

## **PT. HM. Sampoerna Tbk and Its Strategies Becoming a Market Leader Since 2006**

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### **ABSTRACT**

PT.HM. Sampoerna Tbk has been a market leader since 2006 in cigarettes industry in Indonesia despite the challenges has been faced by the industry such tax exercise, health campaign, and illicit trade. This study elaborates the strategies that have been taken by Sampoerna in order for the company maintain its position as a market leader. This a qualitative research based on literature review using industry analysis and study on corporate, business and functional level strategy. It is found that Sampoerna able to maintain its performance due its ability to provide the commitment to deliver good quality to the consumers and to innovate in its products and processes. In business level strategy, Sampoerna pursues both cost leadership and differentiation strategy. In addition, Sampoerna functional strategies in Marketing and Human Resources are worth to appreciate as they have significant contribution to Sampoerna's success.

**Keywords:** Cigarettes Industry; strategic management; functional strategy; business strategy; corporate strategy.

### **INTRODUCTION**

PT. Handala Manjaya Sampoerna Tbk or also known as PT. HM. Sampoerna Tbk is one of big players in cigarettes industry in Indonesia. The cigarettes industry has been in difficult condition since 2012 due some reasons such as the tax exercise, the reducing buying power of customers due to economic condition and the health campaign. In addition, the players in the industry also face competition not only from illegal companies or also known as illicit trade but also from "home-made" companies that also providing tobacco so that consumers able to make their own cigarettes. Despite its unfavorable external environment, Sampoerna has been success to maintain its performance as a market leader since 2006 both in number of sales and in value. In Year 2016 even though, its sales volume reduced from 93,8 to 91,7 billion sticks of cigarettes [1], Sampoerna was still market leader with 28,8% market share far from its rival PT.Gudang Garam with 23,1%. Thus, this paper will explore the three level strategies that implemented by Sampoerna in order for it securing its position as a market leader. This paper will first describe the literature review, the industry analysis company profiles and the discussion of Sampoerna's strategy then followed with conclusion.

## METHODOLOGY

Sampoerna operates in single industry whereas nine-nine percent of its business is from cigarettes [2]. To analyze industry this paper will use Porter's five forces model. Porter (1979) stated that there are five forces that shape the industry; competitive rivalry, bargaining power of suppliers, bargaining power of customers, threat of new entrants and threat of substitute products or services.

There are three level strategy, corporate, business and functional strategy. Corporate strategy defines set of plan and action to achieve identified purpose [3]. Corporate Strategy is the decision of the company that determines its objective, principal policies and plan to achieve the goals [4]. Corporate strategy applies to whole enterprise whereas business strategy defines the products and market of business within the firm [4]. Business level strategy is a guideline to achieve company's objective [5]. Porter (1980) argued that to have the competitive advantages from different generic strategies; cost leadership, differentiation and focus. Porter also emphasize that company should adopt only one strategies to avoid "stuck in the middle" condition. However, [6] stated that company can adopt both differentiation and cost leadership called hybrid strategy. Functional level strategy is short-term, narrow scoped plans that detail the means of activities that a company will use to achieve short term goals. [7].

## Results and Discussions

To describe the result and discussion, the author first will describe the industry analysis so that the readers able to have clear picture of the cigarettes industry in Indonesia. Then, the profile of Sampoerna followed by the analysis of Sampoerna corporate, business and functional level strategy.

### Industry Analysis

Cigarettes in Indonesia are classified into three categories; hand-rolled cigarettes/*Sigaret Kretek Tangan* (SKT), machine-manufactured cigarettes/*Sigaret Kretek Mesin* (SKM), and machine-made white cigarettes/*Sigaret Putih Mesin* (SPM). The industry faced reducing number of sales volume during last year as shown in table. 1 and detail percentage of each category shown in table 2. However, despite its decreasing number in volume, its values still increasing due to ability of the players to increase the price.

