



# **International Journal of Applied Business & International Management**

P-ISSN: 2614-7432 ; E-ISSN: 2621-2862  
Website: [www.ejournal.aibpm.or.id/IJABIM](http://www.ejournal.aibpm.or.id/IJABIM)  
*Research paper, Short communication, and Review*



## **BUILDING BUSINESS ADVANTAGE THROUGH CORE COMPETENCY: CASE STUDY PT. JAPFA COMFEED INDONESIA, Tbk.**

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### **ABSTRACT**

The purpose of this paper is to explore the business advantages of a company engaged in the field of food through its core competency. This paper provides results of core competency analysis of PT. Japfa Comfeed Indonesia, Tbk (JPFA). The research method used a case study that serves to express information in factual, structure, and accurate about the object study. This paper used the information and data obtained from Annual Report of JPFA and related records. This paper identifies a number of core competency factors based on finance performance analysis, business function analysis, and internal analysis & external factor summary (IFAS and EFAS). The based concept of the core competency refers to model that consists of capability, competence, and resource. The results of this paper show the core competency of JPFA in the capability of the company is able to produce products with good quality. In competence, the company is a market leader in its field by being able to dominate the market for animal feed products and DOC, synergy and efficiency in marketing product supported by the distribution network spread throughout Indonesia, and biosecurity such as isolation, fumigation, and farm management to guarantee quality of the product. In the resource, the company has professional and competent human resources. This paper provided managerial impact to company to maintain and develop business profits through its core competency.

Keywords - Business Advantage, Core Competency, Food Industry, PT. Japfa Comfeed Indonesia, Tbk

### **I. RESEARCH BACKGROUND**

Indonesia is one of countries with the largest population. In 2015, its population has reached 255.46 million people (Central Bureau of Statistic). The large number of Indonesian population is proportional to the increased demand in food to be consumed by citizens. Thus, the population of Indonesia can be an opportunity in the business industry, one of that is the food industry. This opportunity is widely used by some companies to meet the needs of food for people which always increasing, it can be seen from the data of animal protein consumption is steady increase from 2010 to 2014, but decreased in 2012 (Animal Husbandry and Animal Health Statistics, 2016), the statistics data can be seen according this table below:



**Table 1. Consumption Chicken per Year**

Unit	Year				
	2010	2011	2012	2013	2014
Kg	3,54	3,65	3,49	3,65	3,96
	6	0	4	0	3

Source: *Livestock and Animal Health Statistics 2016*

PT. Japfa Comfeed Indonesia, Tbk in this research will be called as JPFA, is one of the company that engaged in the food industry. JPFA is a company engaged in the processing of all kinds of animal feed, copra, and other materials containing vegetable oil, cassava, etc. JPFA also engaged in poultry breeding, breeding, and cultivation in livestock, fishery and similar businesses engaged in the field of food. The main brands offered include comfeed and benefeed, best chicken and tora-tora (animal feed), tokusen wagyu beef (meat), and vaqsimune or vaccine (JPFA Annual Report, 2016).

Besides JPFA, there are several companies that also in the same industry as Charoen Pokphand, Central Proteina Prima, Bellfoods, etc. Seeing competition from other companies JPFA must be able to compete with other competitors by maintaining product quality. Animal feed as well as broiler chicken become its main commodity and beef cattle as widening product. To increase sales in the market, JPFA has to innovate and improve the quality of the products so as it can compete in the market. A company can be said to have a competitive advantage if the company has a uniqueness compared to its competitors and can produce a product with better quality or can do something that cannot be done by the competitors.

The vision of JPFA is together with all elements of its shareholders is to always have a goal to achieve better investment profit based on trust and integrity while the mission of PT. Japfa Comfeed Indonesia, Tbk is to be a leading and trusted provider of proteins based on proven experience and collaboration that means evolving through a sustainable process. Based on the vision and mission that makes JPFA able to operate more than forty years and even become a market leader in the field of animal feed business unit.

