

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Nowadays, as the business environment is getting more competitive, it causes freight volume to grow bigger and transportation becomes more complicated. Therefore, the need for a strong logistics management increases. Most of the multinational companies are performing logistics management in their operations. Logistics management is part of the supply chain management that has an important function in planning, implementing, and controlling the effectiveness and efficiency of storage and flow of goods, services, and information, to meet customers' needs and satisfaction.

The development of globalization today is also a supporting factor for multinational companies to realize logistics management abroad. Because globalization has made space and distance invisible, it makes many multinational companies now can implement businesses abroad easily. Nevertheless, some multinational companies are struggling to survive in the competition where the offer on the market keeps increasing. Multinational companies, especially those who are operating in manufacture or production prefer to find business partners who are more experienced in trends, culture, and communications in abroad locations. They

also prefer business partners who are more sensible with new IT developments and trends and can handle every aspect of logistics management. The business environment has become advanced, so has logistics management. Globalization is not only a supporting factor for multinational companies to realize logistics management abroad, but it is also a factor that determines success in any sector. The changes in trends and IT developments have pushed logistics management of a multinational company to quickly adapt in order to survive in the foreign market. This is the reason why the logistics management of a multinational company is expected to contribute more than what it did in the past. Warehousing, transportation and inventory management, which are inside of logistics management need to be implemented effectively and efficiently.

However, managing these operations to achieve the goals of multinational companies has formed a great challenge to the performances of these companies as well. According to Chan et al., as cited in Umar and Muazu (2019, p.49), a company's performance is all of the activities inside a company, the results of its operations, and how well the company achieved its market-oriented and financial objectives. According to Kolawole and Tanko, as cited in Umar and Muazu (2019, p.50), some people argue that the development of share prices determines the performance of a company, while some other people argue that the performance of the company is determined by the profit over time.

PT. Bumi Sari Prima, Pematangsiantar as the research object is a multinational company engaged in the manufacturer of tapioca starches. As an

integrated company, this company produces native tapioca starches which are suitable for a paper application, food industry, textile, MSG (*Monosodium Glutamate*), sauces, condiments industry, etc. This company is located at Raya Tebing Tinggi Street KM 7, Siantar Martoba, Pematangsiantar, North Sumatra, Indonesia.

Since its establishment on 15th January 1977, PT. Bumi Sari Prima, Pematangsiantar has grown within its market. In 1977, starches production capacity was at 30 metric tons per day, increased to 300 metric tons per day in 1990, and recently, through intensive capital investment, the production capacity is now on 750 metric tons per day. This tapioca starches production company is a big company because the number of employees who work in this company is at 230.

In order to maximize sales, PT. Bumi Sari Prima, Pematangsiantar does not only market its products locally, but also ships over miles to the customers with their own sea transportation, which are vessels, as well as cooperation with other multinational companies all over the world, such as Singapore, Malaysia, and Japan. When delivering the products to customers abroad, there are several steps that need to be cleared, such as warehousing management, transport management, and inventory management.

The phenomenon in PT. Bumi Sari Prima, Pematangsiantar, that the writer has studied, is mainly about the transport management, which is a part of logistics management. In the past five months (since July 2019), the transport management of this company has failed to deliver finished goods on time to customers. Finished

goods had to be delivered by using *Colt Diesel* to the port in Belawan, to be later be shipped by sea vessel abroad. This caused not only delivery delays, but also has also caused finished goods stuck and must spend a long cycle time inside the warehouse. The storage and flow of goods were not maximal.

Delivery delays can occur because of the intervention of couriers, for example, accidents, and without the intervention of couriers, for example, weather, mileage, traffic in the downtown, damaged roads, road reparation, flood if it rains, or transportation damage. When the transport management has problems, the other indicators which are alongside with it, such as warehousing and inventory management will automatically be affected. If it happens sustainably, the logistics management of this company is believed to be obstructed and decrease the performance of the company. This is the reason why warehousing, transportation, and inventory management affect one another, and in the end, it will affect the logistics management of a company.

Table 1.1 The Delivery Delays Estimation to the Port of PT. Bumi Sari Prima, Pematangsiantar within Past 5 Months

Month	Day Estimation
July	1 to 2 days
August	0 to 1 days
September	0 to 1 days
October	1 to 2 days
November	1 to 2 days

Source: Prepared by the writer (2020)

Normally, in delivering finished goods, PT. Bumi Sari Prima, Pematangsiantar does not experience delay. Even if it delays, it is only for 1 day. However, in the past 5 months (from July to November 2019), the delay fluctuated quite a lot. As has been stated above, it might be caused by mileage, traffic in the

downtown, damaged roads, road reparation, flood if it rains, transportation damage, or accidents. If the finished goods are delivered late to the port in Belawan, then it will not reach the destination abroad on time.

