FINANCIAL HEALTH LEVEL OF INDONESIAN MOBILE TELECOMMUNICATION DEVICE RETAIL DURING DIGITAL TRANSFORMATION: A CASE STUDY OF PT ERAJAYA SWASEMBADA TBK

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ABSTRACT

The business world today is facing the challenge of disruption, apparently with the occurrence of digitalization in various aspects of life. Several things may affect the business i.e. regarding government policies and regulations that encourage digitalization reforms in business and support a digitization-friendly environment. For example, the third Nawa Cita in the President Jokowi era drove development not only in infrastructure such as roads but also telecommunication infrastructure such as internet broadband in remote areas. The objective of the research is to evaluate and measure the financial health conditions of mobile telecommunication device distribution and retail, especially at one of the biggest companies in Indonesia: PT Erajaya Swasembada Tbk (ERAA). The data used are secondary data derived from the company's annual financial statements in the 2014-2019 period and other related data. The analysis method used is descriptive financial ratio analysis and analysis of the company's financial condition which refers to the Decree of Ministry SOEs No. KEP-100/MBU/2002. The conclusion of eight financial ratios to investigate financial health conditions -based on the Ministry Decree- is ERAA in healthy condition (A, BBB, A, A, A, A). Only in 2015, they declined to be less healthy, but successful to achieve A condition in 2016 and maintain it until 2019. The findings of the research can give recommendations for managers in investing in mobile telecommunication device retail industries, provide a brief overview to companies engaged in the same sector, mainly to provide aspirations in developing applicable business strategy breakthroughs.

Keywords: Financial Ratio Analysis, Financial Health, Digital Transformation, Nawa Cita, Mobile Telecommunication Retail.

INTRODUCTION

Background

The business world today is facing the challenge of disruption, apparently with the occurrence of digitalization in various aspects of life. Digitalization is not only changing the way or 'how to' in business, but also changing the cost structure, organizational structure, people's behavior, mindset, and culture reset. Within stormy situations, the company is constantly evolving and innovating its strategy while trying to adapt to rapid changes.

Brennen & Kreiss (2016) distinguish the term "Digitization" with "Digitalization" by the scope. They refer to digitization as the process of converting information analog streams into digital bits while digitalization is not only the process but also the impact in social life like digital communication and media infrastructures that are being restructured. Digitalization makes organizations need to do a digital transformation. Digital transformation can be defined as a process where *digital technologies* create *disruptions* triggering *strategic responses* from organizations. The response will change the organization's value creation paths and affect the outcomes positively or negatively. (Vial, 2019) As a response to rapid technological developments, everyone then should cope with digital transformation.

Indonesia is a country with almost 264,1 million population in 2018 and will grow into 269,6 million in 2020 with 40% of the population aged 39 years old or younger. (BPS, 2020) That makes Indonesia the fourth most populated nation in the world after China, India, and the United States. The population of Man and women is only slightly different, with men 135,3 million and women 134,2 million. The expected growth number in the population of people in the middle class will rise from 89 million in 2016 to 92.4 million in 2020. While the absolute number will increase due to the increasing population over this time, there is also a lower, more impoverished socioeconomic class that will increase during this period. According to the World Bank, an estimated 165 million Indonesians live on less than USD 5.5 per day (Frost & Sullivan, 2018)

President Joko Widodo and Vice President Jusuf Kalla were elected in 2014 for the period 2014-2019, they were inaugurated on October 20, 2014. In that period, they sent out 9 (nine) strategic agenda called Nawa Cita. Those Nawa Cita are included in the national medium-term development plan (RPJMN), in line with The Sustainable Development Goals (SDGs) by the United Nation.

Tabel 1.1. Intersection Between Nawa Cita, RPJMN, and SDGs

Nawa Cita	RPJMN*	SDGs
Nawa Cita 1	Chapter 6.1, 10 sub-chapters	Goals 3, 10, 16, 17
N2	C6.2, 5 sub-chapters	G16
N3	C6.3, 3 sub-chapters	Gs1-11
N4	C6.4, 6 sub-chapters	Gs14-16
N5	C6.5, 5 sub-chapters	Gs1-6
N6	C6.6, 11 sub-chapters	Gs1-10
N7	C6.7, 9 sub-chapters	Gs1-5, 8, 9, 12-15
N8	C6.8, 1 (sub-)chapters	Gs3-4, 11
N9	C6.9, 1 (sub-)chapters	G5, 10, 16, 17

Source: United Nations Development Programme, 2015

The Indonesian government provides support in the digitalization process to support development in various sectors. At the end of 2014, the Indonesian Government under the coordination of the Coordinating Ministry for Economic Affairs collaborated with the Ministry of Communication and Information and related Ministries/institutions, stakeholders from associations and e-commerce business actors, as well as world-caliber consultants Ernst & Young, developing E-commerce Roadmap and working together in preparing a good digital ecosystem (Ministry of Communication and Informatics, 2015). Government support is also shown by conducting activities such as the Ultra-Micro Financing Digital Ecosystem Trial Program (UMi) from the ministry of finance in 2018 and using ICT (information and communication technology) to accelerate access to education services in peripheral areas. This is in line with the 3rd Nawa Cita, with activity Digitalization of Schools to Accelerate the Expansion of Access to Quality Education in 3T (Terdepan/Frontier, Terluar/Outermost, Tertinggal/Least Developed) Regions (Coordinating Ministry for Maritime Affairs and Investment, 2019). The process of digital transformation could directly affect several business sectors, one of which is the retail mobile telecommunications device industry.

Indonesia is a promising market for the telecommunication industry, there are 171,26 million internet users in Indonesia and with about 62 percent of the population accessing the internet from their mobile phones and expected to grow to 87 percent by 2025. (Statista, 2020) The telecommunication sector has undergone fast-paced development since 1993 following the introduction of a scheme by the government in cooperation with state-owned enterprise Telkom to install millions of fixed telephone lines from 1993-1997. In 1997 Indonesia only had 1 million cellular phone subscribers which grew dramatically to reach 11.3 million subscribers in 2002 surpassing the number of fixed-line users and driven by increased price competition in the sector as a result of its deregulation in 1999. The cellular phone sector continued to grow at a dramatic pace with the number of users tripling in the five years from 2005-2010, reaching 211 million customers in 2011 with the average Indonesian owning 1.68 sim cards. Telecommunication companies and mobile phone manufacturers now face stiff competition in attracting and retaining users the majority of which are young being aged between 10-39 years and therefore very price-sensitive as well as quick to switch brands or providers. This is also an opportunity for retailers like ERAA.

