

I. INTRODUCTION

A. Background

Toward Third Millennium (see Appendix A), all companies and or organization facing new challenges that forced them to be more competitive and furthermore, being able to determine and shape the future of their corporate's sustainable competitive advantage. More often than not, the drive is coming from their internal environment whether from their own business process activities or their relationships with their suppliers and distributors or their subsidiaries and affiliates as well as from external environment. The advancement of information technology becoming the driver to changes in every aspects of humankind. As Ohmae (1989) puts it, the world now is the borderless world where flow of information, goods, services and human resources easily moved from one place to another without almost any barrier at all.

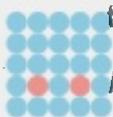
The situation combining each other like turbulence in today's business realities, is furthermore create a discontinuities of pattern that will probably, disrupt the future of their companies and or organization. The appropriate response of business community to this development is crucial so as not only to maintain competitive advantage, but this changes also forced business community to consider the new way of thinking that of business practices to create an innovative competitive advantage to overcome the competitiveness problem such as stagnant growth, declining margins, and falling market share.

Despite advancement of information technology, the agricultural sectors in third millennium faces challenges as well as the old one brought by the *Malthusian Theory* that growth of world population would outstrip its food supplies. Although this theory that came from late eighteenth century is yet to be proven, many people still reconsider the proposition and try to prevent from being



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occur, if it will not cease to exist, then it is a doomsday for our civilization stemming from starvation in every corner of the world. Increased efficiency in agriculture, plantation and animal breeding, in mechanization and other management techniques have been critical factors of sustainability between population and food supplies.

World population increase by 250,000 people every day and roughly 90 million per year. There will be 6.2 billions people inhabiting the earth by year 2000 and 10.5 billion later in the century¹. To meet the unprecedented demand of food and to prevent the Malthusian proposition coming to exist, the agriculture must increase its output of food and at the same time develop the efficiency of resource use by maintaining economic environmental stability. It is the fertilizer industry role toward third millennium to develop agriculture, in terms of supplying nutrient essentials for food production, and furthermore support the research and build an education, which improve the best management practices².

It is the situation that bring in back the government owned fertilizers company in West Java, PT. Pupuk Kujang, to acknowledge the need on rethinking their business process activities, and above all their corporate strategy.

Previously relied on PT Pusri Palembang to distribute their production of Urea fertilizers, just now they have to distribute their own product at certain degree. The new regulation is part of the government policy to empower the state owned company and make their own profit to fulfill their needs. The remaining question is what should PT. Pupuk Kujang do to respond the situation and the changes in environment of their industry and the economic outlook of Indonesia in general? It is a crystal clear that they needed a new corporate

¹ International Fertilizer Industry Association. "Sustainable Agricultural Systems for Twenty-First Century: The Role of Mineral Fertilizer". . IFA/FAO (1999) < <http://www.fertilizer.org> > (January 16th , 2000)

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strategy that will accurately capture the future that lie ahead forming and giving opportunities as well as threats. An elusive quest to find though, but still worth to ask is on what basis will the new corporate strategy formulation rely on? To find the truly basis for PT. Pupuk Kujang and then determine the road map of corporate strategy is the way that every company must do if they concern of their own future and ignore to be destined by others for their own glory in third millenium.

Find the basis of company's truly strength, then will find core competence that generates the ability to deliver goods and or services . The task to build a road map is not so delusive any longer if one can understand what is the truly strength and it clearly can pave the way to breakthrough of company's practices because of the power it had and understand inside the mind and heart of the company to generate competitive advantage.

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B. Problem Identification

1. After the Indonesia's Green Revolution era in 60's the fertilizer industry grew fast and become the most prominent needs of farmers in order to reach the high yield of national production. Policies and objective followed the end goal (i.e. Swasembada Pangan) in order to prevent the shortage of rice production and it was implemented by force to the farmers. On the other hand, since farmers dependency level to other industries such as fertilizers industry, pesticides industry, and seed industry risen, those products often hard to find. The situation is evidence in fertilizer industry, which is the fertilizer hard to get in a critical situation

² Ibid

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when farmers are in plantation period. On the contrary, the producer said that fertilizer industry particularly nitrogen fertilizer are in surplus at about 1.6 million tonnes from the level of 3.3 million tonnes that of national demand for urea fertilizer from food supplies and non-food plantation³.

2. On December 02nd, 1998, the government unlifted the centralize distribution from PT Pusri and subsidization of unorganic fertilizer for the farmer. In part, the government try to response the trade liberalization and welcoming the market mechanism of the fertilizer industry. The new fertilizer business now posses some challenges to the party involved and somehow hurt the farmers because the soaring of fertilizer price.