A company can compete in the market if the company can maintain the quality of its product so the company can sustainability their business and should improve the quality of a product of its superiority (Porter, 1994). The statement is accordance with what is expressed by Rufaidah (2014) which states that if the company is able to create a better economic value than competitors then it can be said that the company has competitiveness. To know some of the factors that become as the main competence which is the advantage possessed by JPFA then made this research with the title: *"Building Business Advantage through Core Competency: Case Study pada PT Japfa Comfeed Indonesia"*.

## **II. REVIEW OF THE LITERATURE**

### **Core Competency**

The core competency concept was introduced in the early 1990s which is defined as a collective learning in organizations, especially how to coordinate diverse production skills and integrate multiple streams of technologies (Prahalad and Hamel in Ljungquist, 2007). It then extends to include a set of skills and technologies that enable companies to deliver benefits to consumers. Criteria in core competency are (1) A core competence must contribute significantly to customer benefit from a product, (2) A core competence should be competitively unique, and as such, must be difficult for competitors to imitate, and (3) A core competence should provide potential access to a wide variety of markets (Prahalad and Hamel, 1990).

Core competency is a powerful driving factor in strategy change and benefits for both managers and researchers. To determine the core competency of an organization, steps can be taken one of them by identifying the core competency itself. Core competency can be identified by identifying the resources, capabilities, and competencies of an organization. However, all three are often called associated concepts, the three parts of the core competency are often not distinguished from each other. Researchers can distinguish all three with characteristics that are owned by each element of

the company. Each concept has a great influence in management strategic (Prahalad and Hamel, 1990).

Smith (2008) defines core competency as a source of differentiation for companies that enabled them to create and offer unique products, services and solutions for customers. The strategic strength of a company located in its core competencies. The focus on core competencies makes the company able to superior in a competition.

Core competency (Gupta, 2013) is a unique capability acquired by a firm over a period of time in form of a resource, operations facility, specially skilled manpower, knowhow or delivery of service which gives the firm sustainable competitive advantage in future in quality, design, production or distribution of a product/service or in cost of the product and is viewed as a relative value addition by a prospective customer.

### **Capability**

Capability is capacity and coordination. It means that a company has the capacity to create something to meet customer needs and wants by coordinating in combining company knowledge. Contemporary research has also distinguishes capabilities as being either operational or dynamic (Helfat and Peteraf, 2003). Operational capabilities include all the routines generally involved when performing an activity such as manufacturing, whereas dynamic capabilities, while dynamic capability is the development, integration, and reconfiguration of operational capability.

Javidan in Ljungquist (2007) suggests that capability has less value and complexity for the company than competence. This opinion is supported by Winter (2003) which states that capability is a system and routine. The system plays an important role in companies such as structuring core competency and routine organizing activities and processes. This opinion indicates a supporting relationship between capability and core competency.

### **Competence**

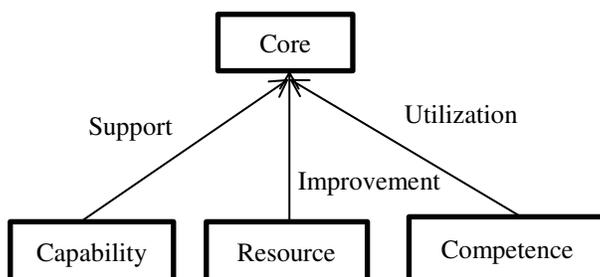
Competence is defined as cross-functional integration and capacity coordination as a set of skills and knowledge in strategic business units (Javidan in Ljungquist, 2007). Competence refers to the inherent quality of a company, the qualities in developing and refining something such as the ability of resources that will ultimately produce sustainable profits. Competence in the journal Ljungquist (2007) is an ability that develops sustainable asset coordination to help a company achieve its goals. Since core competency is the key to organizational success, core competency must be maximally developed.