Research Objective

Currently, there has not been much research on the effects of digital transformation on the growth of the telecommunications device retail business in Indonesia, therefore researchers intend to see the effects of changes that occur in the business environment on company performance and health. The overall objective of the research is to examine and find the impact of the changes around digitalization transformation in business-on company financial condition, by evaluating and measuring the financial health conditions of mobile telecommunication device distribution and retail during 2014-2019, especially at one of the biggest mobile telecommunication device retail companies in Indonesia: PT Erajaya Swasembada Tbk (ERAA). The specific objectives are to 1) provide an overview of financial performance; 2) provide general information on the financial health status of the company; and 3) provides additional description of the effect of digital transformation on the company's financial condition.

This study is organized into eight sections. Section one captures the introduction, section two highlights the performance of Indonesia’s mobile telecommunication device and retail industry, section three highlights the literature review about previous researchers, section four explains the Decree of Ministry of SOEs No. KEP-100/MBU/2002 about financial health assessment, section five discusses the methodology, section six discusses the finding and analysis, section seven highlights the limitation, and section nine captures the conclusion.

MOBILE TELECOMMUNICATION DEVICE AND RETAIL DEVELOPMENT IN INDONESIA

Nowadays almost all Indonesians have their own cellular phone to access the internet. In 2015 there was 88,04 percent of households in Indonesia own/master at least one active cellular phone number (Figure 2.1) and 63,53 percent of individuals in Indonesia using mobile phones in 2019 (Figure 2.2). According to the National Socio-Economic Survey by the Central Bureau of Statistics (BPS), in 2018 there was 39.90 percent of the Indonesian population accessed the internet and increased to 47,69 percent in 2019 (Figure 2.3).

The high number of Internet users in Indonesia was inseparable from the telecommunication infrastructure development done by the Indonesian government. The third Nawa Cita “Building Indonesia from the Periphery by Strengthening Regions and Villages within the Framework of a Unitary State” driven development not only in the city but also in rural or remote areas. This statement was strengthened by a Regulation of The President Of The Republic Of Indonesia Number 21 Of 2018 About The National Strategy For Accelerating Development of Underdeveloped Regions, 2015-2019. In this regulation, the government committed to accelerated fulfillment of information and telecommunications infrastructure such as the provision of transmitting stations (Base Transceiver Station) and internet network access in certain regions.

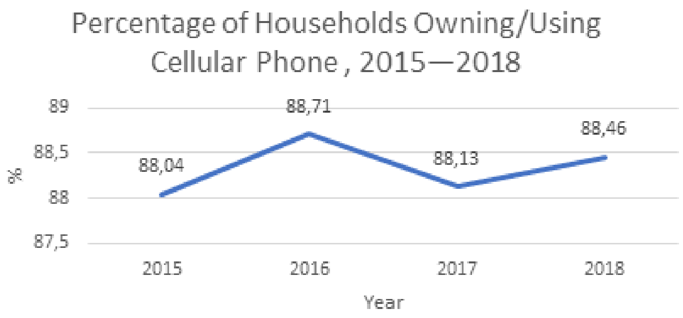

Figure 2.1. Percentage of Households Owning/ using Cellular Phones (Source: BPS, 2019)

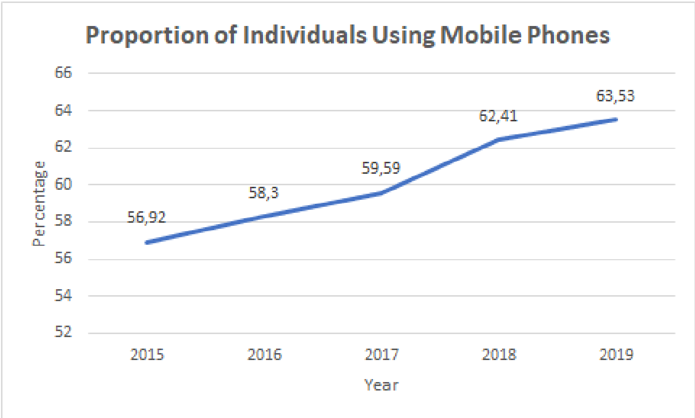

Figure 2.2. The proportion of Individuals Using Mobile Phones (Source: BPS, 2019)

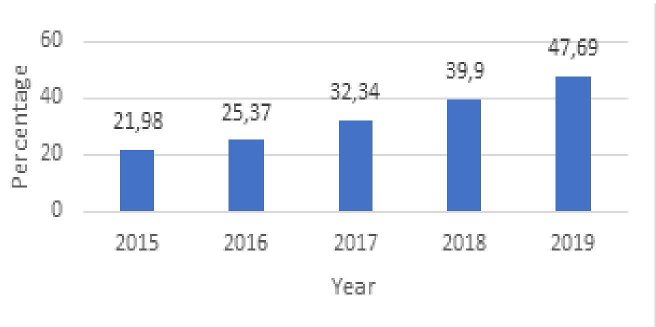

Figure 2.3. Internet User in Indonesia (Source: BPS, National Socio-Economic Survey)

Features development in cellular phones makes people can do more than just make phone calls or texting. They can surf the internet using their gadget. Based on the National Socio-Economic Survey, cellular phones became the most preferred media in accessing the internet from 2016 through 2017. Cellular phones dominated the public option to access the internet with a percentage of 90.91 percent in 2016 and increased to 91.45 percent in 2017. All those phenomena can boost sales in telecommunication retail.

Other things that can increase sales are the behavior of cellular phone consumers who tend to use the same cellular phone in a short period and the habit of changing phones following technological developments and trends. Mobile phones had become a primary need as well as a lifestyle need. The MARS Research Institute found that 29.7 percent of respondents changed their smartphone device within 1.5-2 years, while 27.8 percent made a replacement within a period of 1-1.5 years, while 22 percent said they replaced a smartphone device within one years or less, with details of 18.2 percent 7-12 months, 2.4 percent 4-6 months and 1.4 percent 1-3 months. This tendency or "hobby" to replace cell phones has caused cell phone sales to increase year after year. Hence, this will have a direct impact on company performance (Tongli, 2018).

Digital transformation not just can be a threat or promising opportunity to company sales, but it can also give effect in the business process itself. It may impact the industry/business i.e. on budget restructuring, changes in organizational models in the use of manpower, the type of long-term asset investment required, efficiency in asset management, integrated recording and documentation, and database development are just a few of the many things that have been disrupted by the presence of digitalization in the company's business environment. These things can affect positively, neutral, or negatively the company's financial condition. If the effect is positive, it turns out to promote profit and financial performance through more efficient business processes and digital technology assistance.

