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Proposed Marketing Strategy to Increase Revenue for PT. Pipa Tanpa Kampuh Indonesia in Seamless Steel Pipe Industry

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ABSTRACT: PT. Pipa Tanpa Kampuh Indonesia (PTKI) is one of the industrial companies for manufacturing seamless steel pipes in Indonesia which has the ability to produce the final product Oil Country Tubular Goods (OCTG) and pipelines (Linepipe), which are used to support operations in the upstream oil and gas industry. The Company currently has an average Local Content of 27.11% for High-Grade products and 21.02% for Low-Grade products. The plant most likely produces products with the High-Grade type, where the market demand for this product gradually decreases every year. It was affecting the Company's revenue which decreased in recent years; moreover, the utilization of the installed production capacity has also decreased. Therefore, the Company is attempting to penetrate the market for Low-Grade products, which requires developing an effective marketing strategy to compete in this highly competitive market segment. This research conducts internal & external analysis of the Company using PESTEL analysis, Porter's 5 Forces, competitor analysis, and customer analysis with interviews are used to conduct external analysis. Meanwhile, Porter's Value Chain analysis, Segmentation-Targeting-Positioning (STP), Marketing mix 7P, and internal management interviews are used to conduct internal analysis. Further analysis was carried out using the SWOT, TOWS matrix and Root-cause analysis (RCA) with the Five Why's method. According to the analysis, it can be concluded that PTKI's customers respect the existing regulations, particularly those regulating the use of domestic products, and they expect a fast delivery time for Low-Grade products. Therefore, it may be recommended to the Company that product differentiation be considered to increase local content and do strategic stocking of materials commonly used in Indonesia.

KEYWORDS: Five Whys, Marketing Strategy, OCTG and Linepipe, Product Differentiation, SWOT, Seamless steel.

INTRODUCTION

PT. Pipa Tanpa Kampuh Indonesia (PTKI) is one of Indonesia's pipes manufacturers specializing in manufacturing seamless pipes from semi-finished products to finished goods ready for consumer sale. The primary manufacturing processes include heat treatment of steel pipes, nondestructive testing (NDT), threading, and finishing. PTKI was founded in 1985 and commenced production in 1994, a significant step forward for the Indonesian seamless steel pipe industry at the time. The production plant's location is particularly advantageous because it is at the centre of Indonesia's steel industry, specifically Krakatau Industrial Estate Cilegon (KIEC) and could manufacture products such as Oil Country Tubular Goods (OCTG), Linepipe, and its Accessories.

Oil and gas drilling may be classified into two categories based on their location: Onshore drilling and Offshore drilling. The Offshore field typically utilizes the material of the High-Grade type, and the Onshore field typically utilizes material of the Low-Grade type. In terms of OCTG demands in Indonesia, it has been seen over the last several years that demand Onshore is higher than demand Offshore, implying that the use of low-grade materials is also higher than the use of high-grade materials.

Table 1. OCTG Demand in Indonesia (in Tons)

	2015	2016	2017	2018	2019	2020	2021
Offshore	18,000	4,000	2,000	20,000	35,000	22,000	10,000
Onshore	40,000	13,000	10,000	44,000	35,000	30,000	35,000

Source: Internal Company's

PTKI's market share in the Onshore segment using Low-Grade materials is relatively low, with an average market share of 10% over the past four years. The Company needs to grow its market share in this category since there are still several opportunities to be pursued, which would increase revenue for the Company.

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Table 2. Company Market Share in Onshore segment

	2018	2019	2020	2021
Onshore	8.73%	11.49%	7.97%	13.29%

OCTG manufacturers and suppliers in Indonesia typically use a sales scheme for "Outright Sale" to sell the product and make the manufacturer apply the price war when participating or bidding in the tender, impacting the Company's revenue. Because the tight sales revenue, also added to the increment of overhead cost and unexpected costs, it makes the decreasing revenue and loss profit of PTKI for years. The Company needs to increase the revenue in the upcoming year and reduce the COGS to have better gross profit. In addition, steel raw materials prices had increased significantly since 2021, resulting in increased operational costs. According to the situation above, the Company needs to discover a strategy to increase its market revenue in the Low-Grade segment to increase business revenue, profitability, and business sustainability.

LITERATURE REVIEW

Marketing Strategy

Having a production plant in a country requires consideration of an effective marketing strategy for the product generated, which includes determining the target market and generating sustainable sales in order for the factory to operate simultaneously. Marketing strategy aims to attain a desirable, different, and defensible position. The position must be desirable because marketing is the process of satisfying consumers' wants and needs (Obermiller et al., 2008).

Furthermore, according to Rothaermel (2021), A firm that can outperform its competitors or the industry average over a prolonged period has a sustainable competitive advantage meanwhile if a firm underperforms its rivals or the industry average, it has a competitive disadvantage.