3. The new fertilizer distribution business produce some new players as a fertilizer distributor other than PT Pusri, those are Inkud, PT Petrokimia, Pertani, Dharma Niaga and PT Mega Eltra. Likewise, the new regulation drive other fertilizer producer for local demand such as PT Pupuk Kujang to deal with its own distribution of fertilizer and currently has pointed PT Hurip Utama acting as a distributor in their marketing area. Failing to anticipate the marketing and distribution problems is the clear and present danger for PT Pupuk Kujang existence in fertilizer industry.

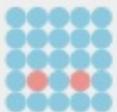
4. The nitrogen fertilizer business is attractive because it has a lot of consumer, raw material is easy to get from the nature and it can easily processed into the end product of nitrogen fertilizer, but the cost is relatively very high to develop the nitrogen fertilizer manufacture. By its nature, the nitrogen fertilizer is a *commodity product* that is easily being influenced by the market condition or supply and demand of the fertilizer.

³ Wiyono, Padjar, Zaenal, and Haryanto. "Haruskah Pupuk Terpuruk Di Pasar Bebas?". Komoditas Magazine No. 04- vol 1, 08 September 1999.



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In recent years, the price of fertilizer is declining for example, in 1994, the price for urea is US\$ 120/tonnes, but as of to date it only reaches at US\$70/tonnes. Some factors can be mentioned to cause the price decline of fertilizer products, those are:

- a. Emerging responsiveness of supply - demand in fertilizer industry
 - b. There are as many as 300 fertilizer manufacturer in the world to date, in order to prevent the Malthusian doomsday from being exist.
 - c. Fertilizer consumer such as China start to use their inventory with regard to the supply and demand in the international market so as to get the lower price for mineral fertilizer needed to be applied in its agriculture.
 - d. Associated Gas producer such as in the Middle East, come with the fertilizer that is lower than those that produce with the energy from natural gas with which separated from the oil.
 - e. The break-up of USSR generate new nations such Kazakhstan or Uzbekistan that have plenty of natural gas reserve, then produce mineral fertilizer with lower price in exchange on the hard currency (US Dollars) needed for developing their country.
 - f. Unlike the gas oil, the natural gas can not being differentiated in term of the end product and makes it very difficult to compete in price
 - g. The emerging of global market marked by trade liberalization forced government to reduce tariff barrier for international competitor.
5. Limited production capacity of PT Pupuk Kujang because operated with only single plant, combine with the out-of date technology makes it uncompetitive of the intake of natural gas to produce mineral fertilizer/tonnes compare to other fertilizer manufacturer both of local and international respectively.



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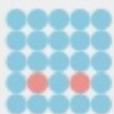
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6. Increasing awareness of the *preserving environment* for the next generation in world society and the growing trend of *organic agriculture* poses challenges to the agricultural practices including fertilizer industry to supply the fertilizer need for agriculture sector while at the same time preserving the environment by enhancing the techniques and knowledge toward efficient use of unorganic fertilizer so as not to damaging the environment.

7. In order to produce end product with the efficient use approach for customer, PT Pupuk Kujang must develop efficiency in its operations in every aspect. This purpose, call for the restructurization that currently in progress at PT Pupuk Kujang so as to solve the *competitiveness problem*. Unfortunately, the restructurization can not solely solve the competitiveness problems, rather it create the infrastructure to renew the business process but can not guarantee solving the problem. The new way of thinking of the way PT Pupuk Kujang running the business is inescapable. The new way of thinking for PT Pupuk Kujang should address a blue print for proper new strategic architecture develop to gain sustainable and innovative competitive advantage.

C. Scope of Research

1. Search for existing source for solving the competitiveness problem-that is core competence-at the corporate level with top managers and build a new core competence required as perceived primarily by top level managers combine with the accurate industry foresight for fertilizer industry.



2. Establish a blue print for strategic architecture that will be develop aiming to provide as primary source for formulation of corporate strategy in order to gain a *sustainable and innovative competitive advantage* while preserving the environment by bringing the *sustainable agricultural system* (details in Appendix B) for Indonesian agriculture sector.

D. **Problem Statement:**

What kind of PT Pupuk Kujang strategic architecture regarding its core competence will be for the third millennium in order to gain sustainable and innovative competitive advantage and maintain the healthy environment with the sustainable agriculture system in Indonesia?

Research Objectives

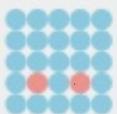
1. Identify the existing core competence of PT Pupuk Kujang
2. Build new core competence for developing future strategic architecture of PT Pupuk Kujang
3. Develop a Blue Print for PT. Pupuk Kujang in order to achieve future competitive advantage in fertilizers industry
4. Provide a road map of future competitive advantage of PT Pupuk Kujang in an industry toward third millennium with new strategic architecture



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