PT Matahari Putra Prima Tbk.—2022

hypermart.co.id

Headquartered in Tangerang, Indonesia, PT Matahari Putra Prima Tbk. (Matahari) is a large Indonesian chain of retail stores with a product range that includes food, clothes, chairs, dog beds, cosmetics, tableware, and household appliances. The word "matahari" in Indonesian means "the sun"; many of the company's products are handmade outdoors, in the sun, by local artisans in small villages throughout Indonesia and Southeast Asia. The company's customers are primarily retail stores (online, catalog, and brick-and-mortar) and interior design firms. Matahari owns and operates Hypermart, Primo, Foodmart, Hyfresh, Boston Health & Beauty, FMX, and Smart Club across 200 locations in Jakarta and around Indonesia.

History

Founded in 1986, Matahari has become a trusted retailer in Indonesia. The firm became public in 1992 on the Jakarta and Surabaya Stock Exchanges and began supermarket operations in 1995. Boston Health & Beauty was launched in 1995 and Hypermart in 2004. In 2012, the firm divested its non-core businesses. Matahari remodeled many of its locations in 2015 and continued building new stores. In 2018, it reduced its exposure in the business-to-business (B2B) market and increased its focus on selling and providing services directly to consumers through its Hypermart and Foodmart locations before launching Hyfresh in 2019, further concentrating its efforts on the consumer.

The COVID-19 pandemic severely hurt Matahari and other supermarket retailers, as social distancing and general travel restrictions in Indonesia were stringent. In response to the pandemic and the change in consumer behavior buying patterns, Matahari has been trying to become more of an online company, but so far that transition has been a challenge. The company is at a critical juncture in its history and needs a clear strategic plan to weather the continual storms it faces.

Vision/Mission

There is no posted vision or mission statement for the company at the corporate website or in the firm's most recent *Annual Report*. A plausible vision statement for Matahari could read something like this: To become the premier, multi-format, go-to shopping destination throughout Indonesia.

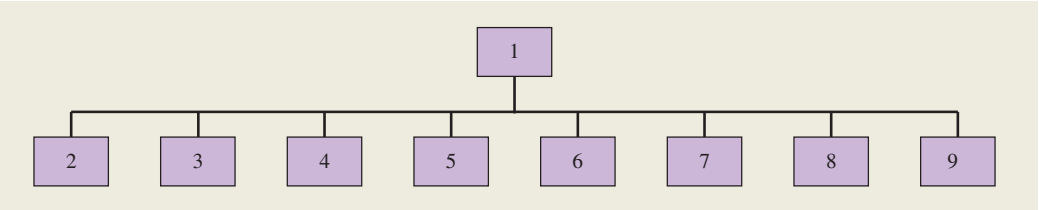
Internal Issues

Organizational Structure

Unlike most corporations, Matahari provides an organizational chart in its 2020 *Annual Report* to reveal its top executive reporting relationships. As shown in Exhibit 1, Matahari has no COO within its executive ranks; nor does it have presidents of divisions. The company does, however, have a Director of Large Stores Format and a Director of Small Stores Format, implying a decentralized design with two profit centers based on customer size. CFOs across the world are taking on more and more of the responsibility traditionally held by a COO, and perhaps that is also true of Matahari. If so, then Herry Senjaya, CFO of Matahari, is a busy person.

Being well organized is vitally important for success in any company, and there are guidelines for when various types of structure should be utilized. You can find many of these guidelines in Chapter 7, "Implementing Strategies: Management and Marketing Issues." Based on the guidelines and various organizational structure journal articles listed in the References section of this case, it is clear that extensive improvements are needed in Matahari's organizational design. Probably the most effective type of structure for Matahari would be a divisional-by-product-type design, where the products are the various types of stores the company operates, such as Hypermart, Primo, Foodmart, Hyfresh, Boston Health & Beauty, FMX, and SmartClub. There should probably be a president or similar head responsible for

EXHIBIT 1 Matahari's Top Management Team



1. Elliot Dickson, CEO
2. Herry Senjaya, CFO
3. Kyutae Park, Director, Merchandising & Marketing
4. Anto Suwartono, Director, Large Stores Format
5. Wirawan Winarto, Director, Small Stores Format
6. Iwan Goenadi, Director, Information Technology
7. Danny Kojongian, Director, Corporate Secretary & Public Affairs
8. Lydiawati Kurniawan, Vice President, Human Capital
9. Purwanto, Head of Internal Audit

Source: Based on information in Matahari's 2020 *Annual Report*.

each of these operations. Vagueness is disastrous both in strategic planning and in organizational design, and at present there is too much vagueness in Matahari's structure. In addition, this company seems sufficiently large to warrant having a COO for all those new presidents to report to, rather than everyone in the company reporting to the CEO.