### **Resource**

Resources are identified as source of sustainable competitive advantage if it is valued, scarce, inimitable, and irreversible (Barney, 1991). Javidan in Ljungquist (2007) identifies resources as the basis for competence development, which is a key input for the corporate value chain. The role of resources is very large to build the core competency that is from the human resources. Having qualified human resources will improve the company's ability in competitive advantage.

By looking and studying the definition of concepts determined that the formation of core competency is supported by three aspects: capability, competence and resource with the following model below:

**Figure 1. Conceptual Model**



Source: Ljungquist, 2007

The relationship between capability, competence, and resource to core competency is to maintain the quality and product quality so that the business is grow continuously. The capabilities of the company must always be supported by the company's ability to produce the products. In an

industry business there will be a competition from other companies, therefore the company must always develop its competence so that the company can survive in the world of competition. It certainly must be supported by the maximum use of resources, both human resources and resources in the form of raw materials for the production process.

### III. METHODS ANALYSIS

This research use case study method. According to Yin (1996) case study is one method in social sciences research. Dooley (2005) argues that case study research is a superior method for understanding complex problems and can add to the knowledge of what is already known through previous research. It can be concluded that case study can provide an explanation of the problem to find out what factors make the success and failure of an organization or company.

Data collection method in this study is using documentary analysis that is by using records or reports issued by companies such as annual reports and financial reports. There are several steps to be taken: (1) case identification, (2) case selection, (3) data processing, and (4) interpretation and presentation of study results.

### IV. RESULTS AND DISCUSSION

This study aims to analyze the Building Business Advantage through Core Competency: Case Study of PT Japfa Comfeed Indonesia, Tbk. Discussed about the strengths of JPFA so that this company able to survive more than forty years in the food industry in Indonesia. To obtain the factors, this study analyzed company's data from various sources. The analysis performed is the analysis of financial performance, analysis on business functions, as well as analysis on IFAS and EFAS of company.

#### **Liquidity Ratio**

Liquidity ratio used to know about the company's ability to pay all liabilities in the short term by using available assets at due date (on time). This ratio includes current ratio, quick acid ratio, and cash ratio. All liquidity ratios are increase from the previous year. Current ratio increased by 15.7% means the company is able to pay short-term loans using short-term assets. Increasing in quick acid ratio of 34.5% identified the ability of company is able to repay short-term debt by using current assets fluently. Increasing in cash ratio means the company is able to maximize the owned cash to pay off short-term debt.

#### **Leverage Ratio**

Leverage ratio is an indicator to know the company can be funded by debt. Debt to Asset Ratio of the company increased by 20.21% indicated the increasing the company's funding derived from debt. The company's debt to equity ratio of 2015 and 2016 exceeds fifty percent of the company's assets, which indicates that the company's DER is deficient, this ratio decreased by 41.5%, indicating the company is attempting to compose more debt and equity efficiently, JPFA continues to reduce debt coincide with the addition of company's equity.

#### **Activity Ratio**

To measure how effective a company in using its resources that can be viewed from the activity ratio (Rufaidah, 2014.) Receivable turnover ratio has increased in line with the increasing of account receivable and sales. It can be said that company is good in using cash to generate sales. Inventory turnover in 2016, has increased 13.2% indicates that company is quite efficient in using the inventory to generate a sale. Working capital turnover decreased by 21.5%, the company did not use maximally the working capital to generate sales.

#### **Profitability Ratio**

Measures overall management effectiveness as demonstrated by the returns derived from sales and investments (David in Rufaidah, 2014). Gross profit margin has increased to 20.20%, it means that company is better in using margin to cover load and generate profit. The company's return on investment has increased by 63.4%, which means the company is able to effectively use assets to generate profits.

