

CHAPTER 2

COMPANY BACKGROUND

2.1 Company Profile

XYZ is a retail company specializing in beauty products, which has been serving Indonesian consumers for over two decades. Becoming the most valuable and prominent beauty retailer in Indonesia is the vision, and as for the mission, Bring the world's best beauty to Indonesian consumers and contribute to a green environment.

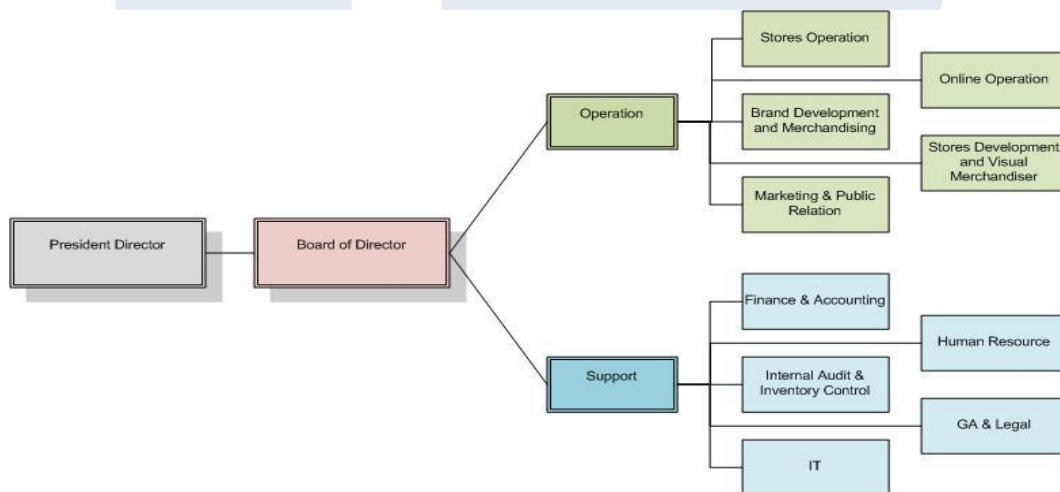


Figure 2.1 Company Organization Structure

Source: Author (2023)

The company uses a traditional centralized organization structure, which slowly evolving itself and applies the agile method. Thus, the decision-making currently needs to go through a series of approval. Approval itself needs supportive data and considerations, synchronized with the company's vision, mission, and business strategy.

Business model canvas as described below used for further identification of PT. XYZ business model. The business model canvas itself consists of 9 building

blocks to identify the organization, create, deliver, and capture value (Osterwalder & Pigneur, 2010).