ERAA is a company that imports, distributes, and retails devices cellular telecommunications, which was founded in 1996 and began listing its shares in 2011. Despite being one of the largest importers, distributors, and integrated trading companies of cellular telecommunication retailer devices, ERAA is also one of the companies with the most trusted business in Indonesia with a strong foundation in distribution and retail. Currently, ERAA has a distribution and retail network that spreads throughout Indonesia and has also expanded to Malaysia and Singapore, with a total of 83 distribution centers, 1134 retail outlets, and more than 61 thousand third-party resellers (Annual report).

Up to 2019 ERAA approximately covers 35% of the national market share. ERAA has built strategic partnerships with various well-known brands, including Apple, ASUS, Blackberry, Google, GoPro, Huawei, Lenovo, LG, Motorola, Nokia, OPPO, Realme, Samsung, Vivo, Xiaomi making ERAA the main channel for all well-known brands in Indonesia (Figure 2.4) and the leading cellular network operators in Indonesia to sell and distribute their products. ERAA distributes telecommunications devices i.e. cellular telephones, smartphones, tablets, SIM cards, recharge vouchers, and other Information Technology products and services supporters-with smartphones as their core product (Figure 2.5).

Figure 2.4. Top five smartphone brand in Indonesia

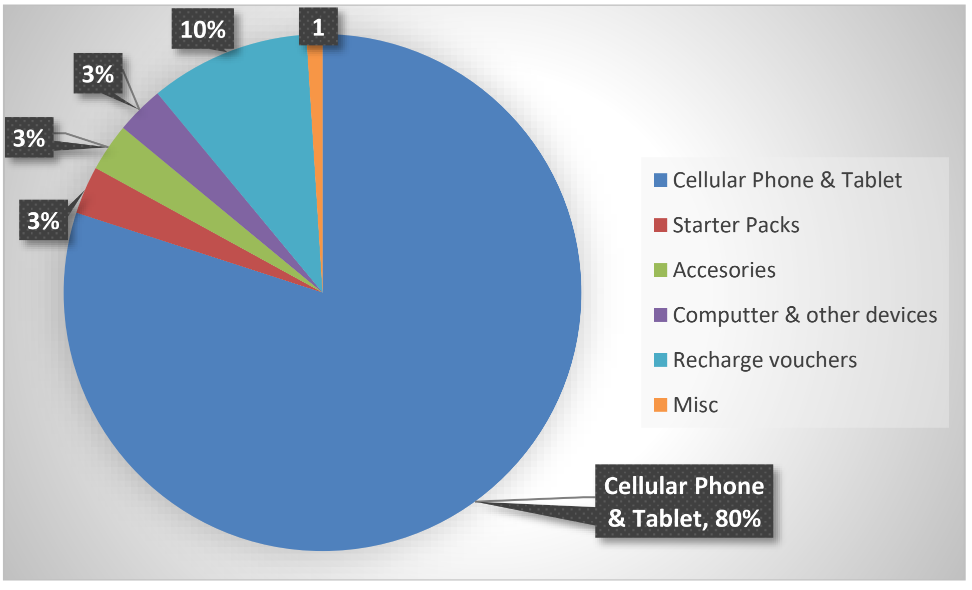

Figure 2.5. Business Segmentation of ERAA (source: annual report)

ERAA's main strategy is to obtain mobile phone distribution licenses from various well-known brands, maintain the trust principle, start expanding to the region, and consistently add outlets while continuing to develop online markets and Omni channels, produce their cellular phones, and continue to innovate including opening sales product accessories (annual report).

LITERATURE REVIEW AND PREVIOUS RESEARCH

Evaluating company performance is a key goal of financial statement analysis. Shareholders entrust managers with the responsibility of developing a business strategy that utilizes company assets in a manner that both effectively and efficiently generates a profit (Harrison *et. al*, 2013). Piotroski (2000) used financial ratios to supplement a value investing strategy and found that he can generate significant excess returns. Variables used by Piotroski include ROA, cash flow ROA, change in ROA, change in leverage, change in liquidity, change in gross margin, and change in inventory turnover.

Because of the large number of ratios, it is helpful to think about ratios in terms of their interest for a specific purpose and situation. Common ratio categories include activity, liquidity, solvency, profitability, and valuation. keep in mind that each ratio cannot stand alone and be exclusive; some ratios could be used to examine several aspects of the business. Analysts appropriately use certain ratios to evaluate multiple aspects of the business (Henry *et. al*, 2011).

Profitability ratios measure the company's ability to generate profits from its resources (assets) (Henry et. al, 2011). Several ratios consider as describing overall and profitability performance such as 1) Price/earnings ratio; 2) Return on assets; 3) Return on invested capital; 4) Return on shareholders' equity; 5) Gross margin percentage; 6) Profit margin; 7) Earnings per share; and 8) Cash Realization (Anthony, 2012). Researchers agreed that higher profitability means that the company is highly efficient (Vanitha and Selvam, 2010).

Liquidity ratios measure a firm's ability to meet its maturing financial obligations. The focus is on short-term solvency as if the firm were liquidated today at book value. The current ratio (CR) is the most common liquidity measure and provides an indication of a firm's ability to pay short-term claims with short-term assets. (Henry *et. al*, 2011). In principle, we would like to see the CR > 1 because it suggests that the CA to be liquidated this year is sufficient to cover the CL that will come due this year. If the CR < 1, then the CA will be unable to service the maturing obligations as measured by CL. Higher liquidity shows that the company is in good condition, while higher leverage is a warning sign that the company is at risk (Vanitha and Selvam, 2010).

Activity ratios measure the daily work efficiency of the company, examples of aspects that are measured are inventory management and A / R management (Henry *et. al*, 2011). Several ratios are considered as describing activity performance such as 1) Days' receivables (or collection period); 2) Days' inventory; and 3) Inventory turnover.

Solvency ratios measure a company's ability to meet long-term obligations. The focus is on the long-term solvency of the firm. In general, the higher the amount of debt financing relative to equity financing, the more leveraged the firm is and the greater the risk its owner faces (Henry *et. al*, 2011).

ERAA in 2013-2014 is known to have increased sales of Rp. 1,724.16 million but this increase in sales was not followed by an increase in profitability, where profitability decreased by 3.47% (Andayani, Yudiaatmaja, and Cipta, 2016). This is not in line with the theory of Bringham and Houston (2006) which states that sales are directly proportional to profitability. There was a decrease in liquidity of 23.62%, but this decrease in liquidity was not followed by an increase in profitability. This thing does not align with Horne's theory and Wachowicz (2009).
Previous research on ERAA found that: (1) sales and liquidity have a significant effect on profitability in trading, service, and investment companies on the Indonesia Stock Exchange. (2) sales have a positive and significant effect on profitability at trading, service, and investment companies on the Indonesia Stock Exchange. (3) liquidity has a negative and significant effect on profitability at Trading, Service, and Investment Companies on the Indonesia Stock Exchange. (4) sales have a positive and significant effect on liquidity at Companies, Services, and Investments in the Indonesia Stock Exchange (Andayani, Yudiaatmaja and Cipta, 2016).

