CHAPTER 2

Literature Review

2.1. Analysis Of External Enviroment

The analysis of external environment is a strategic tool, which is commonly used by companies to identify the external elements. It can affect the organization's performance. The analysis consists of assessing the level of threat or opportunity the factors might present David (2011). The method used to analyze the external environments is based on PEST analysis, which has four components of analysis: economy, politics, social and technology.

1. The politic has an effect in a business as we are never sure what new rules will be implied in the future. For example, tax, import policy, new laws and insurance will make an uncertainty in a business that is developing.
2. Economy is based on several factor, currency, interest rate, economy growth and inflation. This factor may impact the business in making a decision based on the current economy situation. For example, a high exchange rate towards USD might affect company import-export activity.
3. Social is based on the culture, trends, age and population income to determine which products are best suited in the category of the product you offer.
4. Technology has a big potential in business as how it can keep growing and changes the traditional trend to a more simplistic way. For example, buying offline-online create more value added to the service or product that is offered.

2.2 Industrial Analysis

In the analysis of industry, Porter's five forces is the tool to indicate the competition with competitors (Porter 2008).

Picture 2. 1 : five key factors of porter 5 force

Source: the five competitive forces that shape strategy (Michael Porter, M. E.,2008).

1. Rivalry Among Existing Competitors

Rivalry among existing competitors take many familiar forms, including price discounting, new product introductions, advertising campaigns, and service improvements. High rivalry will limit the profitability of the industry. Rivalry can drive down an industry's profit potential depends on two things. Firstly, the intensity with which companies compete; and secondly, on the basis on which they compete.

2. Threat of New Entrants

New entrants to an industry could bring a new capacity and a desire to gain market that puts pressure at price, cost, and the rate of investment to compete to

compete in the market. When the threat is high, industry will hold down their prices to deter new competitors. Thus, making the competition even more intense.

3. Bargaining power of Suppliers

Suppliers are the support of the industry that provide raw materials, labors, service, and technology. Powerful suppliers capture more of the value for themselves by charging higher prices, limiting quality or services, or shifting costs to industry participants. However if the total suppliers are high, it will naturally impact a lower price on the market. Nevertheless, if the suppliers are less on the market it will make a higher charging price.

4. Bargaining Power of Buyers

The bargaining power of buyers are offered made to customers, whether it's high or low, because it will impact on their decision to purchase or find other alternative products. The bargaining power of buyers will be high if there is a lot of competition in the market that provide the same product or service. The bargaining power of buyers will be low if there is not much product or service being offered in the market.

5. Threat of Substitute products

Substitute products are products that are from a different industry but perform in the same function. A substitute performs the same or in a similar function as an industry's product by different means. Video conferencing is a substitute for travel. Plastic is a substitute for aluminum. E-mail is a substitute for express mail. When the threat of substitutes are high, industry profitability suffers because customer can choose product or service form a different company.

With the use of five Porter analysis, a company might see the threats outside their own industry in order to face the threats that might affect their products.

2.3 SWOT Analysis

SWOT analysis, assess the strengths, weaknesses, opportunities and threats of a company. Strengths and weaknesses are reviewed in context of current and future opportunities and threats. The clearer understanding of strengths and weaknesses, the less likely unfeasible opportunities pursue. Also, feasible opportunities can be used to counter threat, weaknesses can be overcome through strengths, and strengths can be used to respond threats. According to BARNEY et al., (2006), SWOT analysis reveals an organization's current situation and makes it possible to develop future action plans for the organization. If the technique is used properly, it can provide a good basis for strategy formulation. The few keys tool of SWOT are:

1. Strength is the characteristic that adds value to something and makes it more special than others. Strength means that something is more advantage when compared to something else. In this sense, strength refers to a positive, favorable characteristic
2. Weakness refers to not having the form and competency necessary for something. Weakness means that something is more disadvantageous when compared to something else. Which means, weakness is a characteristic that is negative and unfavorable.

3. Opportunity means a situation or condition suitable for an activity. Opportunity is an advantage and the driving force for an activity to take place. For this reason, it has a positive and favorable characteristic.
4. Threat is a situation or condition that jeopardizes the actualization of an activity. It refers to a disadvantageous situation. For this reason, it has a negative characteristic that should be avoided.

2.4 Segmentation

Market segments can be characterized in different ways in order to characterize the preferences of the target customer; homogeneous preferences, which may refer to the customers that might have the same preferences. The market segmentation is regularly called as one of the key element in modern marketing and is, as mentioned, the process of dividing the market into several groups based on factor such as demographic, geographic, psychological and behavior factor Kotler and Keller (2009).

1. Demographic segmentation

The demographic segmentation divide customer into a segment which is based on demographic scales such as gender, family size, age, income, education, occupation, religion, race, social class and generation. Based on the factor shown, the demographic segmentation is used in market segmentation to easily identify and measure the needs of the customer.

2. Geographic segmentation

The geographic segmentation divides customers into a segment based on geographical areas such as nations, states, regions, counties, cities or neighbourhoods. It is extremely important to segment according to geographic, due to the fact that the purchasing behavior of the customers is influenced on where they live or work. This is why many companies customize their products to fit to the needs of the geographical variable.

