



## Developing Key Account and Distributor Management to Stimulate Sales in Krakatau Steel

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**ABSTRACT:** Krakatau Steel (KS) is a steel manufacturer in Indonesia. As a steel manufacturer, KS has to operate efficiently by achieving the economies of scale. Plays in commodity, make KS has to deal with price fluctuation. In uptrend price, customers tend to place more order to maximize the profit. Customers tend to place less order in the downtrend price to minimize the risk of high price inventory. KS has domestic competitors like Gunung Raja Paksi, Gunawan Dian Jaya Steel, Java Pacific, and ArcelorMittal Nippon Steel. KS also has competitor from import like China, Japan and Korea. To fulfil production capacity constantly, KS has to collaborate with its customers, understanding their needs and fulfil it with the product and service that delivered. There are several categories of customers in this industry, large fabricators, small fabricators, large resellers, small resellers, projects and retailers. Large fabricators and large resellers have a big portion in order placement. KS has to select large fabricators and large resellers to join with key account and distributor management. Then categorize it into strategic customers, star customers, status customers or streamline customers. KS has to collaborate with every category differently to be effective and efficient.

**KEYWORDS:** Collaboration, Economies of Scale, Fluctuation, Order Placement, Price.

### INTRODUCTION

Hot rolled steel (HR) is a group of finished products that produce in Krakatau Steel (KS). This group consist of hot rolled coil, recoiled hot rolled coil, slitted hot rolled coil and sheets & plates. The raw material of HR is slab steel that made from sponge iron, scrap and other alloys to meet with expected specification and grade. Apart from being sold to domestic market or export, HR also processed to be cold rolled steel (CR) in KS's production facilities.

HR and CR are the main product of KS. These products are used for end products like construction, automotive, ship, oil and gas, and household. Market for these products is very competitive both domestic and international. There are many specifications variance, production cost and price acceptance for each segment.

The selling price of HR and CR both domestic and export are fluctuative, similarly with the slab price. The fluctuation is very dynamic, can be up and down rapidly in different price position. The slab source that become the raw material of KS mostly imported from overseas with US\$ currency and KS mostly sell HR and CR in domestic market with IDR currency. Therefore, the currency fluctuation is impacted to the profitability performance.

Deal with domestic demand growth, KS has to implement strategy to fulfil the production capacity. For HR, production capacity is 2.4 million tonnes per year. KS also has the CR production capacity around 0.8 million tonnes per year. To utilize the production capacity optimally, KS need order placement that match with the production capacity. So that it can reduce the unit cost by achieving the economies of scale.

Plays in commodity market will be impacted by price fluctuation. On one hand, customers tend to place more order when the price predicted will be increase in the next period to maximize the profit. Customers tend to place less order in the downtrend price to minimize the risk of high price inventory. On the other hand, KS as steel manufacturer need minimum quantity to operate efficiently. KS has domestic competitors like Gunung Raja Paksi, Gunawan Dian Jaya Steel, Java Pacific, and ArcelorMittal Nippon Steel. In 2021 the average utilization of steel producers in Indonesia was around 53% [6]. In this industry, there will be new entrants like Tsingshan in morowali with steel production capacity 3.4 million tonnes per year and Hebei Bishi Steel in Kendal with steel production capacity 3 million tonnes per year.

KS also has competitor from import like China, Japan and Korea. In 2021 the steel import from China, Japan and Korea were 1.4 million, 2.5 million and 2.4 million [3]. These three countries also have free trade agreement with Indonesia like AC-FTA (ASEAN-China Free Trade Agreement), AK-FTA (ASEAN-Korea Republic Free Trade Agreement) and bilateral agreement like IJ-EPA



(Indonesia Japan Economic Partnership Agreement). In these agreements, each party agree to reduce the import duty for several products.