THE DECREE OF MINISTRY OF STATE-OWNED ENTERPRISE (SOEs)

In addition to seeing the company's performance through financial ratios, it is also necessary to validate the company's health level by referring to certain standards, which refer to recognized national or international standards. The Indonesian government already has one of the tools to measure the financial health of companies-the Decree of the Minister of BUMN No. KEP-100 / MBU / 2002 on financial health assessment of state-owned enterprises (SOE).

Although initially used for state-owned enterprises (SOE), the Decree of the Minister of BUMN No. KEP-100 / MBU / 2002 concerning financial health assessment can also be applied to private companies, since the essence of the corporate goal is the same as maximizing profits in the corridor of good governance practices, and it also uses financial ratio analysis as the basis for measuring it. Edmister (1972) says that to evaluate the performance of small companies and to anticipate breakdowns, financial ratios are a tool to define them.

Several studies have measured the health level of a company using the Decree of the Minister of BUMN No. KEP-100 / MBU / 2002 as a validation tool, among others ie. 1) PT Angkasa Pura I (AP I) and PT Angkasa Pura II (AP II) in 2011-2015 achieved financial healthy condition levels, although AP II (AA, AA, A, A, and A) was a better performance than AP I AP I (BBB, BBB, BBB, A, and A) (Daryanto, 2018); 2) from 2011 - 2015, both SOEs PT. Adhi Karya (AA, A, AA, A, A) and PT. Wijaya Karya

(AA, AA, AA, AA, A) has achieved financial healthy condition levels (Afriza and Daryanto, 2019); 3) two state-owned enterprises under the Ministry of Energy and Mineral Resources (EMR) for the period 2011 – 2015 shows the good financial health condition which achieved level AAA and AA (Samidi and Daryanto, 2018); 4) six of the seven state-owned cement companies were healthy after the entry of the PMA cement industry to Indonesia, and one company are less healthy (Malik and Handono, 2018).

According to the Decree of the Minister of BUMN 2002, companies are classified by the Financial Services and Non-Finance Service industry. That Non-Financial group then divided by Infrastructure and Non- Infrastructure companies. The retail mobile telecommunications device company is part of the Non-Infrastructure group of companies. The health level of BUMN is determined based on the company's performance assessment for the current year, consisting of financial aspects, operational aspects, and administrative aspects. Within the scope of this research, the authors only focus on the financial aspect and exclude others.

METHODOLOGY

One of the references in measuring company performance is from financial statements. From these financial reports, knowledge about the financial aspects of a company can be obtained. The measurement tool that is often used for financial statement analysis is financial ratios. The measurement uses the ratio of liquidity, solvency, activity and profitability.

The data used are secondary data derived from the company's annual financial statements in the 2014-2019 period and other related data needed to be able to analyze the company's financial health condition, such as reports on economic growth, growth in the retail sector, and the telecommunications sector, and other related data. One of the main sources of alternative information is analyst forecasts and recommendations and other sources are economic, industrial, and specific companies' news (Subramanyam, 2014).

The analysis method used is descriptive financial ratio analysis and analysis of the company's financial condition which refers to the Decree of Ministry of SOEs No. KEP-100/MBU/2002 about financial health assessment (Figure 5.1). All variables used as ratio measurement scales were taken from the decree. Table 5.1 shows the indicator and weight score of each ratio. This decree was used to validate the financial health condition level of those enterprises whether in the levels of very healthy level (AAA, AA, A), or less healthy level (BBB, BB, B), or unhealthy level (CCC, CC, C). The criteria on a healthy level show on Table 5.2.

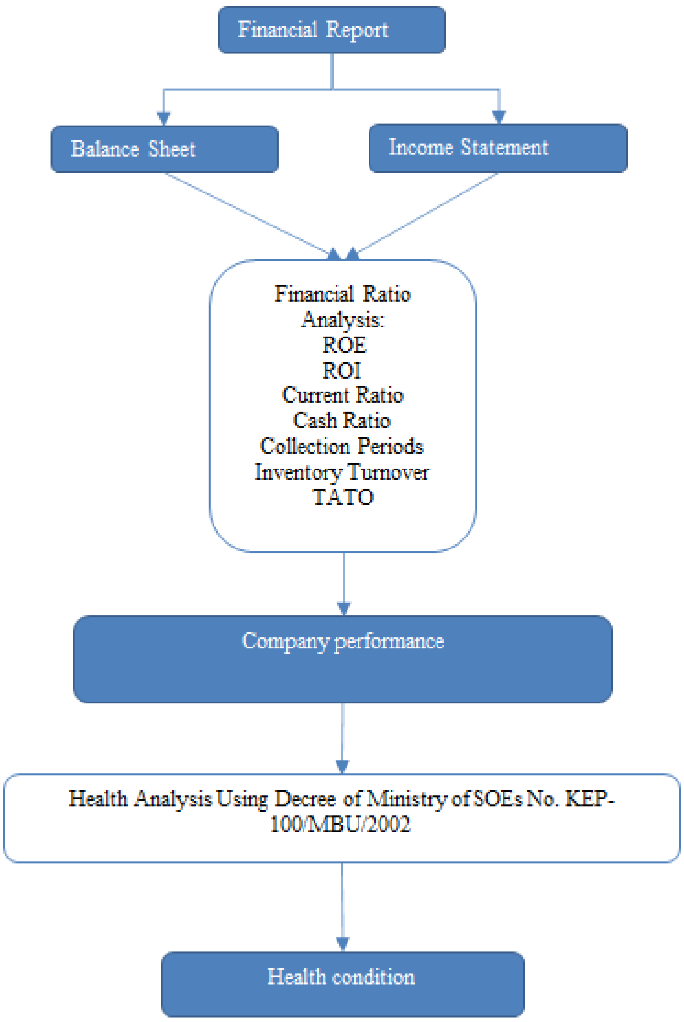

Figure 5.1. Framework Model

Table 5.1. Indicators of Evaluation

INDICATORS	WEIGHT SCORE
1. ROE	20
2. ROI	15
3. Cash Ratio	5
4. Current Ratio	5
5. Collection Period	5
6. Inventory Turnover	5
7. Total Asset Turnover	5
8. Total Equity to Total Asset	10
Total weight score	**70**

