

Towards Profit Improvement Business Scenarios Using Marketing Due Diligence Approach

Edward

Abstract – This paper discusses about evaluation of financial report performance in order to increase cash conversion cycle and implementation of online marketing strategy on SME. A series of structured interviews and business coaching processes were conducted with the owner of SME, in Jakarta. The results of structured interviews were analyzed using STP, Marketing Mix, Business Model Canvas, SWOT, Porter's 5 Forces, Gap Analysis and Pareto Analysis to arrive at the most urgent problems to be solved. The findings showed that there were three main problems faced by the SME that could be diminished to improve SME performance, which were: 1) lack of marketing channels, especially online media channel; 2) lack of capabilities to collect account receivable that reduce SME's financial performance; and 3) Analysis of financial performance never been done by SME as a standard of decision making process. This business coaching is expected to help SMEs to improve its performance.

Design / Methodology / Approach – Business Coaching. The study subjects were SME, Primary Data obtained through In-Depth Interview and Observation, while Secondary Data through SME management, internet, and management books. Results from the data above are then analyzed using Qualitative Methods.

Findings – This study shows that SME does not know how to identify the market opportunity and utilize that opportunity with the accurate marketing strategies, and SME does not know how to conduct online marketing strategy. As result many people are not aware of their products and services.

Research Limitations / Implications – The results of this study can only be used by SME and other similar Workshop in Komplek PIK, Pulo Gadung, East Jakarta.

Originality / Value – This study provides a detailed description of SME's condition and its competitors, as well as an overview of the bag industry in Indonesia.

Keywords: Business Coaching, Channel, Cash Conversion Cycle, Financial Ratio, Marketing Due Dilligence, Online Marketing Channel, Profit Improvement

Paper Type – Research Paper

1. Introduction

Small Medium Enterprise (SME) is one of the sectors developed by the government to increase the level of economic growth in Indonesia. According to Undang-Undang No. 20 Tahun 2008, MSMEs are productive businesses owned by individuals and / or individual business entities. In 2016, the contribution of MSMEs at the level of Gross Domestic Product (GDP) increased to 60.34%. Based on data from Bank Indonesia (BI) (2017) the contribution of MSMEs has pushed the level of GDP in Indonesia to a figure of 850 trillion per year. The effort is used by the government to increase the level of GDP and also absorb employment in Indonesia.

SMEs are recorded in Indonesia, where the majority of 98.79% are micro-enterprises with assets below less than Rp50,000,000.00 . According to the Ministry of Cooperatives and Small and Medium Enterprises, SMEs recorded in Indonesia in 2012 amounted to 56,534,592 units. SME in Indonesia is one of the biggest contributors in supporting the

country's economic growth and is evidenced by the survival of SMEs during the 1997 economic crisis.

But now there are not many of the recorded SMEs that have successfully penetrated national or international markets. According to (Sudaryanto, 2013), unclear business prospects, unstable vision and mission of SMEs, market information, access to funding and lack of involvement in information technology are obstacles faced by SMEs today. Inadequate planning makes business prospects unclear so that the growth of SMEs is less than optimal.

To solve the problems experienced by SMEs, several theories are used to solve problems in SMEs. The company's financial health analysis is used to identify the source of problems in existing SMEs. After that the approach using the Marketing Due Diligence framework in McDonald, Smith, and Ward's book, 2007 was used as a step in solving problems in SMEs. This strategy is used to determine the right steps to develop SMEs in accordance with the framework used to increase profits for SMEs.

Therefore, this study aims to identify business health as well as implement online marketing strategies and also increase cash flow in accordance with the strategy of increasing profits with the Marketing Due Diligence framework

2. Framework

Health Analysis of Corporate Finance.

Health analysis is calculated using Du Pont Analysis. The company's fundamental analysis is a method used to evaluate a business based on business profitability and financial measurement. One way to take measurements is to look at the qualitative factors of a company such as the industry or sector where the business is located, who is the business competitor and whether the business has a well-known brand. Another approach is to carry out fundamental analysis by considering tangible assets and quantitative measurement factors. Health analysis is calculated using Du Pont Analysis. Measurement of company performance can be done through data data provided by the company. From data such as financial data, financial ratios can be drawn that show the health of the company itself. Financial ratios can be indicators of company health.