Business Environment Analysis

Cadle et al. (2014), The early engagement of Business analysis places a critical responsibility for ensuring that all business changes are in line with the organization's mission, objectives, and strategy. This business context is the key foundation for understanding and evaluating all ideas, proposals, issues and problems put forward by managers. Business environment analysis is the examination of both internal and external environmental elements, which have the goal of determining their impact on the business. It is to understand the circumstances and factors that affect the Company's business, both positive and negative.

Strategy Formulation

Gurel and Tat (2017), argue that Strategic management consists of the analysis, decisions, and actions an organization undertakes to create and sustain competitive advantages. The strategic management process is a sequential set of analyzes and choices that can increase the likelihood that an organization will choose a 'good strategy', that is, to generate competitive advantages.

METHODOLOGY

The methodology used is a qualitative data collection method consisting of primary data collection through interviews or surveys with the internal management and customers and direct observation. The secondary data collection method that would be performed for this final project consists of the literature studies, such as internal Company documents, theories from the textbook, journals, papers, and the internet.

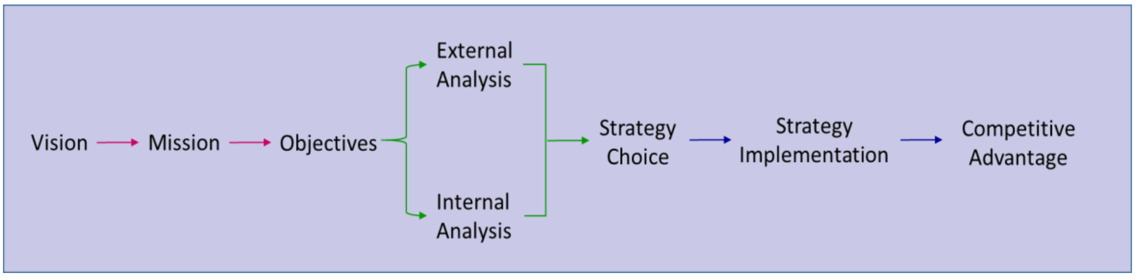

Figure 1. The Strategic Management Process
Source: Gurel and Tat, 2017

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The business issue exploration will use two environment analyses that need to be conducted with the details: external and internal analysis. The External Analysis: PESTEL analysis, Porter's 5 Forces, competitor analysis, and customer analysis with interviews. Meanwhile, for the Internal Analysis: Porter's Value Chain analysis, Segmentation-Targeting-Positioning (STP), Marketing mix 7P, and internal management interviews.

FINDINGS AND ARGUMENT

The Oil and Gas industry is still the largest contributor to Non-Tax State Revenue (PNBP). It was recorded in 2020 as an income of IDR 69.7 Trillion or 4% (State Income 1,647) of national income, and continue in 2021 recorded an income of IDR 97.98 or 5% of national income. This data shows that the oil and gas industry remains the fundament of the national economy. The government should continue to support the oil and gas sector and its supporting industrial sector to make a valuable contribution to national industry income and development. Furthermore, the total population in Indonesia is predicted to increase every year, which is increasing by 1.25% annually, thus it will impact the increasing demand for oil and gas and materials to support upstream oil and gas business activities, such as the OCTG seamless pipe.

Regulations for the Procurement of goods and services encourage the optimization of domestic products' use. The regulations require a minimum local content threshold for several categories of goods produced domestically. Currently, for OCTG and Linepipe products in the High-Grade category, the minimum required local content is 25%, while the minimum required local content is 10% for the Low-Grade category. Oil and gas operators in Indonesia will try to fulfill the local content requirements to follow the applicable regulations and get additional incentives from the government.

Porter's five forces analysis was carried out in this research for the PTKI with summarized in table below:

Table 3. Summary Porter's Five Forces Analysis of PTKI

No	Forces Element	Analysis Result	Remarks
1	Threat of New Entrants	Medium	Potential new competitors with local content 40% but having financial problems
2	Threat of Substitutes	Low	Almost impossible for steel materials to be replaced by other materials in the construction of drilling-well structures
3	Bargaining Power of Buyers	High	- There are many suppliers for OCTG seamless pipes, especially in the Low-Grade material - Switching costs from existing suppliers are also cheap and low impact
4	Bargaining Power of Suppliers	High	- PTKI has to source Plain End material from Tenacity global - Does not have many choices for vendors who have qualified in the internal Approved Vendor List (AVL) system
5	Rivalry Among Competitors	High	Many competitors have similar products and the flexibility to source cheaper raw materials

Source: Author

Manufacturers dominate the OCTG Low-Grade market sector those with the threading facility. These manufacturers' operating costs are lower than those with heat treatment facilities since they were typically sourced from the Chinese mill and have fewer employees, which makes their offer price could be lower during the tender process.