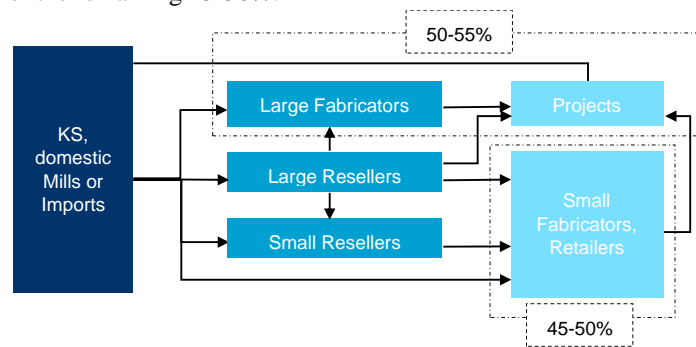
KS, other domestic mills and import are competing to serve the domestic market with the market share shows in table 1. These three suppliers compete to serve the fabricators, resellers and retailers. KS has to identify the competitors, customers characteristic and make the strategy to fulfill the production capacity and maximize profit.

**Table 1.** Domestic market share in 2021

Product	KS	Other domestic	Import
HR	40%	28%	32%
CR	20%	23%	57%

KS products (HR and CR) price are very fluctuative. In the increase trend, customer tend to place more order because customer want to get the momentum by buying low and selling high. When the price trend is decreasing, customer tend to place less order because customer want to minimize the risk of high price inventory. High price inventory is difficult to sell because it is potentially made a negative margin.

Indonesia steel market architecture consist of large fabricators, projects that account for 50-55% of the consumption; and small fabricators and retailers account for the remaining 45-50%.



**Figure 1.** Indonesia steel market architecture

To fulfil production capacity constantly, KS has to collaborate with large fabricators and large resellers. Fabricators are the company that process HR or CR to the next product. They have a fixed cost and to be more efficient they have to increase the utilization of their machine so that they can reduce the unit cost. Resellers in steel industry are the one that have a storage and sell the product to end user. Mostly, they have a high purchasing power and high inventory so that they can buffer the price fluctuation. KS has to implement key account management with the large fabricators to grab minimum order quantity and implement distributorship program to maintain domestic price and market inventory.

**LITERATURE REVIEW**

The characteristics of upstream market are high quantity and low margin. Therefore, implementing cost leadership is important for KS rather than differentiation focus. KS can not charge the price that far different above average price, so that cost reduction is the option to generate more profit. KS has to collaborate with large fabricators as key account and large resellers as distributor. Selected large fabricators and large resellers that meet with criteria like capability & infrastructure and willingness to partners & excitement will be joining with key account management and distributorship program.

Key account and distributor management digs deep within a company to find the breadth of offer and innovation that these customers seek. It necessitates a significant shift from traditional working methods. Any supplier's capacity for intimacy has a limit that must be acknowledged. The optimal number of key customers is somewhere between 15 and 35. They may range from 5 to 75, but those at the upper end of this range are usually actively working to reduce the number.

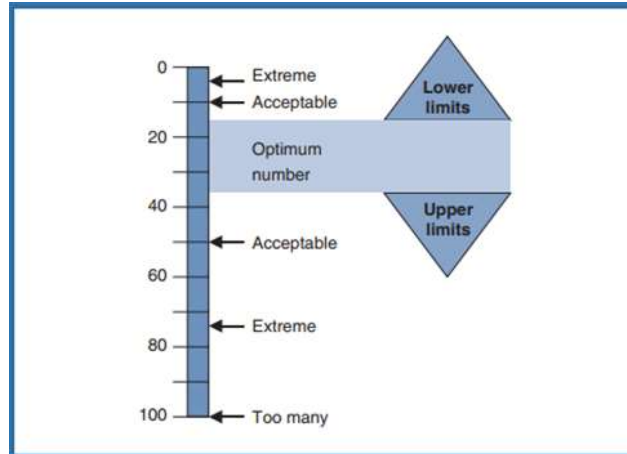


Figure 2. Numbers of key account or distributor [4]