#### **Business Function Analysis**

##### **Marketing Analysis**

There are seven elements of marketing mix: Product, Place, Price, Promotion, People, Process, and Physical Evidence. The product functionality of JPFA has several strategic strength

determinants including high quality and reliable, produced by using international quality technology, for the chicken carcass business unit ensuring freshness and for naturally cultivated fisheries ensuring hygiene. To facilitate the distribution products to the consumers, company chose a central office is located in the Capital City in Jakarta for easy access and some factories are scattered in several regions in Indonesia. The company is only focus by using brochures as media for promotion to share information about products, company should be more creative to introduce the product. The function of the employees (people) is actively in carry out business operations. Companies recruit people with capabilities, so it can form a team that reliable and professional. Process is an activity how to deliver services to the consumer. JPFA has the largest production and distribution network in Indonesia (JPFA Annual Report, 2016).

#### **Product Mix Analysis**

The product mix has width and depth dimensions product. The product widening corresponds to how many product lines are handled by the company while the depth of the product leads to how much variation in each product. Product Mix at PT. Japfa Comfeed Indonesia, Tbk consists of 3 products line that is Poultry with variety of product such as chicken feed, broiler / layer and pullet chicken, disease prevention (vaccine), farm equipment, commercial broiler chicken, and chicken carcass product. The second product line is Aquaculture with variation of aquafeed, breeding, tilapia, eel, and japfa prime seafood. The last line of business is cattle with variations of live cattle, tokusen, bifuteki, and blue label (JPFA Annual Report, 2016).

#### **Financial Analysis**

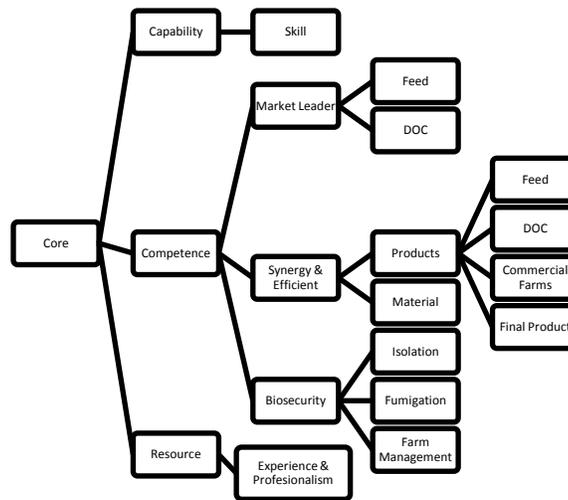
JPFA's funding sources besides using the company's paid-up capital also use bond and debt bonds. While for infestation the company did not do and there is no financial information of JPFA was obtained in the extraordinary events in that year (Annual Report JPFA, 2016). Based on the company's financial statements, company's profits always increase every year and profitable.

#### **Operation Analysis**

The analysis performed on this operation includes several aspects. First, Product design of companies that produces many various products by using advanced technology that is able to produce good quality products and reliable even still have weaknesses that can be imitated by competitors. Second, the managing quality of the company can be seen from products that are safe to consume by all consumers in every ages with proven of Halal Certificate from MUI. Third, the process and capacity design are tied to quality, technological sophistication, human resources, human resources and control on the quality. Fourth, location selection, company chooses several precise locations from all over Indonesia with adjusted to the environmental and natural conditions for existing divisions and business units in order to achieve maximum profit but it weaknesses is require substantial capital to purchase sophisticated equipment. Human Resources and job design is concerned by the managerial company so it needs to do coaching and development. The next analysis is supply chain management, the company purchases raw materials imported from within or outside the country. In role for maintenance of production equipment such as machine, computer and other technological tools routinely, besides that to keep company quality, company also apply Hazard Analysis Critical Control Point (HACCP) that follow the SOP (JPFA Annual Report, 2016).

