy 1. Carry out various innovations (W1, W5, T3, T4, T5)

Fig. 4 *SWOT matrix*

3.6 Strategy Synthesis

Based on interviews with the company, several alternative strategies can be synthesized into a unified strategy. Strategies that can be synthesized include price adjustment, cost efficiency, and innovation strategies. These three strategies can be implemented simultaneously because their implementation can be interconnected with the same end goal, namely, to reduce the final price of the product. Product price adjustments driven by cost-efficiency and innovation strategies can be used by the company to enhance price competitiveness. Meanwhile, the strategies that will be used in the QSPM matrix for prioritization are the product price adjustment strategy, the strategy to expand market share, and the strategy to maintain loyalty.

3.7 QSPM Matrix

Based on calculations on the Table 3, the results obtained in the form of a priority order of strategic alternatives from the highest to the lowest level are as follows.
1. Price adjustment (TAS: 6,168)
2. Expand market share (TAS: 5,687)
3. Maintaining loyalty (TAS: 5,395)

Table 2 *QSPM matrix*

	Weight	Alternative Strategy					
		Strategy 1		Strategy 2		Strategy 3	
		AS	TAS	AS	TAS	AS	TAS
Total	2,000	90	6,168	84	5,687	76	5,395
Rating		1		2		3	

It can be seen that the strategy that needs to be prioritized is the price adjustment strategy. This strategy was chosen as a strategy that needs to be prioritized because it is the most suitable strategy for the company's internal and external factors. This is caused by the condition of the construction company, which will focus on the domestic market with high price sensitivity. With product price adjustments through innovation and cost efficiency, sales volume and profits earned by the company will increase.

4. Conclusions

According to the industry analysis, the reason for the low sales of steel structure products at construction companies in the domestic market is the intense competition between similar companies and the high bargaining power of buyers, especially related to price sensitivity. Based on the analysis of the IE matrix, the company is in quadrant V, which shows the condition of being held and maintained through a strategy of market penetration and product development. Meanwhile, based on the SWOT analysis, three alternative strategies were produced: the price adjustment strategy, expanding market share, and maintaining loyalty. The sequence of priority alternative strategies based on the calculation of the QSPM matrix is a price adjustment strategy, expanding market share, then maintaining loyalty.

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Conflict of Interest

Authors declare that there is no conflict of interests regarding the publication of the paper.

Author Contribution

The authors confirm contribution to the paper as follows: **study conception and design:** *Citra Devarantika, Ani Nuraisyah;* **data collection:** *Citra Devarantika;* **analysis and interpretation of results:** *Citra Devarantika, Lien Herlina, Ani Nuraisyah;* **draft manuscript preparation:** *Citra Devarantika. All authors reviewed the results and approved the final version of the manuscript.*

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