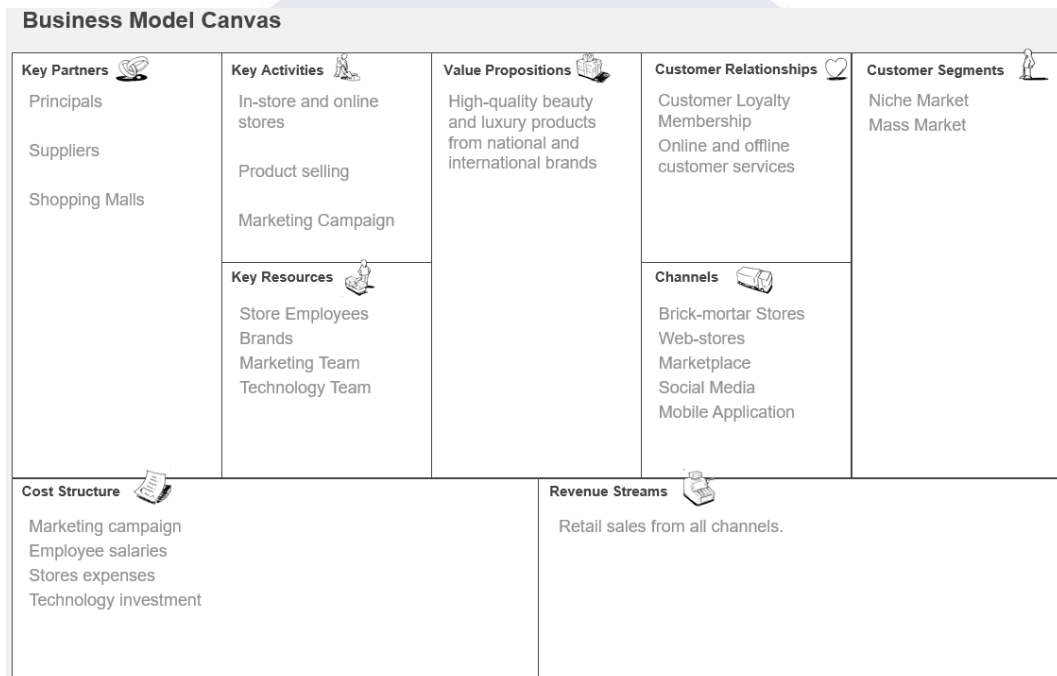


Figure 2.2 Business Model Canvas

Source: Author (2023)

1. Customer segments

Niche Market with middle to high-end consumers as a target, as for the mass market, products with lower prices are offered to consumers. The Niche customer segments are customers who purchase luxury products with an average price over 1 million rupiah. PT. XYZ exploring new customer segments while selling cosmetic products, a mass market segment intended for a broader customer segment.

2. Value proposition

PT. XYZ's values are providing high-quality beauty and luxury products to consumers. Bringing international luxury brands to Indonesian consumers is one of the visions.

3. Channels

- Physical Stores (Brick-mortar) are the core, it's where the traditional way of customer interactions happens.
- Web store based on website to promote and create brand awareness to the consumers, web store contributes quite high during a pandemic, when social activities were limited, due to government regulation.
- Marketplace offers a different experience to the consumer, one of the effective strategies to create brand awareness and capture the mass market.
- Social media penetrate brand awareness and company reputation, lately it became a selling channel as well.
- Mobile store application, in order to capture and understand customer behavior, technology used not just for selling, but also to interact with consumers.

4. Customer Relationship

Customer loyalty membership programs and online and offline customer services, the two customers benefit from PT. XYZ. Bonus points and special discounted products are just several of the customer loyalty program benefits.

5. Revenue Stream

Retail sales from all channels.

6. Key Resources

- Store employees, the core of physical stores which have covered major big cities in Indonesia.
- Brands, are essential sectors that attract consumers to both online and offline channels.
- Marketing team, aiming to capture new customers and customer retention.
- Technology team, to develop and research new trends in the market to accommodate customer experience.

7. Key Activities

In-store and online stores product selling and marketing campaign

8. Key Partnership

Principals and suppliers are both key partners in the sustainability of PT. XYZ. Shopping malls are also important since physical stores are mainly located in shopping malls.

9. Cost Structure

- Marketing campaigns have essential parts in attracting consumers.
- Employee salaries, both physical stores employees and head office teams salaries.
- Stores expenses, such as rent expenses, utility expenses, renovation expenses, etc.
- Technology investment, as a support system to back up PT. XYZ vision and mission.

UMMN

UNIVERSITAS
MULTIMEDIA
NUSANTARA

2.2 Problem Identification

Evaluating the market segment, especially in luxury and niche markets is one of PT. XYZ's objective, to increase sales revenue is the main goal. In order to analyze the market, several ways had been done, such as improving customer experience, updating the system, and creating a member loyalty program to attract consumers. PT. XYZ realizes customer experience will attract new customers, while member loyalty will attract existing customers with purchase intentions.

The niche products offered to consumers are in the fragrance category, as mass products are mostly categorized as cosmetics products. Based on preliminary sales data analysis, the customer retention rate within the 2 products category are similar, the customer purchase rate for both categories is one year, ideally, the rate is 4 months and the mass product purchase rate higher than niche products. Further data analysis is needed to investigate the cause of this low customer retention rate issue.