Financial Data and Statements

As indicated in Matahari's recent income statements provided in Exhibit 2, the company had a rough 2020, with the COVID-19 pandemic discouraging consumers and companies worldwide. Note that revenues were down 22 percent and the company's net income was again negative, albeit a bit less so than the prior year. Matahari's business apparently suffered in 2020 directly as pandemic lockdowns prevented people from getting out of their homes and going shopping. Trends such as this are quite worrisome for Matahari's shareholders, who expect to see at least a 5 percent top-line (revenues) and for the bottom line (net income) to increase annually.

As shown in Matahari's recent balance sheets provided in Exhibit 3, the company's property, plant, and equipment declined 15 percent in 2020, while long-term debt increased 396 percent. Basically, the company is apparently using debt to meet its payroll and pay expenses as profits have been nonexistent. Matahari needs a clear strategic plan moving forward.

EXHIBIT 2 Matahari's Income Statements (in millions of Rupiah)

Income Statement	12/31/19	12/31/20		Percent Change
Revenues	8,654,646	6,746,594	↓	–22%
Cost of Goods Sold	7,074,249	5,439,936	↓	–23%
Gross Profit	1,580,397	1,306,658	↓	–17%
Operating Expenses	1,776,502	1,446,926	↓	–19%
EBIT	(196,105)	(140,268)	↑	28%
Interest Expense	118,496	267,419	↑	126%
EBT	(314,601)	(407,687)	↓	–30%
Tax	238,073	(2,380)	↓	–101%
Non-Recurring Events	–	–	NA	NA
Net Income	(552,674)	(405,307)	↑	27%

Source: Based on information in Matahari's 2020 *Financial Supplement,* p. 1.

EXHIBIT 3 Matahari's Balance Sheets (in millions of Rupiah)

Balance Sheet	12/31/19	12/31/20		Percent Change
Assets				
Cash and Short Term Investments	304,295	299,805	⇩	–1%
Accounts Receivable	220,079	193,210	⇩	–12%
Inventory	1,191,567	964,503	⇩	–19%
Other Current Assets	188,106	77,748	⇩	–59%
Total Current Assets	1,904,047	1,535,266	⇩	–19%
Property Plant & Equipment	926,287	789,871	⇩	–15%
Goodwill	–	–	NA	NA
Intangibles	4,132	2,315	⇩	–44%
Other Long-Term Assets	986,343	2,183,059	⇧	121%
Total Assets	3,820,809	4,510,511	⇧	18%
Liabilities				
Accounts Payable	1,022,948	836,691	⇩	–18%
Other Current Liabilities	1,595,442	1,926,408	⇧	21%
Total Current Liabilities	2,618,390	2,763,099	⇧	6%
Long-Term Debt	250,000	1,240,153	⇧	396%
Other Long-Term Liabilities	421,738	322,525	⇩	–24%
Total Liabilities	3,290,128	4,325,777	⇧	31%
Equity				
Common Stock	376,457	376,457	⇩	0%
Retained Earnings	(1,313,905)	(1,659,855)	⇩	–26%
Treasury Stock	–	–	NA	NA
Paid in Capital & Other	1,468,129	1,468,132	⇧	0%
Total Equity	530,681	184,734	⇩	–65%
Total Liabilities and Equity	**3,820,809**	**4,510,511**	⇧	18%

Source: Based on information in Matahari's 2020 *Financial Supplement,* pp. 2–3.

Strategy

Matahari has vaguely disclosed that the company has two distinct strategies, the first focusing on consumer retailing and providing quality fresh products and the second on expanding its omnichannel online business and improving digital payments. The first strategy seems to imply an increased focus on fresh fruit and vegetables, but a closer reading of what the company calls "fresh" is much more broad; it also includes more emphasis on consumer goods and many other types of groceries. In fact, the term "fresh" mostly likely means any product that has a shelf life of perhaps less than a year.

