

# CHAPTER I

## INTRODUCTION

In this chapter, it will present an introduction to the research study starting from the background of the research, research questions, research objectives, research contribution, limitations of research and research outline.

### 1.1. Research Background

Over millions of business around the world have participated in the globalization era. In fact, firms all over the world have seen many opportunities and demands from other countries. These opportunities lead to international business. International business is all commercial transactions that involve two or more countries including sales, investments, and transportation (Daniels *et al.*, 2015). Due to a large number of demand with scarce resources, businesses have made international trade across the world over the decades.

According to Lee (2012), international trade refers to international or global trading activities. The reason businesses do international trade is to expand its market share and maximize profit. Additionally, international trade allows the company to gain resources that are not available in the home country or to learn new knowledge that develops the company. Moreover, trading internationally has grown throughout the world, especially with advanced technology and efficient supply chain across countries. These benefits cause an increase in worldwide

competition and more variety of potential customers. Therefore, the ability to compete internationally has been one of the goals of businesses.

There are many ways to engage in international business; the most popular way to be involved is to import or export. Import is when the company trade with other countries to bring their goods or services into the home country. Meanwhile, exporting is to trade products or services from the home country to other countries. There are two types of products imported and exported which are merchandise (tangible products) or service (intangible products). According to the World Trade Statistical Review (2018), the world merchandise exports increased by 11% in 2017. It means that more business or people are doing transactions with abroad buyers.

As the number of international trades increased, firms have developed their own strategy to compete and adapt to other countries. The firms' strategy is either an entry strategy or sustaining strategy. When a firm competes in other countries, the risk is high as the market will be different from the home country or they may have other difficulties and barriers they may face. The access to the best strategy to enter the market is one of the first steps in doing international business. In the world trade, there are well-performed firms that carry out their plan well. However, many firms have also failed in executing their strategy abroad. The trends and consumption pattern keeps on changing as time goes by. Therefore, companies need to build an adequate and long-lasting entry strategy.

Fishery products have been consumed by almost all people in the world from fresh fish to canned products. The fish and fishery products are considered one of the most traded food merchandise in the world (FAO, 2017). There is a high demand for fish and fishery products which may lead to problems such as overfishing and diminishing fish supplies. According to FAO (2016), the exports in fish and fishery products has grown remarkably rising from US\$ 8 billion in 1976 to US\$ 148 billion in 2004. Furthermore, it has an annual growth rate of 4.6 percent in real terms and 8 percent in nominal terms.

Fish and fishery products have been one of the major export commodities of Indonesia. The geographic location of surrounds Indonesia with the Indian Ocean and the Pacific Ocean which gives Indonesia rich in ocean products. According to the Food and Agriculture Organization of the United Nations (FAO), Indonesia is the second largest marine capture producer (FAO, 2018). There is an estimated growth from 5,624,594 tonnes in 2013 to 6,016,525 tonnes in 2014 in marine capture production (FAO, 2016). However, there is a decrease in the marine capture production of Indonesia from 2015 (6,216,777 tonnes) to 2016 (6,109,783 tonnes). Not only in Indonesia, the largest producers of marine capture production which is China also undergo a decrease from 15,314,000 tonnes in 2015 to 15,246,234 tonnes in 2016. The table below shows the countries that had produced the most marine capture.

Table 1.1. Marine Capture Production: Major Producer Countries (2015 – 2016)

**MARINE CAPTURE PRODUCTION: MAJOR PRODUCER COUNTRIES**

Country	Production (tonnes)			% Variation		Variation, 2015 to 2016 (tonnes)	
	Average 2005–2014	2015	2016	2005–2014 (average) to 2016	2015 to 2016		
China	13 189 273	15 314 000	15 246 234	15.6	-0.4	-67 766	
Indonesia	5 074 932	6 216 777	6 109 783	20.4	-1.7	-106 994	
United States of America	4 757 179	5 019 399	4 897 322	2.9	-2.4	-122 077	
Russian Federation	3 601 031	4 172 073	4 466 503	24.0	7.1	294 430	
Peru	Total	6 438 839	4 786 551	3 774 887	-41.4	-21.1	-1 011 664
	Excluding anchoveta	989 918	1 016 631	919 847	-7.1	-9.5	-96 784
India	3 218 050	3 497 284	3 599 693	11.9	2.9	102 409	
Japan <sup>a</sup>	3 992 458	3 423 099	3 167 610	-20.7	-7.5	-255 489	
Viet Nam	2 081 551	2 607 214	2 678 406	28.7	2.7	71 192	
Norway	2 348 154	2 293 462	2 033 560	-13.4	-11.3	-259 902	
Philippines	2 155 951	1 948 101	1 865 213	-13.5	-4.3	-82 888	