Based on the in-depth interviews conducted with the customer, summarized as follows; Low-Grade materials dominate the need for OCTG products in Onshore projects; Shall comply with applicable regulations, especially Local Content; Expected fast delivery time; and Excellent perception of PTKI and Tenacity. Furthermore, the Positioning of PTKI can be concluded to focus more on OCTG products with high quality, requiring good product durability and satisfactory after-sales service.

Seamless pipe products from Company are known as products with high-quality standards and many choices for material grades and End-connections. Customers can choose the products needed for the operational conditions of their project. Moreover, they currently focuses on High-grade products using Premium Connection. The level of product quality and after-sales services is

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generally directly proportional to the price offered to customers. PTKI has high standards for both variables, so the price offered is also higher than its competitors. Therefore, PTKI must provide product differentiation and other services so that customers can prefer to use products produced by Company compared to products from competitors.

The process for selling OCTG and Linepipe products to customers is based on a tender process following regulation such PTK 007, 4th edition, in which the business that wins the tender continues to the next step, which is contract signing and submission of a bank guarantee in the form of a Performance Bond equal to 5% of the contract value. After the contract becomes active, the customer has the right to issue a Purchase Order (PO) for the Procurement of materials in conformity with the contract's delivery times.

Furthermore, based on the in-depth interviews conducted with the internal management, summarized as follows; Have a diverse product portfolio and high-quality standards; Have domestic production facilities with a minimum of 25% local product content; Integrated with Tenacity global production and financial system; Possess competent human resources; Have an inflexible system; Factory setting and standard cost level according to the premium products; and Lack of coordination between intra-department.

TOWS matrix can be used to develop a business by analyzing existing external conditions. This model makes it possible to use four kinds of strategic options that can be done by adjusting the business model of the analyzed Company. The TOWS matrix analysis of PTKI can be concluded as follows:

Table 4. TOWS Matrix PTKI

	External Opportunities (O)	**External Threats (T)**
	1. Government regulations that encouraging to maximize the use of domestic products 2. The latest API 5CT standard (10th Edition) regulates the Product Specification Level (PSL) for Low Grade 3. The Chinese government has repealed the tax rebate regulation 4. Government program to increase oil and gas production until 2030 5. Seamless steel pipe for drilling will not be replaced for decades ahead	1. New competitor with rolling mill facility (Local content 40%) 2. Competitors who use raw materials from Chinese mills 3. Competitors that stock the materials in Indonesia 4. High bargaining power of buyer in Low Grade segment 5. Changes in government regulations and policies
Internal Strengths (S) 1. Have high product quality standards 2. Have a domestic factory with Heat Treatment facilities (Local Content 25%) 3. Have highly talented and experienced employees 4. Integrated with Tenacity, a world-class seamless steel manufacturing company 5. Have strong financial support 6. Have a complete product portfolio diversification 7. Have strict Business Conduct Compliance	**SO** 1. Promote migration for Low-grade product with PSL-2 as Heat Treatment is mandatory (S1+S2+S3) | (O1+O2) 2. Technical differentiation to customer and approach migration to High Grade material (S1+S2+S3+S6) | (O1+O2+O3+O5) 3. Apply smart investment to the production line, following the market demand (S3+S4+S5) | (O3+O4+O5)	**ST** 1. Promote strategic stock, consignment and integrated services scheme for big Onshore customer (S3+S4+S5) | (T1+T3) 2. Seek possibility for Joint Venture (JV) or acquisition to the new potential competitor (S1+S2+S3+S4+S5) | (T1+T2+T4) 3. Active in business association/ organization to keep updated with regulation and deliver the aspirations (S3+S7) | (T5)

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Internal Weakness (W)	WO	WT
1. Mandatory source of raw materials from Tenacity mills 2. Have a high standard of production cost 3. Bonding between employees and the Company is relatively low 4. Inflexible work system and centralized approval system 5. Top Management (Expatriate) assignment for a short time	1. Production efficiency to reduce production cost (W2) | (O2+O3) 2. Maintain knowledge management and sharing from experienced to young talent employees (W3) | (O4+O5) 3. Encourage local talent to lead as Top level management (W3+W5) | (O1+O4)	1. Seek possibilities to source raw materials from alternative mills (W1) | (T2) 2. Provide employee retention/engaging program to prevent move to competitors. (W1) | (T1) 3. Increasing export market / order (W4) | (T1+T4+T5)

Source: Author

Based on the conducted root cause analysis, it was identified that the market share in the Onshore market is relatively low because customers mostly use Low-Grade products with API connections in this market segment. Many competitors can produce this product, especially manufacturers that only have threading facilities and only have a minimum Local Content value 15%. Those competitors have lower production costs because their fixed costs are generally lower, such as smaller factory areas, simpler machine tools, and fewer employees.