Analyzing the data requires skillful human resources in generating reports that will be used later on by the management team for decision-making. In the past, PT. XYZ relied on manual reports that were input in simple application programs, which were quite troublesome on a daily basis. Reporting became a major issue since its required further processing and became labor-intensive at that time.

The new application was introduced to replace the old system with the new one, which consists of the front-end application, back-end application, and business intelligence system. The backend system itself also played an important role in managing inventory, sales, and marketing programs. Thus, for accounting and finance departments were not inside the system, which require another application to support the needs.

Instead of that, there was another arrival of new applications, such as Human resource programs, warehouse management systems, and websites. Despite there being some efforts to combine all the raw data in one single application linked to a business intelligence system as a decision support system.

Yet, the difficulties in combining all the data result in good data visualization, decision support, giving better knowledge management. The data life cycle is challenging. Not just require better tools to support it, but also requires the capability of resources.

Align with XYZ target, social media are involved, and campaigns and promotion from social media starting to show better progress than relying on offline sales from stores only. Thus, those data and potential customers were not captured and functioned into maximal. Some data from the marketplace and websites emerge very fast which requires some governance.

Not to mention some devices from routers, people counters, etc. which feed lots of information needed for XYZ to build customer segmentation to create value a proposition. As shown in Figure 3. Human expertise, data analytics, and high-quality data are needed to decide the next action. With Big data analysis, decisions making based on data, discovering unknown insights or patterns, and automating digital processes are the objectives ([Turban, 2018](#)).

S.W.O.T analysis will be used to identify company strategy being done in the past and future, to find the best suitable solutions.

Table 2-1 S.W.O.T. Analysis

Strengths	Weakness
<ul style="list-style-type: none"> • Numbers of Offline stores in Indonesia • Loyal customers 	<ul style="list-style-type: none"> • Low customer retention • Data entry duplication in different applications • Data generated by users are varied
Opportunities	Threats
<ul style="list-style-type: none"> • Indonesia is projected as the world leader in world Nickel supply (Treadgold, 2021). • high IT services cost • new brands launched from the Asia region 	<ul style="list-style-type: none"> • cloud data security • Government regulation • Uneven electricity and network infrastructure in Indonesia

Source: Author (2023)

Strength

Numbers of offline stores channel PT. XYZ has in major big cities in Indonesia around 100+ offline stores and since PT. XYZ operates in beauty products and loyal customer's one of the benefits.

Weakness

Despite there are loyal customers as one of PT. XYZ's strengths, the number of customers with purchase history is quite low, with period of one year of each purchase.

Several applications are used by PT. XYZ users generate issues such as duplicate data input in the applications and each department has its own type of data, which create obstacle in analyzing the data to improve company revenue and decide company strategies.

Opportunities

Automotive innovation, shifting from gasoline to electric vehicle-based, already started, and opportunities in Indonesia's industrial sectors are open wide (Treadgold, 2021). Industry investment will open new employment vacancies and impacting on Indonesia's economic growth (Pribadi & Nasution, 2022).

The growing economic raising of new brands launch, especially in Asia, is also giving new opportunities.

Threats

The cost of Information Technology investments are high, despite for new startup, the cloud-based application has a positive impact, thus for an existing company, costs are the main consideration, also data security are not fully trusted by some of the executives in companies. Some government regulations also have direct impacts on the business, such as limitations on product import, and possible regulation all the data need to be hosted in Indonesia locations only. Indonesia's Infrastructure,

especially related to electricity and internet network, both hold important factors in industry entrance.