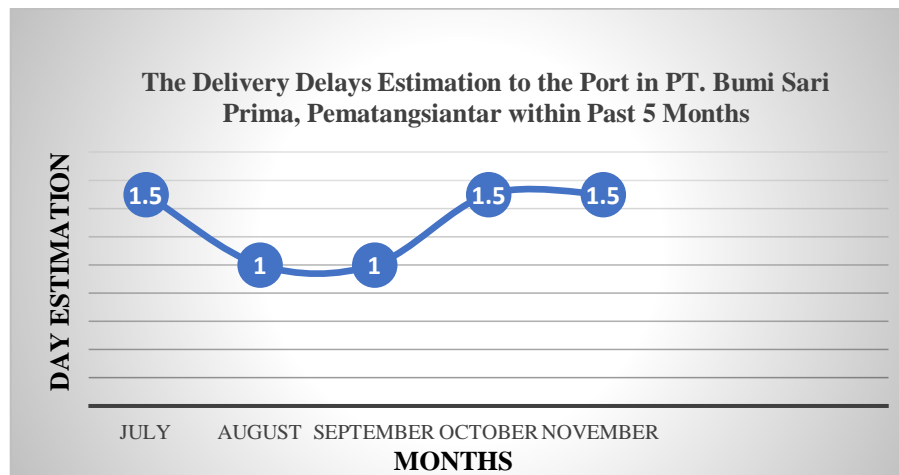


Figure 1.1 The Products Delay Estimation to the Port in PT. Bumi Sari Prima Pematangsiantar within Past 5 Months

Source: Prepared by the Writer (2020)

To prove the statement above, the writer did a preliminary interview with two couriers who work in PT. Bumi Sari Prima, Pematangsiantar (Mr. Dandi and Mr. Akiong), who are responsible for delivering the finished goods to the port. At first, they explained that the operational hours of this company started from Monday to Friday, every 9 a.m. to 6 p.m., and implemented two delivery segments. First is the morning segment, which starts at 9 a.m. and the second is the afternoon segment, which starts at 3 p.m., and they are the morning segment couriers. They stated that even though they had departed in the morning, and the mileage from the factory to the port only took two hours, what caused the delivery delays are mostly because of traffic density and damaged roads.

From the above background of the study, the writer decided to do research with the title **“The Effect of Logistics Management on Company’s Performance at PT. Bumi Sari Prima, Pematangsiantar”**. The writer chose the title for this research because multinational companies must implement logistics management to perform business. The logistics management of PT. Bumi Sari Prima, Pematangsiantar is believed as a crucial function in planning, implementing and controlling the effectiveness and efficiency of storage and flow of goods. Logistics management will bring challenges to the performance of the company to perform better in the future.

1.2 Problem Limitation

Due to the limitation of time and budget, this research will be only limited to logistics management as an independent variable (X) and the company’s performance as a dependent variable (Y), which research is done at PT. Bumi Sari Prima, Pematangsiantar. The writer will only distribute the questionnaires for the employees who work in the logistics department because they know the way of operations in logistics management better.

According to Martono (2018, p.1), in his book entitled Logistics Management, logistics management is an integrated system in a company that coordinates the entire process inside the company in preparing and delivering products or goods to customers. According to Kirui and Nondi (2017, p.827), the

indicators of logistic management are divided into warehousing management, inventory management, transport management, and reverse logistics management.

According to Chan et al., as cited in Umar and Muazu (2019, p.49), a company's performance is all of the activities inside a company, the results of its operations, and how well the company achieved its market-oriented and financial objectives. According to Kirui and Nondi (2017, p.830), the indicators of the company's performance are divided into customer service delivery levels and operational cost reduction.

1.3 PROBLEM FORMULATION

1. How is the logistics management applied in PT. Bumi Sari Prima, Pematangsiantar?
2. How is the performance of PT. Bumi Sari Prima, Pematangsiantar?
3. Is there any effect of logistics management on the performance of PT. Bumi Sari Prima, Pematangsiantar?

1.4 OBJECTIVE OF THE RESEARCH

1. To know the logistics management applied at PT. Bumi Sari Prima, Pematangsiantar.
2. To know the performance of PT. Bumi Sari Prima, Pematangsiantar.
3. To know whether there is any effect of logistics management on the performance of PT. Bumi Sari Prima, Pematangsiantar.

1.5 BENEFIT OF THE RESEARCH

The benefits of this research are divided into two types, which are theoretical benefit and practical benefit. The writer wishes that this research covers the two benefits and can be useful for every aspect in the future.

1.5.1 THEORETICAL BENEFIT

In theoretical benefit, the writer contributes to the theories that support the end of this research. The writer wishes to prove whether the supporting theories are valid or invalid for this research.

1.5.2 PRACTICAL BENEFIT

In practical benefit, the writer wishes to bring benefit to the following:

1. For the writer, through this research, the writer is able to enrich the experience and further knowledge of logistics management.
2. For the company (PT. Bumi Sari Prima, Pematangsiantar), this research can help PT. Bumi Sari Prima to form a solution to the problem such as effectiveness and efficiency in logistic management, to improve the performance of the company itself.
3. For future researchers, this research can be used as additional references for future researchers on conducting pragmatic research.