

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Cigarette industries is growing more per year. In Indonesia, cigarette industries growth on 2013, increasing 13,46% or 29,14 trillion rupiahs compared to 2012 period (<http://www.jpnn.com/>, retrieved on 23 May 2014). That increasing number show how cigarette industries increase significantly. The development every year will also happen for year 2014 which estimated to reach 360 billion (Industry Update, Volume 3, February 2013). Progression in cigarette industries is supported by an increase in production and consumption each period.

In Indonesia, production and consumption of cigarettes have increased every year. Indonesia is the fourth highest in worldwide as a country with the highest cigarette consumers with 261,000 average number of cigarettes consumption per year after Russia and the United States shown in Figure 1.

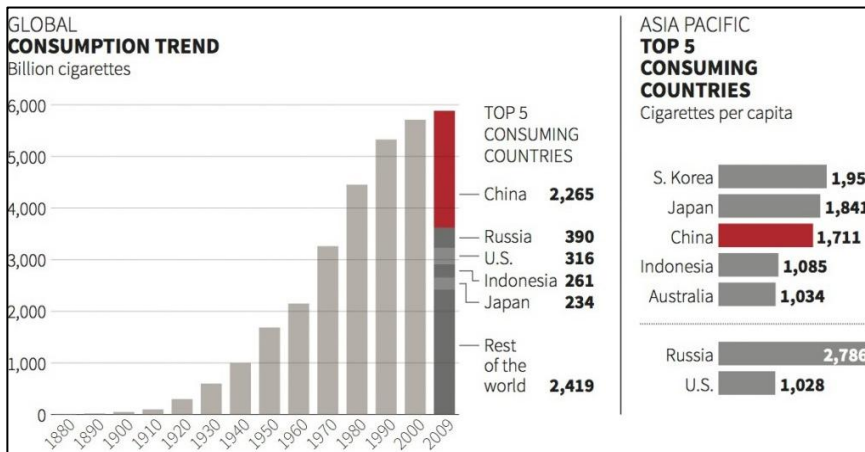


Figure 1. Top 5 Countries Cigarette Consumption

Note. From Tobacco Atlas Survey, 2009

Cigarette consumption in Indonesia is quite high. By increased consumption of Indonesian people towards smoking, cigarette industries tried to balance the production with demand levels of the society. In Figure 2, the level of production in 2006 to 2012 increased at least five billion rod production annually.

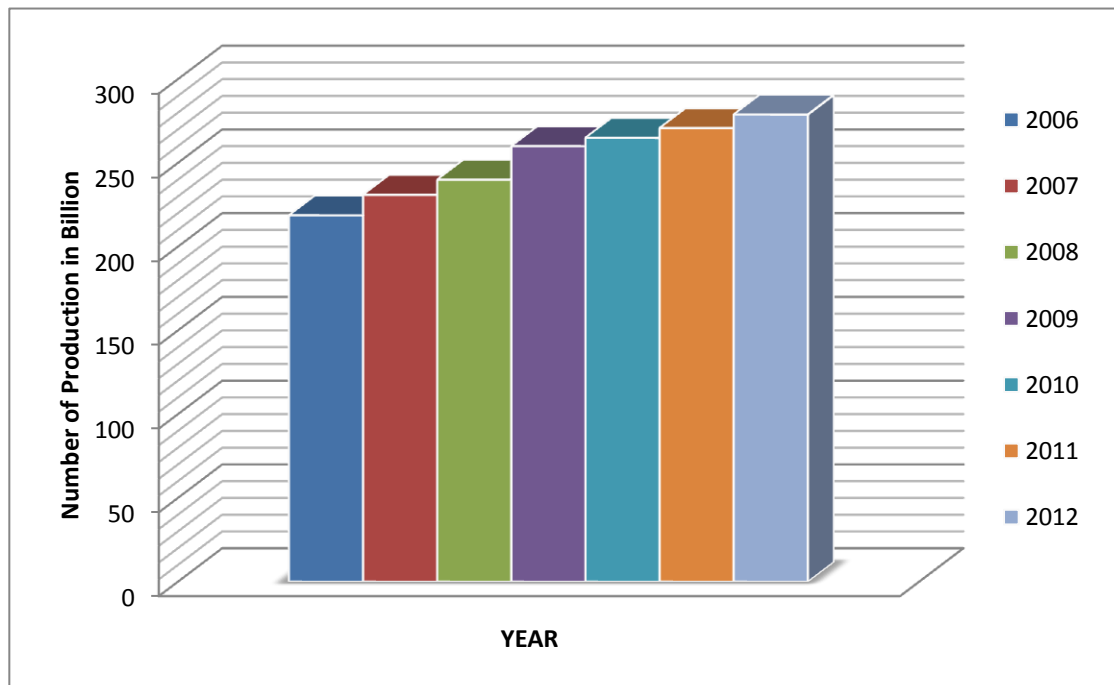


Figure 2. Total Production of Indonesian Cigarette Industries

Note. From Gappri & Indonesia Finance Today, 2012

The increasing number of cigarettes production every year, is industries effort to meet the rising consumer demand. The growth of production also adjust the growth rate of cigarettes sales level. One factor that affecting sales is consumer purchasing power (Perreau, 2013). Increased purchasing power will be positively related to increased cigarette sales. Increased purchasing power of Indonesian people is also supported by rising incomes in 2012 amounted 9,53%, equivalent to IDR 2,775 million per month or IDR 92,500 per day (<http://bps.go.id/> retrieved on 24 May 2014).