Regarding the second strategy, Matahari is increasingly shifting toward an omnichannel presence by forming partnerships with firms to become more virtual. In 2021, the firm expanded its partnership with Tokopedia, a technology company with the leading marketplace in Indonesia; Matahari opened 95 virtual stores on Tokopedia's platform, which boasts more than 100 million active monthly users who purchase food and household products. While Matahari is by some estimates the fifth largest grocery store chain in the country, the company claims this agreement with Tokopeida makes them the largest online grocery platform in Indonesia. This agreement follows on the heels of the merger of Tokopeida and GoJek, another firm that Matahari works closely with, which launched 31 stores in 2021 before quickly expanding to 76 virtual stores.

In 2020, Matahari reported that 5 percent of its total sales were derived from online sources, compared to just 0.1 percent in 2019. Online sales were expected to amount to 10 percent of Matahari's total sales in 2021—a rapid increase.

While the firm calls the two above items strategies, they are perhaps best considered tactics. The true strategy of Matahari would center more around how to allocate resources around the large format Hypermart or the smaller format stores such as Foodmart and Primo. Both of what the firm calls strategies above can be applied to large or smaller format stores. But it is vital to get the large- versus small-store balance correct because having fresher products on the shelf may not matter much if you are operating the incorrect size-store balance or have stores in the wrong locations.

By-Segment Information

Broadly speaking, Matahari has three segments, 1) Large Stores, 2) Small Stores, and 3) Wholesale, as indicated in Exhibit 4. More specifically, however, the company has seven segments or store chains, as discussed below.

EXHIBIT 4 Matahari's Segments by Type Facility

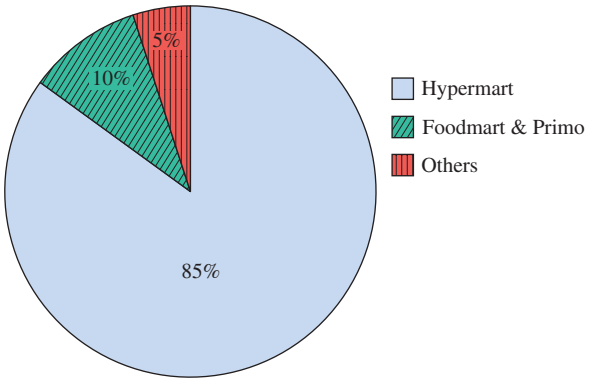
Large Format	Hypermarket
Small Format	Primo Supermarket
	Foodmart Supermarket
	Hyfresh Supermarket
	Boston Health & Beauty (Boston HBC)
	FMX
Wholesale	SmartClub Trader Wholesale

Source: Based on information at Matahari's corporate website.

Hypermart

As shown in Exhibit 5, Hypermart accounted for 85 percent of Matahari's total revenue in 2020. Matahari is in the process of transforming Hypermarts into smaller, more efficient stores and increasing store numbers. In addition, much attention is being given to improving the shopping experience by modernizing existing stores to international standards and consistency. The company's Hypermart stores cater to everyone but target middle-income families, offering products such as groceries, fresh food, electronics, and soft-line products. Hypermart products are tracked closely to determine profit margins and best practices for distribution networks and centers to supply stores. Improved tracking has enabled Matahari to offer products with higher margins, focus more on high-demand products, and drop low-demand products. Hypermarts are shifting focus increasingly to individual consumers rather than B2B.

EXHIBIT 5 Matahari's By-Segment Contribution to Total Revenues



Source: Based on Matahari's 2020 *Annual Report,* p. 46. (Based on contribution to total sales)

Foodmart

Foodmart, Matahari's second largest brand, produces about 10 percent of its total revenues. Focusing on convenience and providing a modem atmosphere, the brand supplies a wide range of both local and international products. Customers also can purchase ready-to-eat meals to enjoy at home. Foodmart tends to focus on higher-quality products, especially fresh foods. Foodmart Primo is more upscale, focusing on affluent customers, and offers many international products, a greater variety, and a range of ready-to-eat take away meals. Matahari operates 25 such Foodmart Primo stores across Indonesia.

Hyfresh

The most recent new type of store owned and operated by Matahari is Hyfresh, which was launched in 2019. Hyfresh's stores are smaller and focus on middle-class communities where customers need to shop every day due to smaller living spaces at home or inadequate means of keeping food fresh. Fresh groceries and attractive prices are part of Hyfresh's strategy. There are 9 Hyfresh stores as of 2020.