KS selects and categorizes the larger fabricators and large resellers to join with this program by using strategic partner selection matrix Figure 3 [4]. The position of customer in this matrix suggests the decision to treat the customer for some aspects like investment, management and pricing. Based on this matrix there are four groups of customers:

1. Strategic customers  
This group has a large amount of KS product in their business, but KS has to continue to find ways of developing further business together. KS make money from this customer, but KS has to invest, bring value and expand the market through collaboration
2. Star customers  
These are potentially become strategic customers in the future. Currently these customers do not do a lot of business, but analysis reveals that they are the kind of customers that fits well with KS strategy and has strong future potential.
3. Status customers  
These customers do a lot of business with KS, but their attractiveness as a key customer is low. Their business or market is probably mature and unlikely to expand. KS has to treat them well because they likely contribute a large portion of KS revenue. KS has to spend money and give the idea to these customers wisely.
4. Streamline customers  
These customers mostly asking about the price. Since KS needs quantity to operate efficiently, KS has to manage cost and gross margin carefully.



Figure 3. Strategic customers selection matrix [3]



**METHODOLOGY**

Quantitative method is used in analyzing data in this research. There are two tools that used to analyze data, pareto diagram and bubble chart:

- Pareto diagram  
Pareto diagram is a graphical representation of the pareto principle, which explained the 80% of effect come from 20% of the causes. A pareto diagram is a bar chart that ordered in descending order. When evaluating many possibilities or scenarios, Pareto diagrams can be helpful for determining which factors in a circumstance are the most crucial to pay attention to. In this research pareto diagram is used to select the priority customer to be served by KS. KS has to prioritize its customers because of the limited resources.
- Bubble chart  
A bubble chart is a sort of diagram in which the data points are represented by circles, or "bubbles." Each circle is often colored and scaled according to a certain value, and its location on the chart corresponds to additional values. Due to their ability to display a third dimension (size) in addition to the usual x and y axes, bubble charts are frequently used to visualize data with three or more dimensions. They are helpful for visually comparing a collection of data with numerous qualities. For analyzing data in this research, x axis is representing the customers excitement to KS, y axis is representing about customers attractiveness, and the size of bubble explained about customer spending. The data of customer excitement is collected by the questionnaire. Customers’s attractiveness is the internal data named customer rating that explained about on time of the historical payment, cumulative late amount, the six months of historical order, and order frequencies in the last six month. Customer spending is figure out by the average of order that placed by customers monthly.

**RESULT AND DISCUSSIONS**

**Customer Satisfaction Index**

To know about customers excitement, the series of interaction between KS and customers are explained in figure 4. All touchpoints from the first step when customers meet salesman until claim process are identified there.