Source: Food and Agriculture Organization of United Nations (2018)

Table 1.2. Marine Capture Production: Major Producers (2013 – 2014)

**MARINE CAPTURE PRODUCTION: MAJOR PRODUCERS**

COUNTRY OR TERRITORY	AVERAGE 2003–2012	2013	2014	VARIATION		
				AVERAGE (2003–2012) – 2014	2013–2014	2013–2014
		(Tonnes)		(Percentage)		(Tonnes)
China	12 759 922	13 967 764	14 811 390	16.1	6.0	843 626
Indonesia	4 745 727	5 624 594	6 016 525	26.8	7.0	391 931
United States of America	4 734 500	5 115 493	4 954 467	4.6	-3.1	-161 026
Russian Federation	3 376 162	4 086 332	4 000 702	18.5	-2.1	-85 630
Japan	4 146 622	3 621 899	3 630 364	-12.5	0.2	8 465
Peru	7 063 261	5 827 046	3 548 689	-49.8	-39.1	-2 278 357
		918 049 <sup>1</sup>	1 226 560 <sup>1</sup>	33.6	28.2	270 144
India	3 085 311	3 418 821	3 418 821 <sup>2</sup>	10.8	0.0	0
Viet Nam	1 994 927	2 607 000	2 711 100	35.9	4.0	104 100
Myanmar	1 643 642	2 483 870	2 702 240	64.4	8.8	218 370
Norway	2 417 348	2 079 004	2 301 288	-4.8	10.7	222 284

Source: Food and Agriculture Organization of United Nations (2016)

PT. Gabungan Era Mandiri was one of the companies in Indonesia who was involved in fish and fishery industry and founded in 1999. Buying and selling fish and fishery products are the main activities of the company. They also manufacture, distributing and marketing products. There are two types of products that the company sell which is whole fish and precooked loins. Additionally, the company mainly produced and sell skipjack tuna and baby tuna. PT. Gabungan Era Mandiri only sells baby tuna to local citizens during the early days. However, as time goes by, the tuna industry performance had declined as the supply of tuna reduced and was hard to find. Therefore, the company changes its main product into skipjack tuna. There are also other species other than skipjack tuna that the company sell such as cephalopods. PT. Gabungan Era Mandiri exports to different countries due to demand; the main customers of PT. Gabungan Era Mandiri is from Japan and Thailand.

Japan was known for its food quality especially in fish and fishery products. Many staple foods from Japan have main ingredients from fish such as sushi, sashimi, et cetera. Furthermore, the fish stock has higher demand than chicken or beef stock because it was presumed healthier such as relieving shoulder stiffness or lowers blood pressure (Delay, *et al.*, 2019). Most of the fishes that the Japanese customers of PT. Gabungan Era Mandiri bought, processed its whole fresh skipjack tuna into *katsuobushi*. *Katsuobushi* is also known as bonito flakes, and that goes through the process of drying, fermenting and smoking skipjack tuna. Additionally, it's mainly used to make soup stocks or other seasonings.

Thailand is one of the company's key customer in precooked fish products. As stated by FAO (2016), Thailand is the largest tuna-canning producer in the world. They import fish and fishery supplies 10.4% from the United States, 9.9 % from Taiwan, 9.4% from China, 7.6% from Indonesia, and 6.7% from Japan in 2013 (Agriculture and Agri-Food Canada, 2015). Moreover, Thailand is one of the top ten exporters for fish and fishery products in 2014 (FAO, 2016) and in 2016 (FAO, 2018); it is because of their shrimp production and canned tuna. The Thailand buyers will process and can the tuna loins and exports to other countries. The table below shows that Thailand is one of the top ten exporter of fish and fishery products according to the Food and Agriculture Organization of United Nations in 2016.