Table 1. Sales of Cigarettes: Volume 2011-2016 (in billion)

2011	2012	2013	2014	2015	2016
279,600.00	302,500.00	308,300.00	314,311.90	320,400.00	316,074.60

Source: Euromonitor International

Table 2. Percentage of each category

	2011	2012	2013	2014	2015	2016
Hand-rolled Cigarettes (SKT)	30,5	28,9	20	20,1	19,1	18,2
Machine-manufactured Cigarettes (SKM)	61,7	63,3	67,3	73,5	74,7	75,8
Machine-made white Cigarettes	7,8	7,5	6,5	6,4	6,2	6,0

Source: Bank Mandiri Industry Report 2011-2016

In addition, to legal cigarettes there are also known illicit trade. Illicit trade is when cigarettes are sold without duty-paid packet market of fake duty-paid marks. The number of illicit trade is increasing as shown in table 3.

Table 3. Number of illicit trade and its comparison to legal sales

million sticks	2011	2012	2013	2014	2015	2016
Legal sales	279,600.0	302,500.0	308,300.0	314,311.9	320,400.0	316,074.6
Illicit trade	16,875.9	17,939.0	19,374.2	20,730.3	22,077.8	23,292.1
% penetration of illicit trade	5.7	5.6	5.9	6.2	6.4	6.9
Actual consumption	296,475.9	320,439.0	327,674.2	335,042.2	342,477.8	339,366.7

Source: Euromonitor International

### **Threat of new entrants**

At the moment there are three big players in the industry, Sampoerna, Gudang Garam and Djarum. These three companies altogether have accounted 65 percent of market share, furthermore, they already established strong distribution network and built strong restriction with various retail vendors. In addition, capital requirement, economic of scale, and regulation make it hard for new player to enter the industry.

### **Threat of substitute products**

There are at least two substitutes products of cigarettes; electronic cigarettes and traditional custom cigarettes. The electronic cigarettes or also known as e-cigarettes or vapor

is an electronic handheld adding with some liquids that deliver the same feeling and taste as cigarettes. As the concern of health is increasing, the demand of e-cigarettes is also rising. Traditional custom cigarettes or in Indonesia known as “Linting sendiri” where customers can rolled and personalized they own cigarettes. The producer only sell the tobacco with relatively cheap price. For example, one pack of tobacco 60 gr only cost customers Rp. 4.500,-. That equal to twenty pack of cigarettes.

### **Bargaining power of customers**

The bargaining power of customers in the industry is relatively low as once customers find the cigarettes that meet their preference, then they would be reluctant to change their cigarettes. However, customers may contribute to set the trends.

### **Bargaining power of suppliers**

Tobacco is main raw material of the cigarettes. Some players have their own farms and others bind the tobacco farmers with long and strict contracts to secure its supply.

### **Rivalry among the competitors**

There are three big players in the industry; Sampoerna, Gudang Garam and Djarum. Detail market share of the company shown in table 4.

Table 4. Company share % volume 2012-2016

% retail volume	2012	2013	2014	2015	2016
HM Sampoerna Tbk PT	31.0	30.5	29.8	29.3	28.8
Gudang Garam Tbk PT	21.9	23.4	24.0	23.2	23.1
Djarum PT	14.6	14.5	14.3	13.4	13.0
Bentoel Internasional Investama Tbk PT	6.6	7.0	6.9	6.9	7.2
Nojorono Tobacco Indonesia PT	5.0	5.4	5.7	5.7	5.0
Philip Morris Indonesia PT	4.8	5.2	5.1	5.0	4.8
Gelora Djaja PT	0.4	0.6	0.7	0.8	0.7
KT&G Corp	0.2	0.2	0.2	0.3	0.4
BAT Indonesia Tbk, PT	-	-	-	-	-
Others	15.5	13.3	13.4	15.4	17.0
Total	100.0	100.0	100.0	100.0	100.0

Source: Euromonitor International

In regard with the price, there are three type of cigarettes; economy (under Rp.15,999), mid-price (Rp.16.000-Rp.18.999) and premium price (above Rp.19.000), due to cost increased some economy brand had gradually changed to mid-price segments. Table 5 describe the detail sales volume per each category.