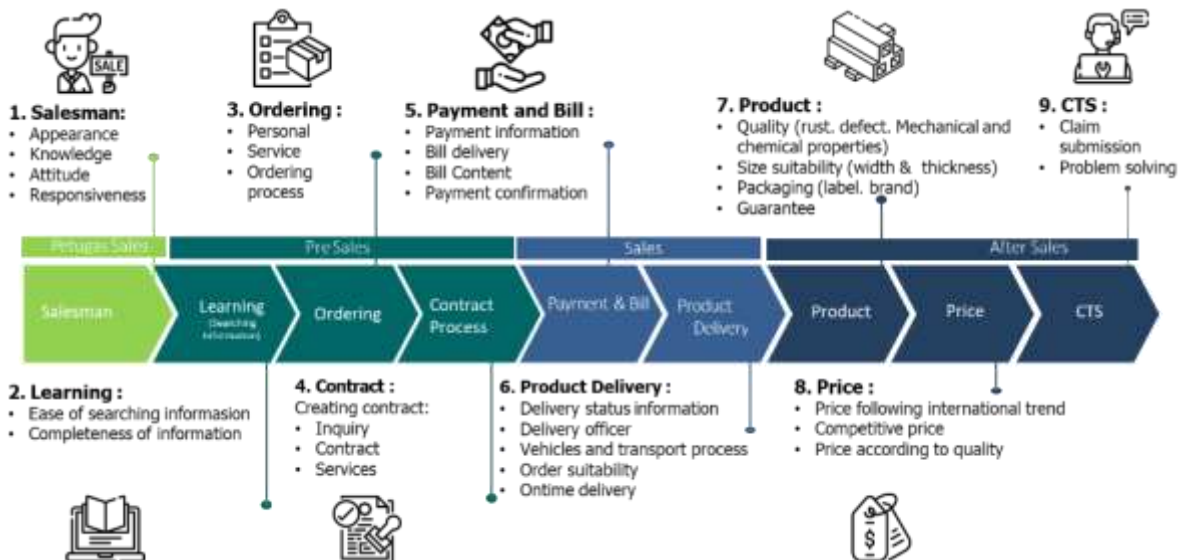


Figure 4. Customer Journey

Based on the feedback from customers, named Customer Satisfaction Index (CSI), there are two priorities that have to be solved by KS, price and product delivery. Steel is a commodity, which means that switching costs are cheap. KS has to manage price to be competitive compared to other domestics or imports. KS has to take into account about delivery, which necessitates proper production planning, prepared raw material inventories, and production efficiency.



Figure 5. Customer Satisfaction Index (CSI)

Based on short interview with large fabricator and large reseller it's ok if KS price is higher than imports around 200-300 IDR/kg. KS also has to manage its lead time, at least faster than imports. KS has limited working capital based on the financial statement, increasing level of inventory is not a solution to reduce the lead time. So that KS has to set several customers to be prioritized.

Table 2. Customers's feedback

Issues	Feedback	Source
Price	We are ok with KS price being higher than imports by 200-300 IDR/kg higher – it will take care of the exchange fluctuations for us. Anything higher, we have to look for other option	Large fabricator
	Different surcharges levelled across months on different sizes makes pricing non transparent – some consistency is expected	Large fabricator
	We have proven to give huge orders to KS when KS price is dropped to be within IDR 200-300 vs GG	Large reseller
	We trust supplier who provide equal playing field (equal price, credit terms, payment guarantees, etc.) to resellers at same partnership level	Large reseller
Delivery	KS delivery lead time is the highest – imports get delivered around 2 months, local suppliers deliver around 4 weeks. KS is usually 2 months or more, sometimes faster.	Large fabricator
	For the customers who have a time bound requirement I usually go in for other supplier as I am not sure KS will deliver on time.	Large reseller
	We can increase purchase from KS from 10kT to 14-15kT if delivery can be with in 4 weeks. We will commit to order 90% of our forecast.	Large reseller

**Selecting and Categorizing Key Account**

Due to limited resources, KS has to select several fabricators that should be prioritized in delivering its services. From 62 fabricators, there are 15 fabricators that impact to 80% order placement. These 15 fabricators should be prioritized by KS and KS should treat these fabricators as key account. By solving the price and product delivery issues in key account, its expected KS can generate order that can fulfill 40-50% of the production capacity.



Figure 6. Fabricators’s order performance

The 15 fabricators that selected to be key account should be treated differently based on their position in the matrix.