Boston HBC

Standing for Boston Health and Beauty, Boston HBC offers Indonesian customers a health and beauty concept, as the name suggests. Select stores offer health consultations and even a pharmacy. The brand struggled in 2020, opening no new stores and closing 7 stores permanently, for a total of 62 stores in operation. The closure of 10 percent of the stores in 2020 is concerning; it might be explained away by the pandemic, but 9 stores were closed in 2019, before the outbreak. Extra care should be taken when analyzing this concept's fit going forward.

FMX

FMX is the convenience store arm of Matahari. These stores are located near malls, apartments, railway stations, and other high-traffic public places in local communities. FMX is different from other convenience stores in Indonesia in offering more modern layouts, huge ready-to-eat food and drink sections, and assortments of grocery items focusing on snacks. Customers can even pay their bills at FMX stores. Matahari is optimistic over FMX's growth potential and plans to continue store expansion. However, in 2020, the company closed 2 FMX locations permanently and now operates 14 such stores.

Supporting Function

To service its range of stores, Matahari operates 3 distribution centers. Just over 50 percent of all sales are derived from merchandise flowing through these centers. Far and away the largest center is in Balaraja, with a capacity of 43,000 pallets, followed by the center in Porong, with a capacity of 30,000 pallets. The smallest distribution location is in Cibitung, with a capacity of 4,200 pallets. Radio frequency scanning, voice picking technology, and single-pick technology allow for paperless fast operations and enhance data collection applications.

Segment-based Performance Data

As indicated in Exhibit 6, Matahari's Hypermarts generate almost all of the company's revenues, but moving forward, other segments may be expanded substantially even as the firm downsizes the average square footage of each Hypermart to the extent possible.

External Issues

Demographics of Indonesia

It may come as a surprise to many non-Indonesians that the country is the fourth most populous nation in the world, with over 270 million people, behind China, India, and the United States. Nearly 60 percent of the population of Indonesia resides on the island of Java. The country is spread across hundreds of islands. The largest city, Jakarta, has nearly 10 million residents, followed by Surabaya, with nearly 3 million people. The country's GDP per capita is $3,907 as of 2021. Agricultural imports reached nearly $20 billion in 2020. The Indonesian government has set agricultural self-sufficiency as its goal.

EXHIBIT 6 Numbers of Matahari's Outlets and Their 2020 Performance

				2020	2020
	2018	2019	2020	Stores	Sales
Opened/ Closed	in Rp billion				
Hypermart	117	102	100	0/2	5,698
Foodmart Supermarket	19	17	16	0/1	344
Primo Supermarket	5	9	9	0/0	345
Hyfresh Supermarket	0	8	9	2/1	135
Boston Health & Beauty	74	69	62	0/7	45
FMX	12	16	14	0/2	46
SmartClub	1	1	2	0/0	134
Total	219	222	211	2/13	6,747

Source: Based on Matahari's 2020 *Annual Report,* p. 3 and pp. 36 and 46.

About 57 percent of Indonesians live in urban areas, with the main cities being Jakarta, Surabaya, Medan, and Bandung. The literacy rate in Indonesia is high at 95.7 percent, and the size of households is also pretty high—41 percent are comprised of 4–5 persons. The average monthly salary in Indonesia is Rp 12,100,000 ($862); women on average earn 23 percent less than men in Indonesia. There are several hundred ethic groups in the country, but the most common are Javanese (42 percent), Sundanese (15 percent), and Malay, Madurese, and Batak (3 percent each). Although Indonesia is a Muslim majority country, alcohol consumption is allowed nationwide except in the province of Aceh. Nevertheless, there are numerous constraints on advertising alcoholic beverages.