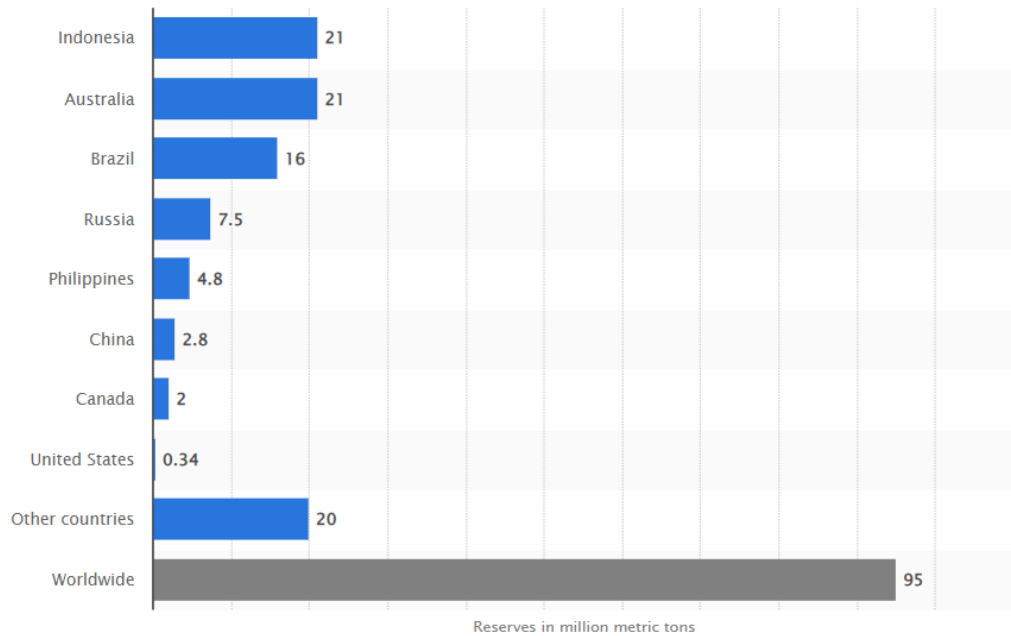


Figure 2.3 World Nickel Reserves by Country

Source: (Garside, 2022)

Based on the S.W.O.T analysis above, T.O.W.S analysis is being used to further prioritize possible strategies, as described below:

Table 2-2 T.O.W.S Analysis

TOWS	Strengths	Weakness
Opportunities	<ul style="list-style-type: none"> Expand stores to new cities Improve customer shopping experience customer segment penetration 	<ul style="list-style-type: none"> <input type="checkbox"/> Application Integration and Automation <input type="checkbox"/> Infrastructure migration
Threats	<ul style="list-style-type: none"> ➤ Cloud migration 	<ul style="list-style-type: none"> ○ Business Analytic tools ○ User training

Source: Author (2023)

The prioritization will start with Business analytic tools implementation to support executives' decision-making. Automation and application integration would be the next step so it will enrich the data for further analysis. Dashboards in business analytic tools will help to explain the past, present, and predictive futures of PT. XYZ.

Data analysis to give a better understanding of customer behavior and create customer segmentation are the objectives attracting customer intention to purchase. The primary target is not just to increase sales amount, but also to increase customer retention.