Marketing Due Diligence

Marketing Due Diligence is basically different from other measurement methods. The difference lies in the introduction of the existence of 3 levels of measurement of marketing effectiveness. Marketing Due Diligence measures fundamental strategies rather than tactical or promotion levels. Measurements start from allowing the sensitivity of planning to business risk. Some strategies are more sensitive to risk than others. The strategy will be sensitive to market risk if the strategy involves rapid growth and high market share. The strategy will be sensitive to share risk if it involves rapid growth in strong competition. The strategy will be sensitive to profit risk if it involves rapid growth and operating at low margins. Each strategy will affect the amount of profit that can be achieved. After that, the best way to increase profit is determined according to the risk being measured. According to (McDonald et al., 2007) there are 2 ways to increase profits, through productivity growth and also increase in sales

Cash Conversion Cycle

Cash Conversion Cycle (CCC) is a metric that describes the length of time in a day that a company needs to convert resources as input into cash flow. Companies that invest in

working capital usually cannot cover the cost of capital, and have an impact on decreasing the speed of cash conversion (Zeidan & Shapir, 2017). Cash Conversion Cycle Management is very relevant for companies with limited funding and also for significant growth opportunities. For example, when working capital needs become an obstacle to a company's growth. Since working capital becomes cash substitution and investment fix. Small and medium enterprises that face loan constraints must make CCC management an important component of their value creation strategy. There are some fundamental trade-offs in conducting the CCC. Extending CCC will increase margins and sales, and reducing or shortening the length of the cycle will increase costs and a reduction in income depends on minimizing CCC which is limited by margin operations and sales. Cash Conversion Cycle can be defined as:

$$CCC = DIO + DSO - DPO$$

Where Days Inventory Outstanding (DIO) is the average time used by companies to convert inventory into sales.

$$DIO = \frac{\text{Inventory}}{\text{Daily COGS}}$$

Days Sales Outstanding (DSO) is the average time used by a company to collect payments after a sales transaction occurs. DSO is determined monthly, perquarter or annual basis.

$$DSO = \frac{\text{Account Recievable}}{\text{Daily Revenue}}$$

Days payable outstanding (DPO) is the time needed for a company to pay its business debt to a supplier.

$$DPO = \frac{\text{Account Payable}}{\text{Daily COGS}}$$

RESEARCH METHOD

3. Methodology

This business coaching study was conducted on SME which is engaged in the production of custom bags. Descriptive research method in the form of a qualitative study was carried out in data collection. This method aims to explore and understand information comprehensively from the overall problem situation (Malhotra, 2010). In this method the researcher conducts the process of interviews, observation, and documentation.

The researcher interviewed the owners of SME in understanding the business carried out by SME as a whole. Interviews begin from Rapino's founding history, values held, business flow processes, consumers, business partners, and suppliers from SME. The data retrieval process is carried out at the place where the SME operates, namely in the PIK Complex Block C No. 119-120 Cakung Milling Road East Jakarta 13940. The next step is the analysis process. Internal and also external factors are processed in the analysis. For the internal analysis process, researchers used the analysis of business model canvas, STP (segmenting, targeting, and positioning), marketing mix (4P), SWOT and TOWS. Whereas the external analysis process is carried out by using the Porter's Five Forces analysis. BMC and STP are used to analyze market opportunities along with the overall analysis of the business in these SMEs. The marketing mix is done to identify the strengths and weaknesses of SMEs in terms of products, promotions, places and prices offered to consumers. SWOT and TOWS are used with the aim to analyze the conditions and business strategies that can be done by SMEs. Gap analysis is used to identify gaps in the SME and pareto analysis is used to identify the main problems that must be resolved immediately.

4. Findings

The measurement of company performance is carried out with financial data provided from the business. There are 3 things that are measured in measuring the financial performance of SME, namely liquidity ratios, solvability ratios and profitability ratios. The results of measurement of liquidity are based on the current ratio, quick ratio and cash ratio are summarized in. These results indicate that the company's ability to pay off its current liabilities with current assets for the two-year period has increased.