E-commerce in Indonesia

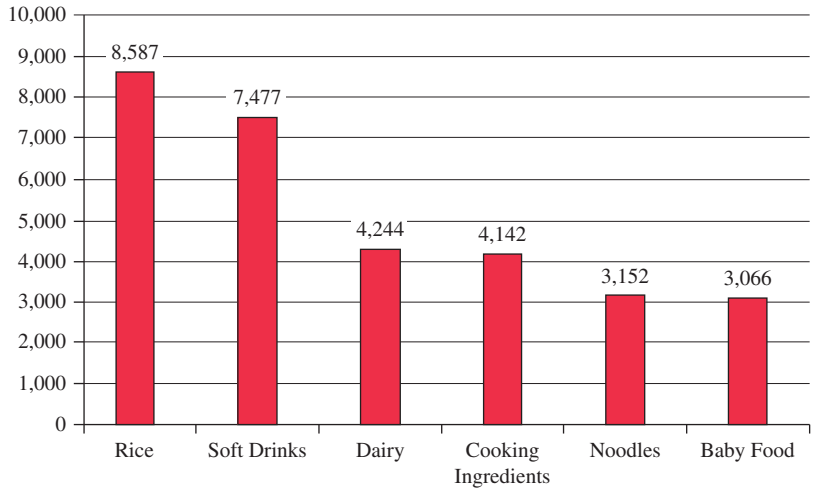
Indonesians are rapidly embracing e-commerce, and the country's e-commerce market is expected to grow from $32 billion in 2020 to $83 billion by 2025 (it was $21 billion in 2019). According to Statista, fashion is the largest category of goods being purchased online in Indonesia. Analysts report that about 50 percent of Indonesian consumers conduct Google searches and read customer reviews before making their purchase. The top four social media platforms utilized by Indonesian internet users are, in order of popularity, YouTube, WhatsApp, Instagram, and Facebook. The top four e-commerce sites in Indonesia in rank order are Tokopedia, Shopee, Bukalapak, and Lazada; Tokopedia and Shopee are nearly on par with each other and together garner about 80 percent of all views and purchases.

Non-urban areas of Indonesia do not have access to regular banking services such as credit cards or bank transfers, so cash on delivery is commonly used. Any business that services such areas—like Matahari—should consider having a logistics partner to help facilitate the cash-on-delivery method of payment. However, the Indonesian government promises to soon have a standard single-code QR system (QRIS) as part of their Indonesia Payment Systems Blueprint 2025. Go-Jek recently launched digital payment options such as GoPay and PayLater. Similarly, Shopee offers Shopee Pay. OVO is another popular eWallet payment option. There are even some "buy-now-pay-later" options in Indonesia, such as PayLater, which is the third most popular fintech in Indonesia (about 58 percent of the Indonesian population are aware of its offering). At end of Q1 2020, Matahari launched Chat & Shop by WhatsApp, which is supported by the Park & Pickup and BELLA (Single National WhatsApp Number) features.

Annual Food Sales in Indonesia

Exhibit 7 reveals the dollar amount of various types of food purchased by consumers in Indonesia in 2020. Notice that rice is number one, but surprisingly soft drinks are number two, followed by dairy products. Matahari is continually monitoring its own sales of different foods to determine the most effective mix to provide on the shelves of its various stores.

EXHIBIT 7 Food Sales in Indonesia in 2020 by Type of Food (in millions of USD)



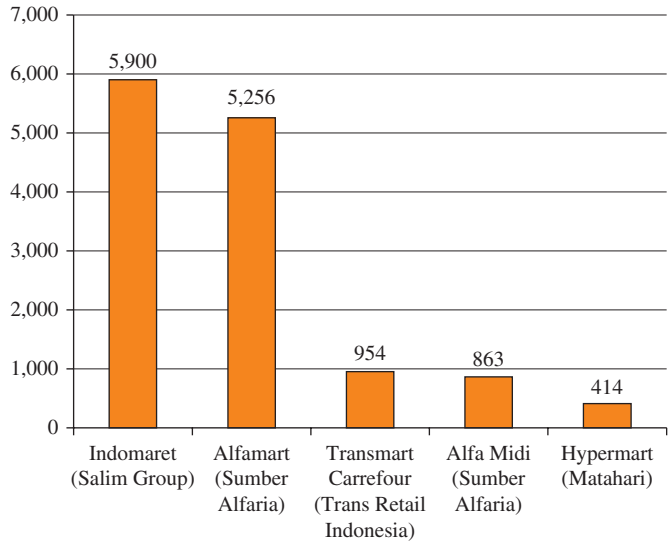
Source: Based on information at Euromonitor, 2020.

Competitors

The top 5 food retailers in Indonesia are shown in Exhibit 8. Note that Matahari's largest chain of stores, Hypermart, comes in a distant fifth based on sales; it is sixth based on store numbers. In 2020, there were over 4.4 million traditional stores in Indonesia, which equates to about one for every 60 people. Convenience stores totaled just over 36,000, followed by supermarkets at 1,457. Forecourt and hypermarkets totaled 730 and 337, respectively. By comparison, there is one supermarket for every 185,000 people in Indonesia, revealing just how prevalent traditional stores are.