Source: The decree of Ministry of SOE No. KEP 100/MBU/2002

Total Score	Category	Criteria
TS>95	AAA	Healthy
80<TS≤95	AA	
60<TS≤80	A	
50<TS≤65	BBB	Less Healthy
40<TS≤50	BB	
30<TS≤40	B	
20<TS≤30	CCC	Unhealthy
10<TS≤20	CC	
TS≤10	C	

Source: The decree of Ministry of SOE No. KEP 100/MBU/2002

Table 5.2. Criteria of Healthy Company

Each analyst can have his own considerations in choosing the ratio used in performing performance analysis. The selection of ratios is based on the shape, type, and scale of the industry as well as the availability of data and things to be measured. The selection of the Financial Ratio Analysis (FRA) method used in this study is based on researchers' knowledge due to limited review on the mobile telecommunication device retail industry. Moreover, refer to the Decree of Ministry of SOEs No. KEP-100/MBU/2002 about financial health assessment, profitability performance described with ROE and ROI, liquidity performance by cash ratio and current ratio, activity performance by collection period, inventory turnover and total asset turnover, while solvency performance described by total equity to the total asset. Calculation formula and assessment score as below.

Profitability Performance

Return on owners' equity (ROE) reflects how much the firm has earned on the funds invested by the shareholders (either directly or through retained earnings). This ROE ratio is obviously of interest to present or prospective shareholders and is also of concern to management because this measure is viewed as an important indicator of shareholder value creation. Return on investment (ROI) is broadly defined as net income divided by investment. The term investment is used in three different senses in financial analysis, thus giving three different ROI ratios: return on assets, return on owners' equity and return on invested capital (Anthony, 2012).

$$Return\ on\ Equity\ (ROE) = \frac{net\ income}{average\ equity}$$

$$Return\ on\ investment\ (ROI) = \frac{net\ income + interest\ (1 - tax\ rate)}{Long - term\ liabilities\ +\ Shareholders'\ equity}$$

Table 5.3. Criteria of ROE and ROI Assessent Score

ROE (%)	Score	ROI (%)	Score
15 < ROE	20	18 < ROI	15
13 < ROE<= 15	18	15 < ROI < = 18	13,5
11 < ROE <= 13	16	13 < ROI < = 15	12
9,0 < ROE <= 11	14	12 < ROI < = 13	10,5
7,9 < ROE <= 9	12	10,5 < ROI < = 12	9
6,6 < ROE <= 7,9	10	9 < ROI < = 10,5	7,5
5,3 < ROE <= 6,6	8,5	7 < ROI < = 9	6
4,0 < ROE <= 5,3	7	5 < ROI < = 7	5
2,5 < ROE <= 4	5,5	3 < ROI < = 5	4
1,0 < ROE <= 2,5	4	1 < ROI < = 3	3
0 < ROE <= 1	2	0 < ROI < = 1	2
ROE < 0	0	ROI < 0	1

Source: The decree of Ministry of SOE No. KEP-100/MBU/2002.

Liquidity Performance

Cash Ratio normally represents a reliable measure of an entity's liquidity in a crisis situation. Only highly marketable short-term investments and cash are included. In a general market crisis, the fair value of marketable securities could decrease significantly as a result of market factors, in which case even this ratio might not provide reliable information (Henry *et. al*, 2011).

Current Ratio expresses current assets in relation to current liabilities. A higher ratio indicates a higher level of liquidity (i.e., a greater ability to meet short-term obligations). A current ratio of 1.0 would indicate that the book value of its current assets exactly equals the book value of its current liabilities. A lower ratio indicates less liquidity, implying a greater reliance on operating cash flow and outside financing to meet short-term obligations. Liquidity affects the company's capacity to take on debt. The current ratio implicitly assumes that inventories and accounts receivable are indeed liquid (which is presumably not the case when related turnover ratios are low) (Henry *et. al*, 2011). For a certain company, the current ratio may be considered satisfactory if it is within the range of 1.5:1 to 2.5:1. Below 1.5:1 there is the danger of being unable to meet maturing obligations. Above 2.5:1 there is an indication that funds are being left idle rather than being efficiently employed (Anthony, 2012).

$$Cash\ Ratio = \frac{cash + cash\ equivalent}{current\ liability}$$

$$Current\ Ratio = \frac{current\ asset}{current\ liability}$$

Table 5.4. Criteria of Cash Ratio and Current Ratio Assessment Score

Cash Ratio (%)	Score	Current Ratio (%)	Score
Cash Ratio > = 35	5	125 < = Current Ratio	5
25 < = Cash Ratio < 35	4	110 < = Current Ratio < 125	4
15 < = Cash Ratio < 25	3	100 < = Current Ratio < 110	3
10 < = Cash Ratio < 15	2	95 < = Current Ratio < 100	2
5 < = Cash Ratio < 10	1	90 < = Current Ratio < 95	1
0 < = Cash Ratio < 5	**0**	Current Ratio < 90	0

Source: The decree of Ministry of SOE No. KEP-100/MBU/2002.

Activity Performance

After a business makes a credit sale, the next step is collecting the receivable. Days' sales in receivables, also called days sales outstanding (DSO) or the collection period, tells a company how long it takes to collect its average level of receivables (Harrison *et. al*, 2013). Inventory turnover lies at the heart of operations for many entities. It indicates the resources tied up in inventory (i.e., the carrying costs) and can, therefore, be used to indicate inventory management effectiveness (Henry *et. al*, 2011). Total asset turnover measures how many sales dollars are generated for each dollar of assets invested. This is a measure of how effectively and efficiently the company manages its asset (Harrison *et. al*, 2013).