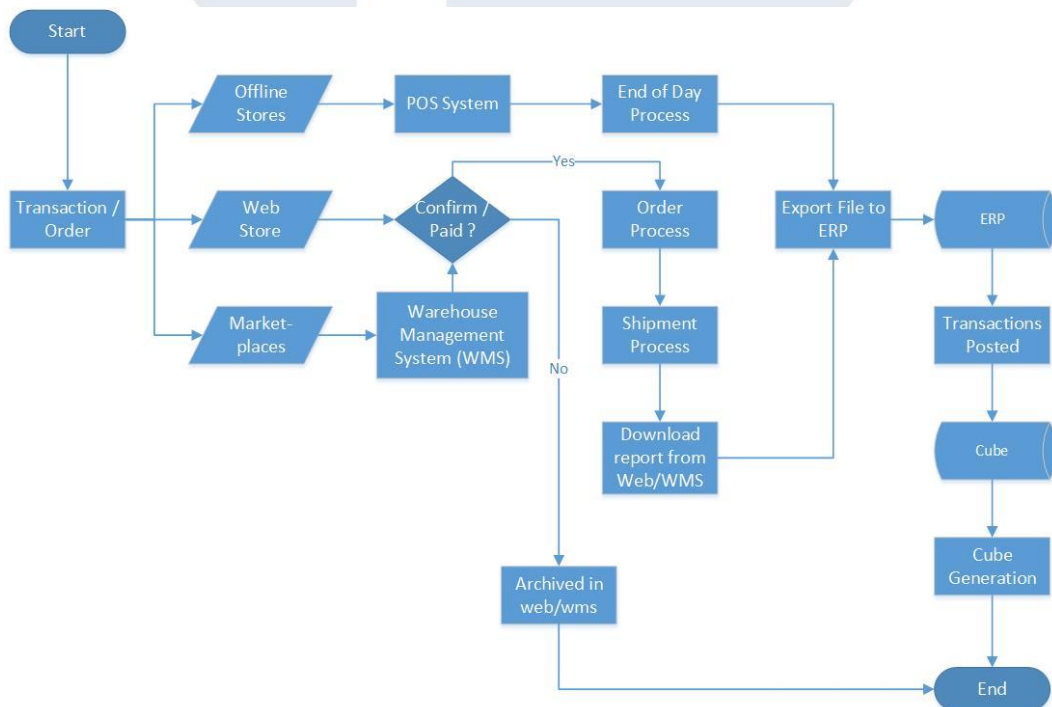


Figure 2.4 Current Transaction Process

Source: Author (2023)

2.3 Problem Statement

SWOT analysis in section 2.1 Company Profile, display threats and weakness that need solutions. Uneven network infrastructure might not be very fast to fix, due to region and network coverage in some areas were not supported. It might still need a major network transformation initiated by Indonesia's government.

An increase in IT cost for both infrastructure and services due to trading wars and physical wars between the Russian Federation and the Republic of Ukraine might be able to slow down digital transformation progress (Garacino, Dominic, & Weder, 2022). But cross the cost by improving customer retention rate by analyzing customer behavior using data analytic tools would be a wise choice.

Cloud base services could be a temporary solution for testing analytical tool systems, also giving users a chance adopting with the system. The output of this system is reports that are centralized and downloadable by users, which also avoided reports and data duplication.

Due to the pandemic situation, retailers are forced to push sales, and unfortunately, price changes became unavoidable, which not affecting to the number of loyal customers. The head office team of PT. XYZ, need to collect the data and get more customer insight to attract loyal customer to re-purchase.

Low customer retention rate is the priority of the company need to solve, and an improvement in data analytics to learn customer behavior is needed. The problem with the current system is not easy to collect the data and make it useful for further data processing, it requires competent employees (Song, Sindakis, Aggarwal, Chen, & Jiafu, 2020). Each department has its own report version, despite the source of the data being the same. While the management requires insights and reports before taking a decision (Acharya, Singh, Pereira, & Singh, 2018).

The average retail industry customer retention rate is 63% (Statista Research Development, 2022), despite PT. XYZ showed significant growth in customer

retention rate during the pandemic, the numbers need to improve, the table below shows PT. XYZ, customer retention rate from 2018 to 2022.

Table 2-3 Customer Retention Rate by Year

Retention	2018	2019	2020	2021	2022
Total Customers in the end period	12,893	42,322	28,122	39,543	47,172
Total New Customers in the end period	12,032	37,660	16,912	28,680	31,504
Total members in the early period	6,838	12,893	42,322	28,122	39,543
Retention Rate (%)	12.58	36.17	26.49	38.63	39.62

Source: Author (2023)

Can executive information systems improve executives' effectiveness and capabilities in data prediction and strategic planning for company growth and sustainability?

The digital transformation in PT. XYZ will attempt in fixing several issues that occur in the organization such as:

1. Remove duplicate reports and minimize false reports generated by each department.
2. Improve employee skills and culture in analytical skills and use them to analyze marketing program effectiveness.
3. Provide user-friendly systems for executives to expedite decision-making, in relation to strategic planning and company vision and sustainability.
4. Improve customer retention and sales target with data prediction and choosing the best available promotion campaign.