1. Strategic customers  
This category is the customers that have high CSI and high customer rating. There are five customers in this quadrant, AM/NS, Sunrise Steel, Perjuangan, Farika, Tumbakmas. Strategic customers are customers that crucial for long-term success of KS. KS should keep investing in providing the added value. KS should collaborate with these customers for innovative and significant project.
2. Star customers  
Star customers are the customers that have low CSI and high customer rating. Star customers are prospective as strategic customers. KS has to evaluate and explore way to shift mindset due to their potential growth. Customers that have position in this quadrant are NS Bluescoop, Steel Pipe, Saranacentral, Indonesia Steel, Bakrie Pipe, Srirejeki, and Duta Hita.
3. Status customers  
This quadrant are customers that have high CSI and low customer rating. There is one customer in this quadrant, Tata Metal. For status customers, KS has to do a collaborative work to increase capability.
4. Streamline customers  
Streamline customers are customers that have low CSI and low customer rating. Though have low CSI and low customer rating, KS has to serve this category as key account, because it can impact to 80% order placement from farbricators. For this category, KS has to manage for cash and manage cost carefully to make sure the gross margin. There are two customers in this category, Krakatau Pipe and Fumira.

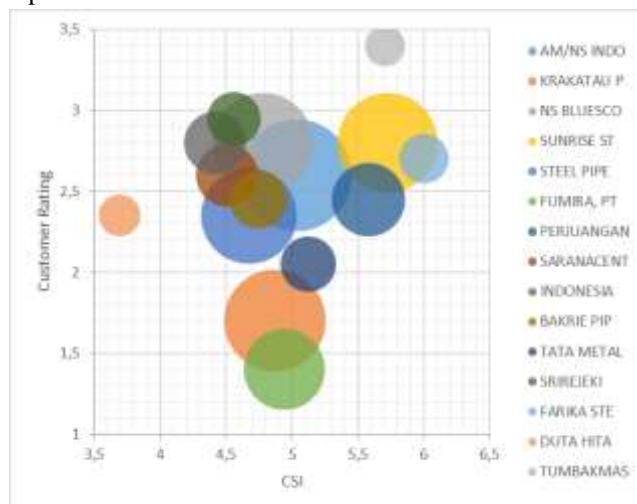


Figure 7. Key account matrix



**Selecting and Categorizing Distributor**

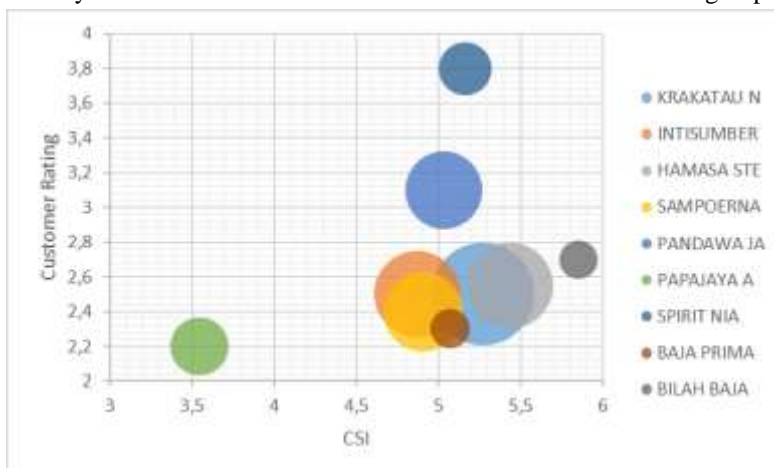
To be more efficient, KS must decide which resellers should be given priority when providing its services. There are 9 resellers out of 49 that influence resellers order placement by 80%. The 9 resellers should be given priority by KS and collaborate with them as distributors.



**Figure 8.** Resellers’s order performance

The 9 resellers that selected to be distributors should be served differently based on their position in the matrix.

1. Strategic customers  
Customers that have high CSI and high customer rating fall into this category. In this quadrant, there are two customers: Pandawa and Spirit. These two customers are essential to KS's long-term success and known as strategic customers. KS should continue to make investments in offering the value-added. With these customers, KS ought to work on innovative and important projects.
2. Status customers  
Customers with a high CSI and low customer rating are considered as status customers. Krakatau Niaga, Intisumber, Hamasa, Sampoerna, Baja Prima, and Bilah are the six customers in this category. KS should work collaboratively to develop capability and carefully manage costs.
3. Streamline customers  
Customers who have low CSI and low customer rating are considered streamline customers. Although this category has a low CSI and low customer rating, KS must treat it as a distributor because it can influence up to 80% of orders placed by resellers. KS must carefully control costs and cash flow. There is one customer in this group: Papajaya.