Table 5. Sales of Cigarettes by price (% volume)

% retail volume	2011	2012	2013	2014	2015	2016
Economy price band	44.0	44.4	41.8	38.3	36.0	34.4
Mid price band	26.6	25.5	27.5	30.7	32.8	34.0
Premium price band	29.4	30.1	30.7	31.0	31.2	31.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Euromonitor International

As the rivalry is tight in the arena and the downturn of economic, price is one major factors to win the market. Companies tried to gain market share by launching new products in economy segment. For example: Clas Mild was launched by Nojorono Tobacco Indonesia in 2016. On the other hand, other companies such as Sampoerna or Gudang Garam not only providing cheap cigarettes but also providing different value of product to differentiate themselves. Another attribute in the industry is that each player put heavy cost on advertisement that including sponsorship. This is done to build brand loyalty and attract brand switcher.

Two other important parts that shape the industry are government policies and social economy. Government has implied tax for pack cigarettes and its number is keep increasing. Thus, it made the price is higher that might lead to lower demand. Moreover, the government also apply advertisement restriction in some area for cigarettes. Both government and social activist has made major campaign to show the danger of smoking. Those facts lead to unfavorable condition for the industry.

#### **PT. H.M. Sampoerna Tbk**

Sampoerna is one of leading tobacco company in Indonesia. Its known for best quality and the owner of some famous brand of cigaretes such as Sampoerna A, Dji Sam Soe and Sampoerna Kretek. The name of Sampoerna is taken from Bahasa Indonesia “Sempurna” that means perfection that the philoshophy that Sampoerna adpots in the company, to run the business in perfect way and to become a perfect organization.

Sampoerna is a subsidiary of PT.Philip Morris Indonesia and an affiliate with the world's leading international tobacco company, Philip Morris International Inc. Company's objective is to provide best experience for adult smokers by providing the products that they need. Company core business is cigarettes that accounted ninety-nine percent of business.

### Products

Sampoerna has several products for each segment. In SKT category there are; Dji Sam Soe, Dji Sam Soe Super Premium, Sampoerna Kretek. In SKM category there are; Sampoerna A family, Sampoerna U Family, Dji Sam Soe Filter, Dji Sam Soe Magnum Filter, Dji Sam Soe Magnum Blue. In SPM : Marlboro Red, Marlboro Lights, Marlboro Black Menthol, Marlboro Light Menthol and Marlboro Ice Blast. Some of Sampoerna brands has significant market-share as shown in table 6.

Table 6. Sampoerna brands' market shares of Cigarettes: % Volume 2013-2016

% retail volume	2013	2014	2015	2016
A-Mild (Philip Morris International Inc)	11.8	11.8	11.9	11.3
U Mild (Philip Morris International Inc)	4.4	5.4	4.8	4.2
Dji Sam Soe (Philip Morris International Inc)	5.7	4.4	4.3	4.1
Marlboro (Philip Morris International Inc)	3.7	3.5	3.5	3.3
Sampoerna Kretek (Philip Morris International Inc)	4.3	3.4	2.9	2.9
Avolution (Philip Morris International Inc)	2.6	2.6	2.7	2.7
Dji Sam Soe Magnum Filter (Philip Morris International Inc)	1	1.7	1.9	1.8
U Bold (Philip Morris International Inc)	-	-	0.2	1.2
Marlboro Gold Lights (Philip Morris International Inc)	0.9	0.9	0.9	0.9
Dji Sam Soe Magnum Blue (Philip Morris International Inc)	-	0.4	0.6	0.5
Marlboro Lights Menthol (Philip Morris International Inc)	0.3	0.3	0.3	0.3
Vegas Mild (Philip Morris International Inc)	0.3	0	-	-
Trend Mild (Philip Morris International Inc)	0.3	0	-	-

Source: Euromonitor International

**Financial Aspects**

Sampoerna has successfully increased its net profit despite reducing number of sales volume, this is mainly because of price increased and finance income. Sampoerna’s financial highlight as shown in table 7.