#### **HRM Analysis**

HRM analysis is divided in three aspects from procurement that include recruitment program, selection and placement of new employees. The strategic strength of the company by conducting recruitment program is processed openly for all circles, informed widely and done professionally. Development programs to improve the employee's competency based on the main pillars of quality and productivity, profession and mentality. The company provides same opportunity to all employees according to the training needs of each employee. The Company also strives to provide welfare to employees by giving BPJS *Ketenagakerjaan* and health insurance programs with applicable provisions that provide corporate social policy by providing assistance of marriage, childbirth and others (JPFA Annual Report, 2016). Based on the EFAS analyzes, this study found about the ideas of the core competency of JPFA. The illustrated is following through the mind map which refers to the concept of Ljungquist (2007).



**Figure 2. Mind Map of JPFA's Core**  
 Source: Researchers Processed, 2017

### Capability

The strength strategic of a company depends on its core competency, the things that must be considered for a company to compete with other companies such as having a unique thing that cannot be imitated by competitors through the core competency concept (Gupta, 2013). Companies must be able to innovate as dynamic market demand. The capability of JPFA is possessed by the ability to produce a product with the high quality. JPFA is a food industry company that has been operating for over forty years, and therefore JPFA's experience in this field has become one of the advantages over its competitors which are also in the same industry.

### Competence

Speaking of competitors mean it also talking about competence, according to Javidan in Ljungquist (2007) competence refers to the inherent quality of a company, a quality in developing and completes something such as a resource capability that will ultimately produce sustainable profits, therefore in a competence the company should always maintain or even improve the quality of its products. JPFA always try to maintain the quality of its products to always able to compete, it can be proved that JPFA is still a market leader in its industry. For example in producing animal feed, JPFA is able to adjust between animal feed formulations and the type of chicken produced (JPFA Stock Call, 2017). In addition, JPFA also has DOC with a same body weight which becomes an advantage for JPFA because it will help the breeders in the maintenance process so as to facilitate the process of controlling (JPFA Investor Presentation, 2014). According to data in JPFA Annual Report, 2014, JPFA is the second ranked in Indonesia in producing feed below PT. Charoen Pokhphand, Tbk., based on the same source in that year JPFA also ranks the same under PT. Charoen Pokhphand, Tbk. for DOC production.

The other competencies of JPFA are synergistic and efficient to meet the demand on a large business scale. Company has vertical integration and economies of scale, it means the company maintains a good relationship between upstream and downstream operations. With the maintenance of that relationship will be guaranteed superior product quality. In addition to economies of scale, JPFA offers affordable products for all consumers in Indonesia, which is fit to opinion of Prahalad and Hamel (1990) who state that one of the core competency criteria is to provide potential access to market variation broad. JPFA has an advantage in time control of shipping process and feed supply to be sent to the farmer, so the feed ordered by the breeder will be expeditious and efficient. DOC's quality produced by JPFA is the excellent quality which has a same weight and derived from superior strains and can withstand to weather conditions in Indonesia. Another advantage of JPFA is the breadth distribution networks in marketing, one of them is located in Singapore. It becomes a value added for consumer to get the final product of fresh carcass or fresh pieces of chicken so it is safe to consumption (JPFA Investor Presentation,

2014). The raw materials used by JPFA have been selected so tightly that will produce the high quality products. The price of raw material is relying on the rupiah exchange rate against the dollar, but JPFA can control prices in the market (Mundi Index, Bank Indonesia and company fillings).

JPFA's next competence is its Biosecurity. Based on Shulaw and Bowman (2001) Biosecurity is defines as all management practices that are applied to prevent disease-causing organisms coming in and out. One of the efforts of biosecurity is to carry out isolation such as the fumigation process at the time of going out or enter the farm, it is a SOP that must be done by anyone without exception. This is an effort made by JPFA to maintain the quality of the products that it produces to be safe to consume by all circles of society. Another advantage of JPFA is the farm management, one of them is the routine vaccine delivery according to its needs and the optimization of a cage is calculated by the population occupying it so that there is no overcapacity in a cage (JPFA Investor Presentation, 2014).