**Figure 9.** Distributor matrix



## PROPOSED BUSINESS SOLUTION

Based on the analysis, KS has to serve the priority customer based on the position on the matrix. KS also has to solve the priority issue like price and delivery.

### Proposed Solution for Key Account

Key accounts are priority fabricators that processing HR or CR from KS to the next product. They will continue the production even the price up or down because they have to achieve economies of scale to minimize their unit cost. So that they place order constantly to KS. KS also has to solve these customers pain point to grab more order from these customers.

KS should deliver price transparency and give standard price. It's better for KS to give price compensation based on key account performance. For sharing information about the price, KS should manage it based on the position in the matrix. Strategic customers like AM/NS, Sunrise Steel, Perjuangan, Farika, Tumbakmas can get the information about pricing policy even on sensitive subjects. For example, KS can share the information about international price and price of imported product that KS get from any sources. For star and status customers, like NS Bluescoop, Steel Pipe, Saranacental, Indonesia Steel, Bakrie Pipe, Srejekki, Duta Hita and Tata Metal, KS can share some sensitive information. For streamline customers like Krakatau Pipe and Fumira, KS only can share limited information.

To solve delivery issue, KS should be more transparent about order progress and make planning together with key account customer. For strategic customer, KS can collaborate with joint strategic long term planning include product development. For star and status customers join business planning only focus on product delivery issues. For streamline customers more focus on forecasting, rather than join planning. By doing joint business planning, the business unit in KS that include in primary activities like inbound logistics, operations, outbound logistics, marketing and sales can be more prepare in handling the order placement.

KS also has to improve relationship with key accounts, understand customer strategic direction and accelerate high priority issues to top management for consideration and resolution. For engagement with its key accounts KS has to keep contact with them. For streamline key account, the contact is between salesman and buyer. For star and status customers the contact should be all function as necessary. For strategic customers, there should be focus groups and teams.

### Proposed Solution for Distributor

Distributors are the priority resellers that buy and sell KS HR or CR without processing it to become the next product. They buy product from KS in large scale, and sell it with smaller scale to fabricators, small resellers, projects and retailers. Because distributors not processing the product, they only have low fixed cost that can make them very speculative in buying, selling and managing inventory.

Price for distributors are related to their profit. When they buy product in up trend price they will get more profit because they buy low and sell high. When they buy product in down trend price, it will be difficult for them to sell the high price inventory. KS has to collaborate with distributor in deliver the price and manage market inventory. In up trend price, KS has to allow the distributors take more profit. In down trend price, KS has to set the price down when the inventory in distributor already reduce. KS also has to set rebate based on distributors performance to stimulate order placement. The rebate can be used by distributor for the next purchase. The rebate also consider with share of wallet performance, so that distributors more loyal to KS.

In solving the delivery issue, strategic and status customers can do joint business planning and streamline customers can do forecasting. KS also has to provide strategic customers with focus group discussion in solving any issues. For any late, KS also has to provide distributors with longer credit term.

## CONCLUSION

Plays in commodity will impacted by price fluctuation. This price fluctuation also impacted to order placement. KS, as a manufacturer need a minimum order to operate efficiently. Identify the customers's characteristic will enable KS to grab more order.

There are two categories of customers that important in order placement, fabricators and resellers. In each category, there are 20% of customers that can influence 80% of volume. Mapping these 20% into the matrix and deliver the services based on their position in quadrant can be effective way to differentiate the services.

Identify gives and gets, review & adjust incentive structure, and monitor & evaluate performances should be done regularly in improving the services. Sign an agreement with selected customers is a must in order to secure the order and bring benefit for both parties.





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