Table 7. Sampoerna’s Financial Highlight (in billion rupiah)

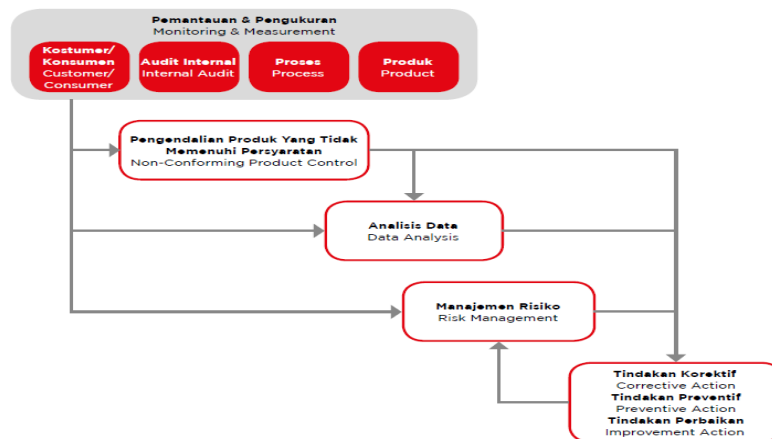
	2016	2015	2014	2013	2012
<b>Sales Revenue</b>	95,402.00	88,924.00	80,528.00	74,854.00	66,564.00
<b>Gross Margin</b>	23,814.00	21,714.00	20,443.00	19,908.00	18,379.00
<b>Operating Profit</b>	16,022.00	14,069.00	13,811.00	14,490.00	13,345.00
<b>Earning Before Tax</b>	12,661.00	10,365.00	10,189.00	10,818.00	9,945.00

Source: Sampoerna’s Annual Report

**Corporate Strategies**

One of important corporate strategies applied by Sampoerna is the commitment providing best quality and fair-value cigarettes to the customers. For the consumers Sampoerna is well known for its good quality, they believe in Sampoerna’s good quality even though some of Sampoerna’s brand are categorized in premium class. To delivery high quality cigarettes, Sampoerna maintains it from beginning by ensuring the quality of its tobacco and assuring it meets the Good Agricultural Practices (GAP). Then, Sampoerna builds practices and procedures along in its value chain and production system to ensure the quality. Figure 1 describes the procedures in Sampoerna to ensure the quality

Figure 1. Sampoerna’s procedure to maintain quality



Source : Sampoerna’s Annual Report 2016

Another corporate strategy that significantly contribute to Sampoerna success is innovation. Sampoerna believes that innovation in business process and its products will lead to maximal results to the stakeholders [8]. Sampoerna's solid performance is because its ability to innovate its offering product. For instance, A-Mild was the first low tar low nicotine cigarettes in Indonesia. It was first launched in 1989 when cloves were popular among smokers in Indonesia. A-Mild exposed new segment in the Industry and new market. Up to present, A-Mild is Indonesia most selling cigarettes, it accounted 11,3% from total market share whereas its next competitor Gudang Garam International had only 7,4% [1] The innovation culture has been inhabit in Sampoerna as its continue to offer new products that new to industry. In 2008, Sampoerna launched Avolution in which the first superslim clove-blended product in Indonesia and in 2016, the product came with 20 cigarettes/pack. Furthermore, Sampoerna has launched Marlboro Filter Black that comes with air flow filter and pro seal innovation. Those items enable the cigarettes to have double filter and the seal automatically opened when the package is opened. In 2017, Sampoerna launched A-Mild menthol burst, the first cigarette in Indonesia with a button that customers can press to boost the taste of menthol as shown in figure 2.

Figure 2. A-Mild Menthol Burst, the first cigarette in Indonesia with a button



Picture source: <http://reviewrokok.blogspot.co.id>

Sampoerna's innovation is not only taking place in its products but also in its business process. During Putera Sampoerna's leadership, Sampoerna mechanized some of its production process and the most out of box idea was Sampoerna rearranged its distribution system so that Sampoerna has fully control of its retail outlet or agent whereas



at that time the agent power was relatively big to decide kind of products to sell or to put in the shelves [9]. Furthermore, most of the agent was already collaborated with others competitors [9]. In 2017, Sampoerna offers some retail engaging system such as Sampoerna Retail Community in where Sampoerna provides some trainings/workshop to improve the retail business performance.