Table 5.5. Criteria of Collection Period and Inventory Turnover Score

Collection Period (CP in days)	Adjustment (days)	Score	Inventory Turnover (IT in days)	Adjustment (days)	Score
CP ≤ 60	CP > 35	5	IT ≤ 60	IT > 35	5
60 < CP ≤ 90	30 < CP ≤ 35	4.5	60< IT ≤ 90	30< IT ≤ 35	4.5
90 < CP ≤ 120	25 < CP ≤ 30	4	90< IT ≤ 120	25< IT ≤ 30	4
120 < CP ≤ 150	20 < CP ≤ 25	3.5	120< IT ≤ 150	20< IT ≤ 25	3.5
120 < CP ≤ 150	15 < CP ≤ 20	3	150< IT ≤ 180	15< IT ≤ 20	3
150 < CP ≤ 180	10 < CP ≤ 15	2.4	180< IT ≤ 210	10< IT ≤ 15	2.4
180 < CP ≤ 210	6 < CP ≤ 10	1.8	210< IT ≤ 240	6 < IT ≤ 10	1.8
219 < CP ≤ 240	3 < IT ≤ 6	1.2	240< IT ≤ 270	3< IT ≤ 6	1.2
			270< IT ≤ 300	1< IT ≤ 3	0.6

Source: The decree of Ministry of SOE No. KEP-100/MBU/2002

Table 5.6. Criteria of Total Asset Turnover Score

TATO (%)	Adjustment (%)	Score
TATO > 120	TATO > 20	5
105< TATO ≤ 120	15 < TATO ≤ 20	4,5
90 < TATO ≤ 105	10 < TATO ≤ 15	4
75 < TATO ≤ 90	5 < TATO ≤ 10	3,5
60 < TATO ≤ 75	0 < TATO ≤ 5	3
40 < TATO ≤ 60	TATO ≤ 10	2,5
20 < TATO ≤ 40		2
TATO ≤ 20		1,2

Source: The decree of Ministry of SOE No. KEP-100/MBU/2002.

$$Collection\ period = \frac{accounts\ receivable}{sales: 365}$$

$$Inventory\ turnover = \frac{cost\ of\ sales}{inventory}$$

$$Total\ Asset\ Turn\ Over\ (TATO) = \frac{revenue}{capital\ employed}$$

Solvency Performance

Total Equity to Total Asset is similar to the debt to equity ratio. If the company has less value, it indicates that the company is funding its asset inefficiently (Daryanto, 2018).

$$Total\ Equity\ to\ Total\ Asset\ (TETA) = \frac{total\ equity}{total\ asset}$$

Table 5.7. Criteria of Total Equity to Total Asset Score

Total Equity to Total Asset (%)	Score
TETA < 0	0
0 ≤ TETA < 10	4
10 ≤ TETA < 20	6
20 ≤ TETA < 30	7,25
30 ≤ TETA < 40	10
40 ≤ TETA < 50	9
50 ≤ TETA < 60	8,5
60 ≤ TETA < 70	8
70 ≤ TETA < 80	7,5
80 ≤ TETA < 90	7
90 ≤ TETA < 100	6,5

Source: The decree of Ministry of SOE No. KEP 100/MBU/2002

RESULT AND DISCUSSION

Overall Description

Researchers try to describe changes among the mobile telecommunication device distribution and retail companies of Indonesia regarding the years of 2014-2019 when digitalization started happening in Indonesia. Net sales for the period 2019 compared to 2018 (YoY) showed a slight decrease, amounting to -5,18%. However, the growth of net sales still went on an upwards trend (Figure 6.2.), with the year 2018 at its peak, amounting up to 43,39% YoY compared to the increase of year 2017 YoY (17,92%) the increase is clearly higher in 2018. The increase of net sales reached in 2016 and 2015 respectively amounted to 2.7% and 38,45% (Figure 6.2.).

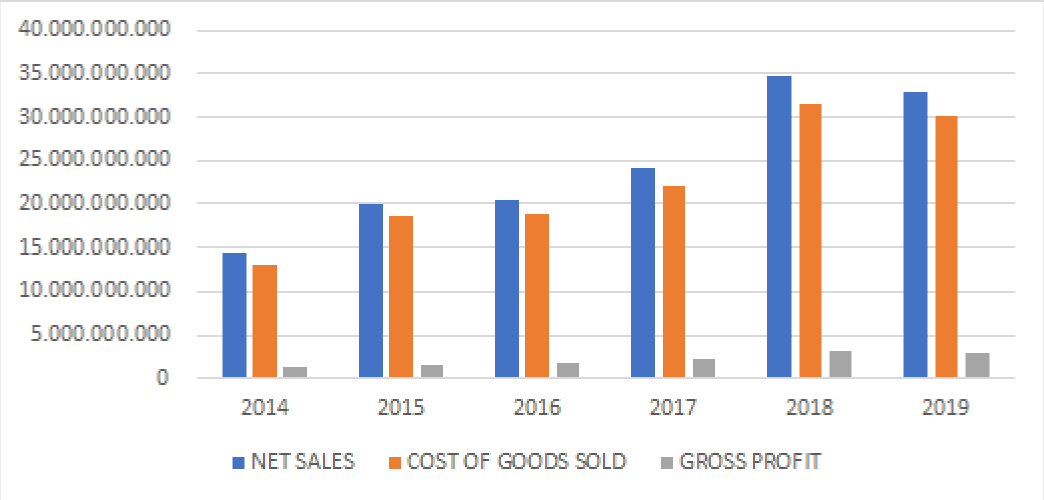

Figure 6.1 Summary on Net Sales, COGS and Gross Profit (Annual Report)

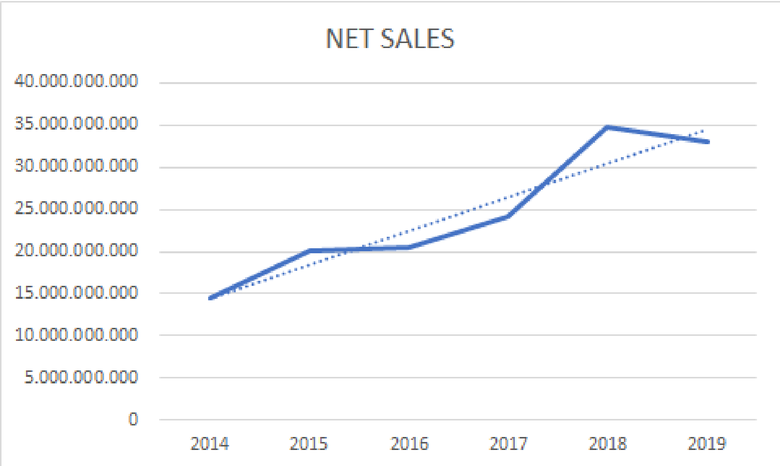

Figure 6.2. Net Sales (Annual Report)

The sales trend above, shown that the market for telecommunications equipment products has a positive trend which continues to increase in the 2014-2019 period. Society has a high need for technology and information. Assuming that macroeconomic growth is normal, the net sales predicted would rise to Rp. 42.516.089.736,- by 2021 (Figure 6.3.).