The significant increase in income has an impact on people's consumption behavior, especially the consumption of cigarettes. These are generally based on Survei Sosial Ekonomi Nasional (SUSENAS) in 2010 stated that the percentage of expenditures for cigarette consumption ranks second after rice consumption. While cigarette expenditure of the poorest households to be number one beat the cost of the need for nutritious food, education and health (Kinanti, 2014).

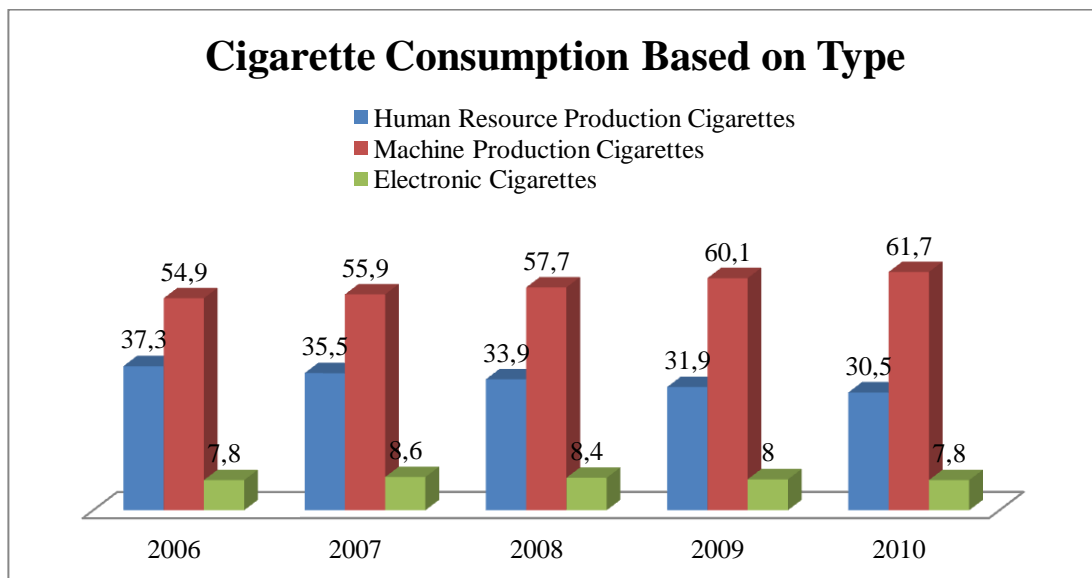


Figure 3. Cigarette Consumption Based on Type

Note. From Gappri & Kementrian Perindustrian

Increase in cigarette consumption is also influenced by the influx of new smokers and shifting consumer preferences. At present, cigarette consumers not only dominated by men, but also women and young people (13-15 years old). The newest update, men consumers reached 61.3% of the total Indonesian population. While female consumers reach 5.1% and youth consumers reach 64.7%, exceeding the male consumer. This shift in consumer behavior also occurs due to changes in cigarette consumption between large rod into cigarette rods and hand-rolled cigarettes (HRC) to Clove Cigarette Machine (CCM). This happens because the content of tobacco and cigarette filters on Clove Cigarette Machine lower than cigarettes hand-rolled

cigarettes, Kretek Cigarettes allowing cigarette machine consumed with more and more frequent as in Figure 3. At year 2006, the consumer of machine production cigarettes is on the top with 54,9% while the human resource production cigarettes is the second with 37,3% and the rest of 7,8% is the consumer who consume electronic cigarettes. By the time goes, the cigarettes consumer preference is increasing toward the machine production cigarettes until become 61,7% at year 2010, and the human resource production cigarettes is decreasing until become 30,5%.

Increased consumption of cigarettes affect the cigarette industries to increase production, especially on the phenomenon of preference shift towards hand-rolled cigarettes to CCM. Some cigarette industry focusing meet high consumer demand toward CCM, one of them is PT X. PT X is a company that started a business of cigarettes company with human labor production, but after some years, began to enter production using machines until now most of the production process from raw material to finished good is the machine production process.

PT X production process and output goal is to satisfy the customers demand. By the simple data gathered by the researcher with interview of the head of the department, the company machine production rate is about at 60 – 70% out of 100%. This number of rate, set by the company based on several conditions related to the machine itself, as well as production related to the needs of the fulfillment of consumer demand.