### **Resource**

All the advantages possessed by the company can be achieved due to the quality and professionals of human resources. The company conducts a strict and openly recruitment process. Starting from informing the job vacancy in accordance with the required until after becoming an employee. Training and development employee must be done by the company to produce qualified human resources as to improve the company's ability in competitive advantage (Javidan in Ljungquist, 2007).

### **CONCLUSION**

Based on the model in this research, it can be conclude that JPFA has ability to produce products in high quality, JPFA has the competence as a market leader, synergized and efficient in marketing its products, and application of biosecurity that supported by the quality of its resources. According to the analysis that conducted on the annual report and various reports and notes sources about condition of the company such as financial performance, business function analysis and internal also external factor analysis can be found several business advantages possessed to JPFA include: (1) JPFA as the provider of the complete protein food animal in Indonesia. This is proved by business units that company's conducted covering in the field of poultry, aquaculture, and beef cattle. (2) Has a large bargaining position for raw materials. (3) Has the ability to adjust between animal feed formulations and the types of chicken produced. (4) Efficiency in nursery process. (5) Broad distribution network. JPFA is one of the companies that have the largest network both domestically and abroad one of the distribution network is located in Singapore. (6) Experienced in Food Industry. Starting business in 1971 to make JPFA a superior company and able to survive despite the many competitors who arrive.

Core competence can't be owned instantly, to have it through various processes and experiences. Developing core competence requires hard work and the ability to use existing values to solve problems and persist in developing performance and products.

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## Appendix

Analysis of the Finance Performance		
Ratio/Year	2016	2015
<b>Liquidity Ratio</b>		
<i>Current Rasio</i>	212.90%	179.40%
<i>Quick Acid Rasio</i>	107%	70%
<i>Cash Rasio</i>	52%	16.80%
<i>Cash Turnover</i>	5.2	27.7
<i>Inventory to Net Working Capital</i>	0.93	1.37
<b>Leverage Ratio</b>		
<i>Debt to Asset Rasio</i>	51.30%	64.30%
<i>Debt to Equity Rasio</i>	105.30%	180%
<i>Long-term debt to Equity Rasio</i>	0	3.29%
<i>Times Interest Earned Rasio</i>	5.41	0.87
<i>Fix Charge Coverage</i>	6.41	1.87
<b>Activity Ratio</b>		
<i>Receivable Turnover</i>	20.6	19.7
<i>Inventory Turnover</i>	4.92	4.27
<i>Working Capital Turnover</i>	4.61	5.88
<i>Fixed Assets Turnover</i>	3.67	3.61
<i>Total Assets Turnover</i>	1.4	1.4
<b>Profitability Ratio</b>		
<i>Gross Profit Margin</i>	20.20%	15.9%
<i>Return on Investment</i>	14.50%	5.30%
<i>Return on Equity</i>	14.50%	15.10%

<i>Earning per Share (Rp)</i>	189	44
<i>Net Profit Margin</i>	10.70%	6.90%
<b>Book To Market Ratio</b>		
<i>Price Earning Rasio</i>	7.69	14.43
<i>Market Book Rasio</i>	5.16	3.66
<b>Growth Ratio</b>		
<i>Sales</i>	7.53%	2.25%
<i>Net Income</i>	66.99%	64.28%
<i>Earning per share</i>	76.71%	27.27%

Source: JPFA Annual Report, 2016 (Processed)