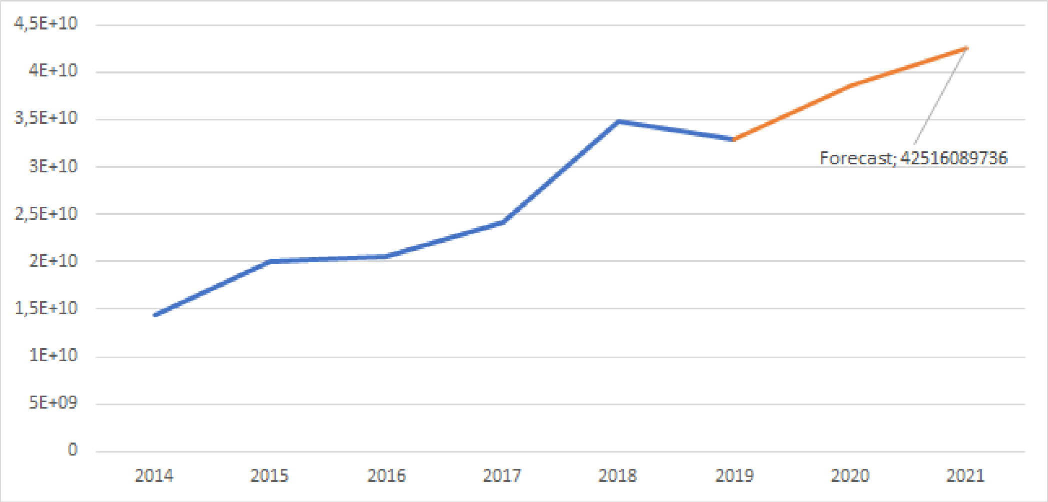

Figure 6.3. Net Sales Forecast (Annual Report)

The cost of goods sold (COGS) experienced a similar increase and decrease in growth as net sales, with its peak in 2018 amounted to 43,06% YoY. In the same direction as the above is gross profit with its peak in 2018 amounted to 46,81% YoY. The decrease of COGS and gross profit in 2019 respectively amounted to -4,68% and -10,11% YoY.

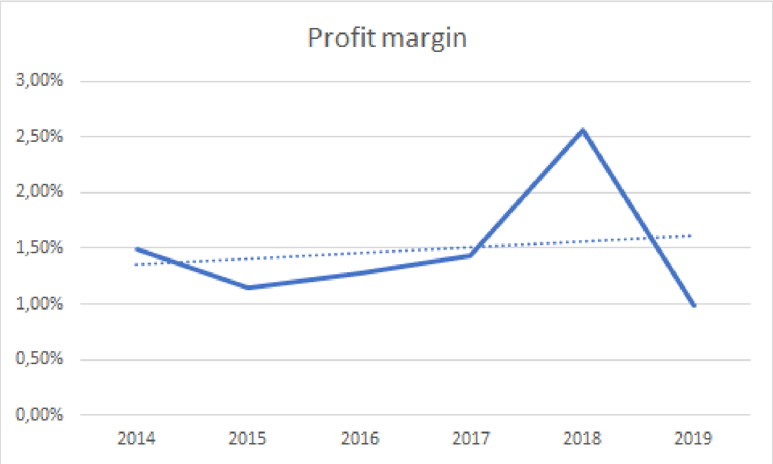

Figure 6.4. Profit Margin (Annual Report)

The same pattern can be seen in the growth of profit margins with an upward trend, the peak of the increase in 2018 and a decline in 2019 (Figure 6.4.). Due to the positive trend that occurs, in a normal and stable economic situation, it is estimated that the profit margin can reach 1.98% in 2023 (Figure 6.5.). Several factors that support the increase of gross profit in 2018 include a fairly conducive economy and successful management, the series of programs include organizational restructuring, re-engineering business processes as well as product and service diversification during 2018. Meanwhile, the things that affect the negative sales and general performance in 2019 are the external factors of the company, where there was a global economic slowdown as a result of the China-USA trade war tension, as well as national political tensions with the Presidential Election.

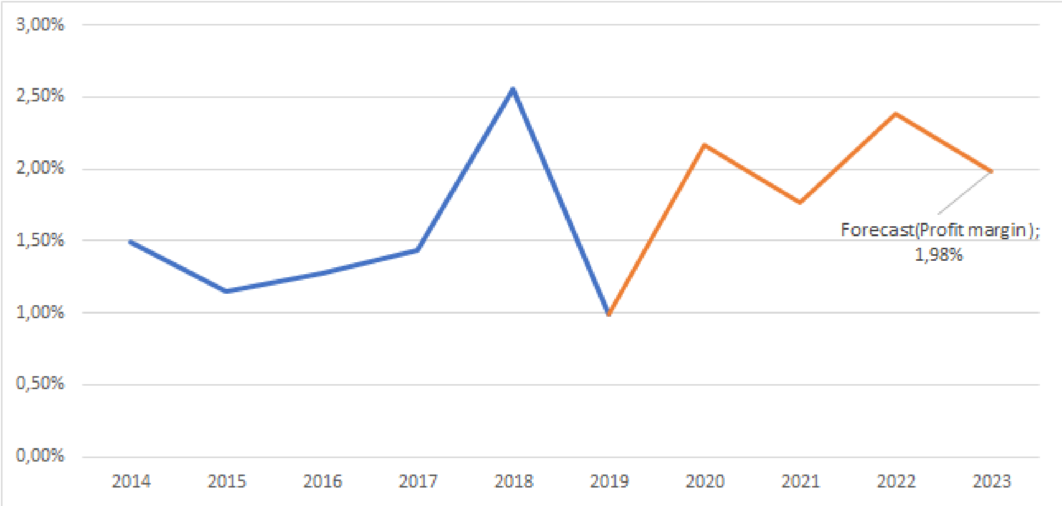

Figure 6.5. Profit Margin Forecast (Annual Report)

Financial Performance Analysis

Profitability Performance

Figure 6.6 shows the profitability ratios of ERAA during 2014-2019. There was no significant change in ROI and ROE. ROI and ROE relatively tend to be constant in an upward trend. An exception occurred in the year 2018 where there was an anomaly increase in the year 2018. This might be caused as a result of higher sales through aggressive penetration of the market in Indonesia. ERAA key highlights of 2018 increase financial performance are increasing sales by 43% YoY from IDR 24.2 trillion in 2017 to IDR 34.7 trillion in 2018, driven by the increase of sales volume of Smartphone products; net profit grew by 150% YoY from IDR 339.5 billion in 2017 to IDR 850.1 billion in 2018, and Gross Margin improved to 9.1% while Net Margin reached 2.5% in 2018 as a result of better products portfolio ERAA introduced to the market.