Moreover, PTKI's proposed positioning in the Onshore market is to offer Low-Grade products with enhanced quality, have high local content, and provide additional services that provide more benefits to customers. The Manufacturing process of Low-Grade products with Product Specification Level (PSL)-1 is relatively simple, with minimal differentiation from competitors. In order to have product differentiation from competitors, it is necessary to upgrade this Low-Grade product with PSL-2 by following API 5CT standards. PTKI can do a trial production first for Low-Grade products with this PSL-2, then Company can apply for a Local Content certificate for this product. The advantage of having a Local Content certificate and being registered in the APDN Migas list is that this item becomes a Mandatory Goods. Oil and Gas Companies shall require a minimum of 25% Local Content during the tender process for the Mandatory Goods.

To avoid a price war, PTKI must be able to formulate a strategy to make them different from the competitors. In this case, they could continue to maintain a healthy margin offer, but can provide additional services differentiation to the customer for free. Furthermore, the salesforce team must do mapping for customers who have onshore projects with higher operating risks and have a pretty good mindset about quality issues. This team can also promote the migration of Low-Grade products from PSL-1 to PSL-2 or even migration to High-Grade products.

Employees at PTKI already have a long experience in producing High-Grade products that require a Heat Treatment process, so producing Low-Grade PSL-2 products should not require a great effort. The following are some actions that the Company may take to prepare employees to manufacture Low-Grade pipes using PSL-2: Conduct a short workshop to socialize this new product; an It takes time for the trial process and the issuance of local content certificates to be introduced to the market; moreover, further promotion and education are required for customers to use Low-Grade products with PSL-2. Therefore, PTKI can implement the Bridging Strategy to increase market share in the Onshore segment until the Low-Grade PSL-2 product is introduced. Then, the Company can do strategic stock for Plain End of Low-Grade material with casing sizes commonly used in Oil and Gas fields in Indonesia. It can also help to limit competition during the tendering process.d Conduct a production trial to determine the tuning of variables used in the mass production process.

The proposed marketing mix for penetration in the Onshore (Low-Grade) segment, it can be concluded as follows:

a- Product: Competing against competitors that source raw materials from China will lead to a price war; hence product differentiation is important for customer penetration. The product that will be offered to the Onshore market is Low-Grade with PSL-2.

b- Place: The plant location located in Java is one of the Company's important advantages over its competitors.

c- Promotion: Salesforce's team must have started planning how to introduce Low-Grade products with PSL-2 to various targeted customers and prospects.

d- Price: The Company still has to maintain healthy margins to create a more sustainable business. Product differentiation is the key to keep getting a healthy margin.

e- Process and People: The plant and its workforce must have started planning for assessments, trials, training, and other essential needs to efficiently produce these new items.

f- Physical Evidence: The existence of domestic production facilities and current government support must be utilized optimally. Local Content certificates are important in limiting competition. Furthermore, the Company can also consider strategic stock during the transition period for introducing this new product until the plant is ready for mass production.

CONCLUSIONS

PTKI is an Indonesian Oil Country Tubular Goods (OCTG) and Linepipe processing business with heat treatment and premium connection threading facilities. Indonesia's oil and gas activities are presently dominated by Onshore fields, which are generally mature and have undergone a natural decline in production. Customers in the Onshore segment generally use Low-Grade products with API Connections. Apparent Demand in the Onshore market segment for OCTG products is 78% of the total OCTG demand in 2021, and the market share of PTKI in this segment is 13.29%. In addition, the Company's revenue also decreased by 15.4% in 2020 compared to the previous year.

According to internal and external analysis, PTKI has advantages in high-quality products, advantages in integrating with global Tenacity, experienced and excellent human resources, domestic manufacturing facilities with a high level of local content value, and is located on Java Island. However, PTKI has weaknesses, such as the necessity for raw materials to be sourced from Tenacity mills, an inflexible system, and high production costs. As a result, PTKI's selling price is relatively higher than its competitors, particularly those manufacturers with only threading facilities.

Therefore, innovation in Marketing Strategy at PTKI must be needed to increase the Company's revenue, in which the feasible possibility is to penetrate the market in the Onshore segment that generally uses Low-Grade products. Moreover, with the increase in sales in this segment, the factory's production utilization will align with its installed capacity.

Based on the analysis that has been carried out by considering several factors that are relevant to the company and market conditions, it can be recommended for the proposed marketing strategies at PTKI are as follows:

1- Improving the quality standards of Low-Grade products in the market
2- Register and obtain Local Content certificates for Low-Grade PSL-2 products
3- Consider purchases for Strategic Stock materials in Indonesia
4- Promote to the customer to purchase the materials with the additional services
5- Promote Consignment scheme and Ease of Payment scheme
6- Reduce production costs

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