**IFAS Table of PT Japfa Comfeed, Tbk**

<b>Internal Strategic Factors</b>	<b>Quality</b>	<b>Rating</b>	<b>Score</b>	<b>Description</b>
<b>Strength</b>				
1. Products with high quality and reliable	0.10	4	0.4	The company focuses on quality products that can be consumed by all consumers in various ages.
2. Raw materials are strictly selected using sophisticated technology	0.07	3.5	0.245	The selected raw material is the best raw material to produce a good product.
3. The production process is done by competence and professional technical team	0.09	3.5	0.315	Production process is done by a competent team in his field.
4. The largest commercial production and distribution network in Indonesia	0.06	3.5	0.21	The distribution process can reach all areas in Indonesia.
5. Providing online product purchasing service through company website	0.04	2.5	0.1	Companies utilize internet technology to simplify the process of product sales.
6. Exports products to countries in Asia, Africa, and America	0.05	3	0.15	Opportunities for business expansion for the company.
7. Training and development of employee competencies	0.09	3.5	0.315	Purposed to improve employee's performance to gain maximum profit.
8. Controls that conducted regularly and periodically toward raw materials and production	0.08	3.7	0.296	To maintain and obtain high quality products.

equipment.

<b>Total Strength (S)</b>	<b>0.58</b>	<b>2.031</b>		
<b>Weakness</b>				
1. The price of the product depends on the currency exchange rate.	0.08	4	0.32	Production of products with raw materials that belonging to international commodities.
2. Lack of promotional program.	0.06	2.5	0.15	Promotion programs used brochures.
3. The availability of raw materials that depend on weather, pest, production and consumption levels.	0.10	4	0.4	The main raw materials used by the company are corn and soybeans.
4. Corn raw material with good quality can only be obtained in the summer.	0.08	2.5	0.2	The best condition of corn to serve as raw material is with low water content.
5. Insufficient storage capacity to store raw material supplies	0.10	3.5	0.35	To avoid purchasing raw materials during the rainy season, companies buy large quantities of raw materials during summer.
<b>Total Weakness (W)</b>	<b>0.41</b>	<b>1.42</b>		
<b>Total Score (S+W)</b>	<b>1.00</b>	<b>3.451</b>		

Source: JPFA Annual Report, 2016 (Processed)

#### EFAS Table of PT Japfa Comfeed, Tbk

<b>External Factor Strategic</b>	<b>Quality</b>	<b>Rating</b>	<b>Score</b>	<b>Description</b>
<b>Opportunity</b>				
1. Technology development.	0.14	3.4	0,476	The more sophisticated of technology will be provide more benefits to company.
2. Citizen's knowledge level.	0.12	3.3	0,396	The higher level of citizens knowledge will have impact to the consumption pattern of the citizens to meet their needs of animal protein.
3. Citizen's purchase power.	0.12	3.2	0,384	The level of citizen's income will give impact on their purchasing power.
4. Social Media	0.10	3	0,3	Promotion through social media will be more effective at this time.
5. ISO Certificate in food industry.	0.12	3.5	0.42	Citizen trust to consume products from the company.

6. Population increasing.	0.11	3.3	0.33	Increase in population will affect to increasing the product demand.
<b>Total Opportunity (O)</b>	<b>0.71</b>		<b>2,306</b>	
<b>Threats</b>				
1. Decreasing of rupiah towards dollar	0.04	2.4	0.096	The main raw materials used by the company are included in international commodities which the price is follow the rupiah exchange rate.
2. Unpredictable natural disaster	0.05	2.1	0.105	Indonesia has great potential for various forms of natural disasters that will result in disruption of company activity.
3. Government regulations	0.03	2.0	0.06	Government regulations may change at any time with the state or condition of the country.
4. Competitors	0.05	2.3	0.115	Try to attract customer if the company is not able to compete.
5. Epidemic of diseases	0.04	2.5	0.1	Outbreaks of disease can damage the sustainability of livestock and agricultural businesses.
6. Cartel	0.03	2.0	0.6	Unhealthy cooperation between similar companies can damage market prices that can reduce people's purchasing power.
7. The uncertainty of weather	0.05	2.5	0.125	May cause fluctuations in price of feed that will give impact to the price of product.
<b>Total Threat (T)</b>	<b>0.29</b>		<b>1.201</b>	
<b>Total Score (O+T)</b>	<b>1.00</b>		<b>3.507</b>	

Source: JPFA Annual Report, 2016 (Processed)