3. Psychographic segmentation

Psychographic segmentation divides people according to their attitudes, values, lifestyles, interests and opinions Psychological profiles are often used as a supplement to geographic and demographics when both segments does not provide a sufficient view of the customer behavior.

4. Behavioural segmentation

Behavioural segmentation is based on the customers' attitude toward, use of, or response to a product. Every customer has a unique behavior, which means a company must decide on which behavior criteria is the most fit to match the product that they will present to the customer.

2.4.1 Targeting

Targeting is a strategy that process the information from segmentation and implant it to decide which target segment a company is aiming. Targeting basically, is a strategy that breaks a larger market into smaller segments to focus on a specific group of customer within the market. It defines a segment of customer based on their characteristic and focus solely serving them

2.4.2 Positioning

Product positioning is an important part of a product marketing strategy. It helps buyers and users understand where a product 'fits' in terms what it offers, and how it compares with competing products Armstrong and Kotler (2005). For a company to achieve a particular product positioning there are a few steps the company must follow:

1. Understand what the target customers expect and believe to be most important when deciding on a purchase.
2. Develop a product or brand which caters specifically for the customers' needs and expectations.
3. Evaluate the positioning and images, as perceived by the target customers of competing products in the selected market segment or segments.

2.5 Marketing Mix

Marketing mix is originated from the single P of microeconomic theory according to Chong (2003). McCarthy (1964) referred the "marketing mix", also known as the "4Ps", which act as a means of translating marketing planning into practice Bennett (1997). Marketing mix is a conceptual framework that identifies the principal decision-making managers make in configuring their offerings to suit consumers' needs. The tools can be used to develop both long-term strategies and short-term tactical programmed Palmer, (2004).

a. Product is defined as a physical product or service to the consumer for which he is willing to pay. It includes half of the material goods, such as furniture,

clothing and grocery items and intangible products, such as services, which users buy Ansoff, (1957).

b. Kotler and Armstrong, the price is defined as the amount of money to pay for a product or service, or the value of the exchange help customers receive a product or service for a certain amount. “Thus, the direct cost of the period is the amount of money the buyer has to pay for the product or service that will be likely buying it. The price may also be defined as a monetary expression of value for the consumer agrees to pay.” Entrepreneurship Academy (2015). The price is the amount that the consumers must pay, which would involve exchanges, so the price of the product depends on the different elements of change.

c. Place is considered as one of the very important elements of marketing, which is also called the distribution. This is defined as the process and method by each product or service that reach their individual customers Martins (2014).

d. Promotion is one of the element that help in increasing the consumer awareness in terms of products, which also leads to higher sales and help build brand loyalty. Thus, the promotion of the marketing is a tool that help disseminate information received, encourage the purchase and affect the purchase decision process.

2.6. Business And Development Plan

Business and development plan can be summarized as the ideas or activities that are aimed to make a business better. This includes increasing revenues, growth

in term of business expansion, increasing profitability by partnership whether it's from a service to a new supplier that will make a greater profit.

1. As part of the business plan Ghemawat, (2002), promotion and advertising is one of the key points in order to make a competitive business plan that will lead your company competitive in the market. Promotions is the process of communication between a company and customer to create a good image about the product and service that may lead to their favor of buying. It could be defined as the permanent process of communication between company and customer. Promotion is indicated as mass communication tool to interact with the customer to increase sales or service
2. In order to maintain a business for a long term, a business must keep innovating on a new product to keep the trend alive. According to Otungu et al., 2011; Lowy and Hood, (2004), innovation is all about the ability to rethink your current business to find new revenue streams and maintain competitive advantage. It can be done either by improving an existing business model or by looking for new ways to provide value.
3. Partnership is defined as cooperation between people or organization in the public or private sector for mutual benefit Holland, (2008). There are 3 type of partnership:

   A. General Partnership acts in a way that each partner shares equally the workload, liability and profits generated and paid out to current partners. All partner is equally active involved in the business operation.

B. Limited partnership partnerships allow outside investors to buy into a business but maintain limited liability and involvement, based on their contributions. This is a more complicated form of partnership, which also has more flexibility in terms of ownership and decision-making

C. Joint Venture Short-term projects or alliances bring together multiple partners for a project, which are typically structured as joint ventures. If the venture performs well, it can be continued as a general partnership. Otherwise, it can be shuttered.

2.7. Financial Plan

1. Income Statement

Income statement is a report made by company management that shows the revenue, expenses, and net income or loss for a period of time. The purpose of the income statement is to show how much profit or loss a company generated during a reporting period. The information is more optimal when income statement from several consecutive periods are grouped together, so that the trend in the different revenue expensive line items can be clearly seen.

2. Cash Flows

Cash flow is composed of cash inflows and outflows based on three types of activities: operating activities, investing activities and financing activities. Cash outflows are monies paid out of the business. Cash inflows are monies paid in. A positive cash flow described that income is bigger den spending. A negative cash flow described that income is lesser than spending.

3. Balance Sheet

A balance sheet is a statement of the financial position of a business which states the assets, liabilities and owner's equity at a particular point in time. In other words, the balance sheet illustrates your business's net worth.