	Current Ratio	Quick Ratio	Cash Ratio
2017	794.2175211 %	730.0020035 %	710.7373483%
2018 (till 31 September 2018)	1086.60%	883.11%	720.00%

The decline occurred from May to September. The decline in the ratio occurs because many consumers have not made payments to the SME, especially during June July and August.

	Debt Ratio	Debt To Equity Ratio
2017	5.0850836%	5.09%
2018 (till September 2018)	3.41%	3.53%

Solvability measurement results are based on the debt ratio, and also the debt to equity ratio. This ratio is getting smaller and better. It can be seen that the decline in the solvency ratio indicates that the company is very capable of fulfilling its obligations.

	Profit Margin	Gross Profit Margin
2017	49.22%	62.31%
2018 (till September 2018)	41.15%	57.29%

After analyzing the health of the company, the path of sales growth in the form of market development is taken by investing in the online market. Measurement of Return On Sales is carried out in online marketing investments.

	Oktober 2018	November 2018
Return On Sales	3135.70%	3193.14%
Sales	Rp9,450,000.00	Rp10,250,000.00
Advertising Expense	Rp301,365.00	Rp321,000.00

Changes in business processes to improve cash flow. Changes are made in the payment confirmation step. Cash Conversion Cycle measurements are conducted to determine the health of cash flows on the business.

	2017		2018 (till September)		2018(from September)
DIO	53.60	DIO	53.62	DIO	23.00
DSO	12.69	DSO	31.05	DSO	7.97
DP O	16.90	DP O	31.22	DP O	7.12
CCC	49.40	CCC	53.44	CCC	23.8

[4] Kotler, P., & Keller, K. (2011). *Marketing Management*: Prentice Hall PTR.

[5] LaPlaca, P. J. (1997). Contributions to marketing theory and practice from Industrial Marketing Management. *Journal of Business Research*, 38(3), 179-198. doi:[https://doi.org/10.1016/S0148-2963\(96\)00128-2](https://doi.org/10.1016/S0148-2963(96)00128-2)

[6] McDonald, M., Ward, K., & Smith, B. (2007). *Marketing Due Diligence: Reconnecting Strategy to Share Price*: Elsevier Science.

[7] Risselada, H., Verhoef, P., & Bijmolt, T. (2014). Dynamic Effects of Social Influence and Direct Marketing on the Adoption of High-Technology Products (Vol. 78).

[8] Robert C. Higgins, P. (2015). *Analysis for Financial Management*: McGraw-Hill Education.

[9] Ross, S. A., Westerfield, R., & Jaffe, J. F. (1999). *Corporate finance*: Irwin/McGraw-Hill.

[10] Zeidan, R., & Shapir, O. M. (2017). Cash conversion cycle and value-enhancing operations: Theory and evidence for a free lunch. *Journal of Corporate Finance*, 45, 203-219. doi:<https://doi.org/10.1016/j.jcorpfin.2017.04.014>

5. Conclusion

Improved business performance can be done using various strategies. The right strategy can help business units to develop. During the economic crisis, the right strategy must be based on careful calculations. Doing the right analysis based on data data in the business unit can help in decision making. In the SME business unit, cash flow and increased profits are the key to the survival of SMEs. The importance of business capital that can be accessed at any time makes the business move dynamically. Increasing cash flow by changing business processes makes business capital move faster and can be measured. Moving on a new market makes business profits increase rapidly when moving with a good strategy. Rapino managed to increase profits through a new market.

ACKNOWLEDGMENT

The authors wish to thank Mrs. Ahdia Amini, Mrs. Nikita Puspita, and Mr. Eka Hadyan Prasetya

REFERENCES

[1] Batra, R., & Keller, K. L. (2016). Integrating Marketing Communications: New Findings, New Lessons, and New Ideas. 80(6), 122-145. doi:10.1509/jm.15.0419

[2] BCG. (2004). Working Capital Productivity: The Overlooked Measure of Business Performance Improvement.

[3] Harden, L. H., Bob. (2009). *Digital Engagement: Internet Marketing That Captures Customers and Builds Intense Brand Loyalty*: AMACOM.