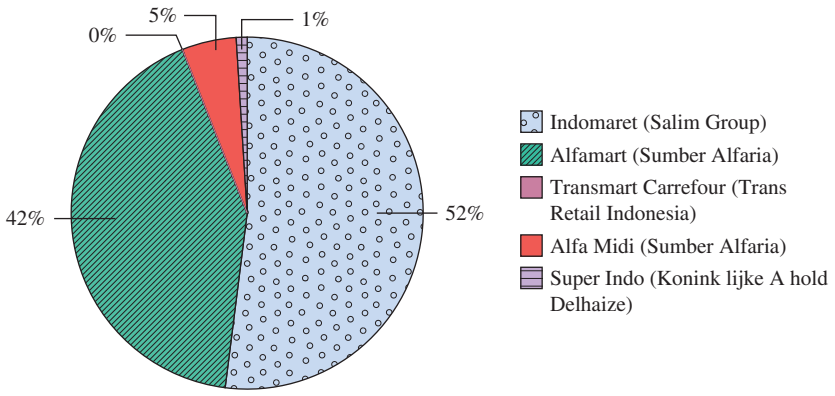
Regarding the competitive landscape in which Matahari functions, Exhibit 9 reveals the top 5 food retailers in Indonesia by percentage of outlets. Notice that Salim Group's Indomaret dominates the food retailer industry in the country, followed by Alfamart. These two rival firms hold a whopping 94 percent of the outlets in the country (among the top five). Matahari (which placed

EXHIBIT 8 The Top 5 Food Retailers in Indonesia by Sales (millions of USD in 2020)



Source: Based on information at Euromonitor, 2020.

EXHIBIT 9 The Top 5 Food Retailers in Indonesia by Percent of Outlets



Source: Based on information at Euromonitor, 2020.

sixth and is not pictured in the exhibit) must be continually mindful of what these two firms are doing—and where and how they are doing it—to maintain a competitive advantage in a very low-margin industry and be consistently profitable.

Conclusion

Strategy Considerations

Through 2021, the COVID-19 pandemic continued to wreak havoc on hypermarket and supermarket chains in Indonesia, especially those located in malls or shopping centers, which seem to suffer the most from low to no customer traffic. For example, grocery retailer Hero Group (operator of the Hero and Giant stores) saw 2020 sales decline by 33 percent to $418 million compared to 2019, and in mid-2021 it was forced to close all Giant stores (approximately 75 hypermarket and supermarket stores across Indonesia).

Amid the hardship, some retail businesses in Indonesia are nevertheless growing. For example, convenience stores have benefited from having smaller locations closer to residential areas. Retailers such as Supra Boga Lestari (operator of Ranch Market, Farmers Market, the Gourmet and Day 2 Day) have launched their own online shopping apps to provide instant delivery to customers. This strategy enabled Supra Boga Lestari to report a sales revenue increase of 26 percent year-over-year in 2020 due to store expansion and increased efficiencies. Indonesia's second largest convenience store, Alfamart, reported a 2 percent increase in revenues in 2020, reaching sales of $3.5 billion.

There is hope, therefore, for Matahari to turn its faltering revenues and profits around, likely through more transitioning to online and to smaller store formats. But the company has seven segments, as described in the case, and allocating resources effectively across them is now more important than ever. Prepare a comprehensive strategic plan that includes a portfolio analysis, SWOT analysis, and QSPM analysis for the CEO of Matahari. Include in your plan a new and improved organizational chart for the company based on sound management principles. Recall that the majority of people purchase their food items from roadside stands or small shops. Should Matahari focus increasingly on smaller shops or are the large shops the way to go? Should the firm divest all operations from serving businesses and focus entirely on the consumer? What should the firm do with respect to its one large wholesale property? Being the fifth largest grocery in the country, Matahari is still small enough to really offer a distinctive service. Perhaps the firm should only focus on middle- to upper-income customers? The possibilities for Matahari are many and the firm is in desperate need of a strong strategic plan. Develop a set of recommendations for CEO Dickson that you feel will lead Matahari to success, based on a thorough external and internal analysis of the competitive climate in Indonesia. With some rival firms closing and divesting stores and properties, there is opportunity for Matahari to capitalize on turmoil in the industry. Based on your analyses, what is your recommended course of action for the company to pursue over the 2021–2025 period?

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