### ***Business Level Strategies***

In business level strategy Sampoerna takes both differentiation and low cost strategies or in Wright et al (1991) called hybrid strategy. Sampoerna offers U-mild, U-Bold, Magnum Blue and Sampoerna Krektek that offers economy price range Rp. 12.000- Rp.15.999 for 16 sticks cigarettes per pack. These products offer what Sampoerna called fair-value products. In addition, Sampoerna also applies differentiation strategy by offering unique and excellent quality products. Sampoerna A-Mild for instance is known for its good quality in machine made cigarettes or Dji Sam Soe provides excellent quality for clove cigarettes.

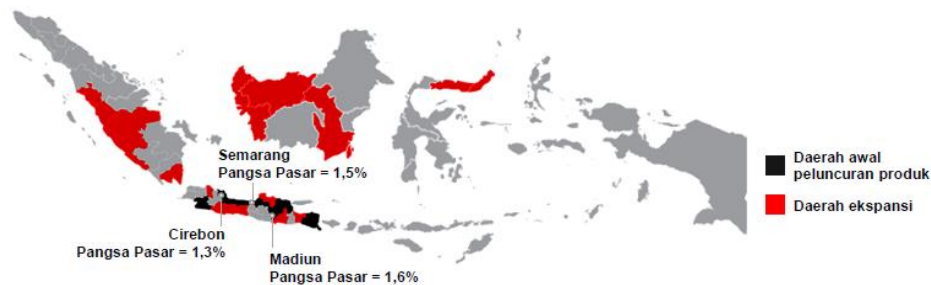
### **Business Level Strategies**

Human resources and marketing strategy are two of functional strategies of Sampoerna that important to acknowledge. People is the most important assets for Sampoerna as it believes that Sampoerna's success is because of the hard work of its people. In addition, Sampoerna trusts that people will determine the future of Sampoerna. Human resources strategies in Sampoerna based on four pillars; Attract and hire diverse talents to strengthen our organization's readiness to stay ahead of the game; develop, strengthen, and reinforce our employees in order to create a strong business resources with differentiated and innovative approaches; Engage and retain individuals that are motivated by diversity and inclusion to drive performance; and Collaborate as strategic partners within the organization in order to achieve Sampoerna's business goals through people.

Sampoerna marketing strategy is remarkable. Sampoerna has 106 sales and distribution center, with access to more than 14,000 wholesalers, 33 agents and approximately 400,000 outlets in Indonesia. In short, Sampoerna has around 2,4 million points of sale around Indonesia. [2]. As a result, Sampoerna has good understanding of fragmented geographical so that Sampoerna ables to deliver product that match with the market. For example, U-bold at first are only distributed some selected cities in Java such as Cirebon, Madiun and Semarang then expanded to some certain area such as North Sulawesi, West and North

Kalimantan. As a result, Bold national market share was 1,2% in 2016, only after one year since launched. Furthermore, Avolution also distributed in certain area. Figure 3 and 4 shows U-Bold and Avolution markets. In addition, how marketing campaign evolves to support the brand. For instance, “How low can you go” was introduced when A-Mild first launched to show the customers the low tar and low nicotine of A-Mild, the differentiation of A-Mild, at the time A-mild was new type of cigarettes that the market does not familiar with. After the customers realized the importance of low tar and low nicotine then campaign moved to “bukan basa-basi” to ensure the customers that the quality of A-Mild was not “basa-basi” and to “others can only follow” when other competitors started to imitate A-Mild.

Figure 3. U-Blod Market



Source: Sampoerna Public Exposure 2016

Figure 4. U-Blod Market



Source: Sampoerna Public Exposure 2016

## CONCLUSION

Sampoerna celebrated its 103 anniversaries in 2017, one of the longest companies in Indonesia and since 2006 Sampoerna has been a market leader in Indonesia way ahead from its rivals. Innovation, and strong commitment to provide good quality are the significant corporate strategy to boost Sampoerna’s performace. Sampoerna implements hybrid strategy

where it offers the products both with cost leadership strategy and differentiation strategy. In functional strategy, Sampoerna's human resource and marketing department has been play important roles in Sampoerna's success. [10]

However, based on the data as shown in table 1, cigarettes industry in Indonesia started to decrease in number. Sampoerna should consider others strategy that help company to sustain in future.

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