Table 1.3. Top Ten Exporters of Fish and Fishery Products

	2004	2014	APR
	(US\$ millions)		(Percentage)
China	6 637	20 980	12.2
Norway	4 132	10 803	10.1
Viet Nam	2 444	8 029	12.6
Thailand	4 060	6 565	4.9
United States of America	3 851	6 144	4.8
Chile	2 501	5 854	8.9
India	1 409	5 604	14.8
Denmark	3 566	4 765	2.9
Netherlands	2 452	4 555	6.4
Canada	3 487	4 503	2.6
<b>Top ten subtotal</b>	<b>34 539</b>	<b>77 801</b>	<b>8.5</b>
<b>Rest of world total</b>	<b>37 330</b>	<b>70 346</b>	<b>6.5</b>
<b>WORLD TOTAL</b>	<b>71 869</b>	<b>148 147</b>	<b>7.5</b>

Source: Food and Agriculture Organization of United Nations (2016)

Although PT. Gabungan Era Mandiri had entered the foreign market for a long time there are still some problems or barriers they meet. For example, there are quality problems; government certification about the quality problems, the foreign exchange risk, and other problems. The fishes' quality must also comply with the rules and regulations. If Indonesia's government does not, it is difficult to get a good qualification. The company is not allowed to export their products without the export permission from the Indonesian government. Additionally, there might be times where the product may shrink in size and the buyer will complaint. Therefore, the company must create a good entry strategy. This research focuses on the factors and the reason of the entry strategy that the company used; it also discusses the challenges faced by the company. Each of the entry modes possessed their own risk and advantages. Hence based on the event, the writer would like to conduct a research A Case Study: An Analysis of PT. Gabungan Era Mandiri's Entry Strategy into International Market.

## **1.2. Research Questions**

1. What are the factors that influence PT. Gabungan Era Mandiri's entry mode decision to Japanese and Thailand markets?
2. Which entry strategy PT. Gabungan Era Mandiri used to enter Japan and Thailand markets and why?
3. How PT. Gabungan Era Mandiri used this entry strategy to enter Japanese and Thailand markets?

## **1.3. Research Objectives**

1. To identify what factors that influences PT. Gabungan Era Mandiri's entry mode decision into Japanese market.
2. To identify what factors that influences PT. Gabungan Era Mandiri's entry mode decision into Thailand market.
3. To examine the reason PT. Gabungan Era Mandiri chose the entry strategy to enter Japanese market.
4. To examine the reason PT. Gabungan Era Mandiri chose the entry strategy to enter Thailand market.
5. To identify the procedure of PT. Gabungan Era Mandiri entering Japanese market.
6. To identify the procedure of PT. Gabungan Era Mandiri entering Thailand market.



#### **1.4. Research Contribution**

##### **1. Academic Advantage**

The academic advantage is to help the reader to understand the knowledge about the study of management, especially in exporting strategy. It's also to broaden the knowledge from real-life situations. Additionally, the academic reader can understand that problems might occur beyond the textbook and their approach may be different than what they thought.

##### **2. For the company**

The company can check their performance from this research; hoping that they will be a better company than in the future by reflecting on previous problems and decision-making. The research and the solutions can also help the company to develop a greater strategy or to improve in certain areas.

##### **3. For other companies**

There will be times when problems from other companies are similar. In that case, the company can gain few insights on how they should tackle their problems by reading this study. It can also create knowledge from other company's real-life situations. Especially for fish and fishery companies, they can relate to the research and may gain few revelations of the problem they meet.

##### **4. As reference to further research**

For future research, this research can be a reference material for another similar or different research about exporting or other subjects. There is also room for improvement that future researcher can take as their research subject.

### **1.5. Assumptions**

This research has assumptions based on what the researcher had to learn from textbooks and other journal articles that support the research. For example, this research will conduct an interview session with the company representative, and the researcher will assume that they answered truthfully. In this case, the outcome of a measurement is independent of the researcher which means that how the researcher feels or believes is irrelevant to the outcome. In addition, there may be theoretical assumptions used by past researcher's ideas that the writer used in the study.

### **1.6. Limitations of Research**

Throughout the research process, there are several limitations:

- The research is conducted in a limited period of time which is 4 months (from August – November)
- The research is limited to the fish and fishery industry
- The research is done only within PT. Gabungan Era Mandiri.
- There is a limited access to information that the company can give.

## **1.7. Research Outline**

This research consists of five chapters as written below:

Chapter I – Introduction: The introduction chapter will discuss the research including the background of the study, problems, objectives, contributions, limitations of research, benefits and outline.

Chapter II – Theoretical Background: The theoretical background chapter will discuss the theories that the researcher used to support the research method, results and discussion section.

Chapter III – Research Method: The research method chapter will discuss what kind of research the author use which is a qualitative research case study; how to create the research.

Chapter IV – Results and Discussion: The results and discussion chapter will discuss the outcome of the research collected from the researched method used.

Chapter V – Conclusions and Managerial Implications: The conclusions and suggestions chapter will finish the research by summarizing the research and includes closing statement. There is any possible suggestions or solution that will solve the problem.