Production process in PT X happen in sequential order. First, PT X have two process in processing raw materials of packaging into finish good. PT X using flexography machine and rotogravure machine. For this process, both of these machine have different speed and production machine capacity. The first procedure, all the material should go to flexography machine. Flexography machine capacity is producing 2.842.000 papers per month. Flexography machine is process of huge big plain paper as the raw material that processed to be printed and pressed. After

processed by flexography machine, the work in process material will go through rotogravure machine. Rotogravure machine process is printing the packaging into finish packaging material. Rotogravure is the second place of processing the material. Rotogravure can process about 784.000 papers per month. Machine production speed and capacity process of the raw materials into finish good is different between these two machine. Because of this differentiation, there will be problem for the process. The output of flexography machine and the capability input of rotogravure have so much different amount.

Besides that, the age of some machine stated above which are use by PT X have reached the oldest is about more than 20 years used. The problem about age machine is related to the all speed, capacity and also quality which is day by day need some kind of improvement to satisfy customers demand and some changing design.

On the other hand, the company is in the state of avoid changes. The employee who are dominated by old employee that avoid the changing especially on technology used because they already comfortable with every available condition at the company. And also for the machinery domination, will cause of machine preference for production better than human production process. This is make old period employee in the company afraid that someday machine will replace their existence.

The government regulatory nowadays also become unstable and always changing. For the huge business like cigarettes company, the government regulation toward the company also the cigarettes consumer also sensitive. For the keep changing and unstable government regulation, will affect the company condition which also happen at PT X, and also the respond of the consumer towards the new regulatory that will make a new condition also.

For the good company activities at the company, included of PT X as a cigarettes company which have a large number of employee, is also focusing of the employee, supported the company activity flows. Any changing happen in the company, will have some effect both for the company and also the employee who worked at PT X. There are some changing occurred at PT X after having a different management that also noticed by the company about the employee commitment to the PT X.

From the condition stated above which explain the machinery condition of PT X, the unstable and keep changing government regulation, and also the changing work environment happen in PT X, the researcher want to give help for the company to make the recommendation using some alternative that will be review further. The researcher will analyze about the worthyness of optimal capacity used or the investment for new machine at the fututre, the affect of the changing regulation for the consumer and the company, and also the different environment that occured at PT X. Based on the phenomenon and theories above, the researcher conducted a study entitled: *“Managerial Issues at PT X: A Case Study”*

1.2 Research Problems

According to the background of the study, the research problems are :

1. What are the current issues faced by PT X related to marketing/ production packaging / human resource department ?
2. What are the company’s alternative strategies to solve the issues ?
3. What are the recommendations to solve the issues at PT X?

1.3 Research Objectives

The objectives of this proposed research are as follows:

1. To present the current issues faced by PT X related to marketing/ production packaging / human resource department.
2. To analyze the company’s alternative strategies to solve the issues.

3. To present the recommendation for PT X to solve the issues.

1.4 Research Contributions

The research is expected to make contributions as follows:

1. The Researcher

This study increases the researcher's knowledge, both in theory and in practice specifically on operational management and applied production and planning process. It completed researcher's knowledge about applied condition from theoretical practice. Also, it give researcher opportunity to applied given theory learned in class to real investment decision and production process.

2. Future Researcher

This research contributes as a basis of reference in Operational Management and exploring production planning and process and influence of company resource management to production process. This study can also be a reference for further studies in similar and related fields.

3. The Company

The result of this study is useful to PT X regarding its marketing, production of the packaging , and human resource department. This study can help the company to determine the actions that company should decided to solving the issues.

1.5 Research Limitation

This research used PT X head office as the object. This research focusing on some department of the company because of the researcher access is limited from the company. The research is focusing on production for the packaging division, marketing and human resource department. The company provide this research supported data of recent five years (2009-2013). This research is done on August 2014 until December 2014.

1.6 Research Outline

Research outline explains the systematic writing of this study. The outline is divided into five chapters as follows:

- Chapter I : This chapter sets up the research problem for the reader. It also provides the background information defining the issue and important terms. It specifies the research objectives explored in greater detail to contribute to understanding the research problem.
- Chapter II : This chapter summarizes the major studies and findings that have been published on the research topic and how this study contributes or adds to what has already been studied. This chapter also states a clear description of aggregate planning, material requirement planning, short term scheduling, consumer purchase decision, packaging, work commitment, work environment and job securities theories.
- Chapter III : This chapter explains the detailed technical and scientific activities which include the research design, sampling plan, instrumentation, statistical tools, and treatment of data.
- Chapter IV : This chapter organizes a logical presentation of the findings that address the research questions, and focus on how these key findings relate back to the theory and prior researchers presented at the beginning of the study.
- Chapter V : This chapter outlines the summary, conclusions, and recommendations supposed to advance the study of the research topic by its theoretical, methodological, or substantive contributions that may be necessary to overcome the limitations of existing empirical facts.