ROE is more of major concern for shareholders and indicates prospects for investing in ERAA emitent. A constant upward trend of ROE during 2014-2019 making ERAA still one of the promising companies for investment. ROI focuses on evaluating the usability of permanent capital. It is assumed that the liabilities are current will fluctuate more or less automatically with changes in current assets and that they will differ from the current operating level. ROI 2014-2019 also shows a positive trend, therefore ERAA still benefits and grows positively. Profitability ratios are the key factors that highly influence financial performance (Borhan, Mohamed and Azmi, 2013).

Figure 6.6. Profitability Ratios of ERAA

Liquidity Performance

The cash ratio indicates the company's ability to pay the short-term debt using cash and cash in equivalents. Through 2014-2019, the cash ratio showed a positive trend (Figure 6.7.), so the company's on good terms in paying the short-term debt. Meanwhile, the current ratio is relatively stable with slightly upwards (Figure 6.7.). With openly financial reports, some upward trends are fond of company health. Liquidity could also influence the profitability of the company. The bigger the fund placed to fulfill the liquidity of the company, then the company can lose an opportunity to get additional funds due to the funds held do not generate advantages (Barus and Leliani, 2013). Hence, sales and liquidity could affect profitability.

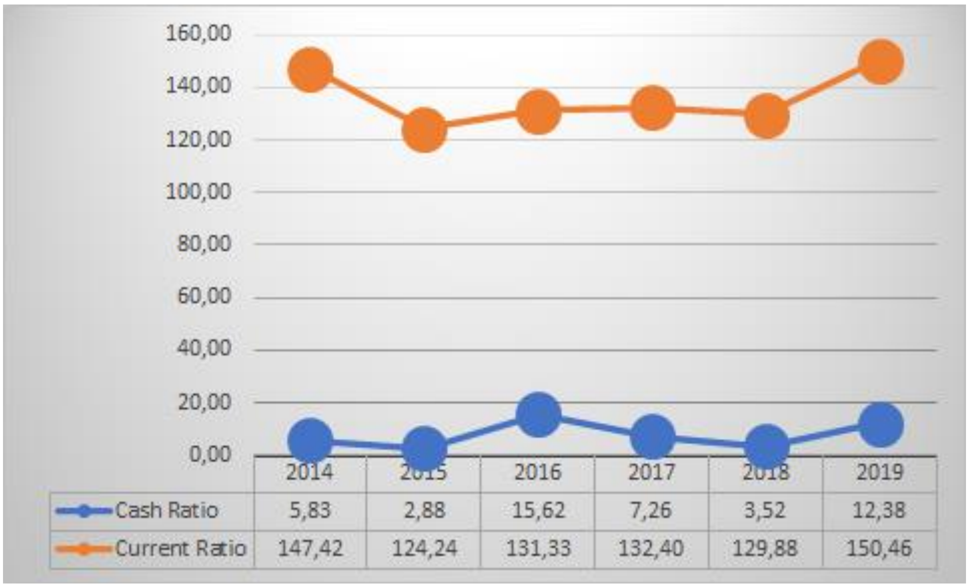

Figure 6.7. Liquidity Ratios of ERAA

Activity Performance

The trend of the collection period during 2014-2019 is decreasing, indicating that the condition of the collection period is getting better (Figure 6.8.). Shorter is better because cash is coming in quickly. The longer the collection period, the less cash is available to pay bills and expand (Harrison et. al, 2013).

Meanwhile, the inventory turnover ratio shows a slightly downward trend (Figure 6.8.), with a decreasing curve, especially in 2017 and 2018. The lowest figure in six years occurred in 2018 with a ratio of 4.65, potentially caused by their business strategy to grow its business scale and seize the demand opportunities of the market. A higher inventory turnover ratio implies a shorter period that inventory is held (Henry et. al, 2011). However, the curve back on climbing in 2019, since the management considers this matter of utmost priority. Together with their principal and partners, ERAA takes action steps and changes, like stopping its smartphone assembly activities in order to manage its inventory.

Figure 6.8. Collection Period and Inventory turnover trend of ERAA

Total Asset Turnover (TATO) on (Figure 6.9.) shows an upwards trend which indicates the more sales dollars are generated for each dollar of assets invested. TATO again is one of the main values that investors need to consider in projecting their investment opportunities. Asset turnover can be increased by (1) increasing sales in the ways just described, (2) keeping less inventory on hand, or (3) closing unproductive facilities, selling idle assets, and consolidating operations to fewer places to reduce the number of plant assets needed (Harrison et. al, 2013).

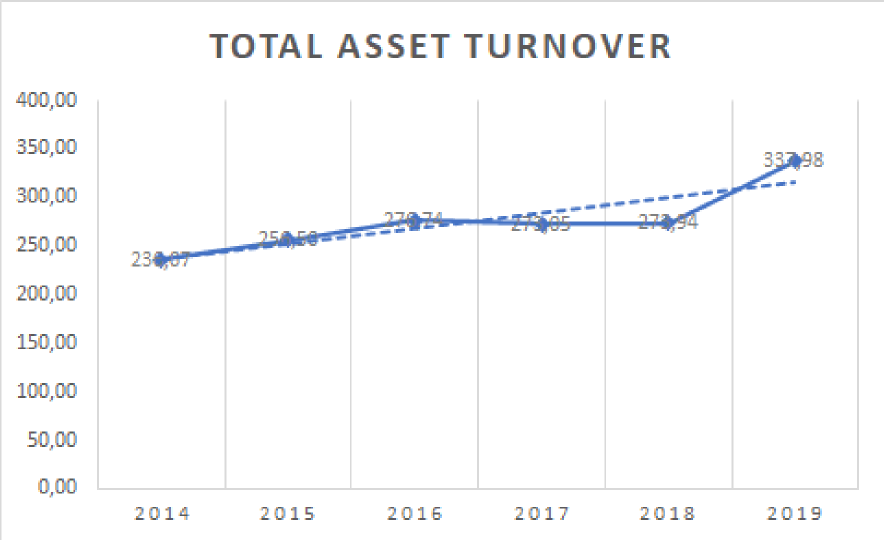

Figure 6.9. TATO trend of ERAA

Solvency Performance

Figure 6.10 shows the value of the TETA ratio during 2014-2019 was relatively stable. There was a slight downward trend in 2017 and 2018, but it has been on the rise again in 2019. TETA ratio indicates the efficiency of asset utilization. In other words, if the company has a lower TETA means lower net value for investors (Daryanto, 2018). The 2017 and 2018 show lower net value but it gives more positive net value in 2019. Hence that on average and generally it can be concluded that the TETA ratio is in a straight or a stable trend. The company is in adequate solvent condition whereas they can repay their long-term obligations. With an average TETA ratio of ±45%, means almost 50% of their assets financed by equity, not a liability (Daryanto, 2018).

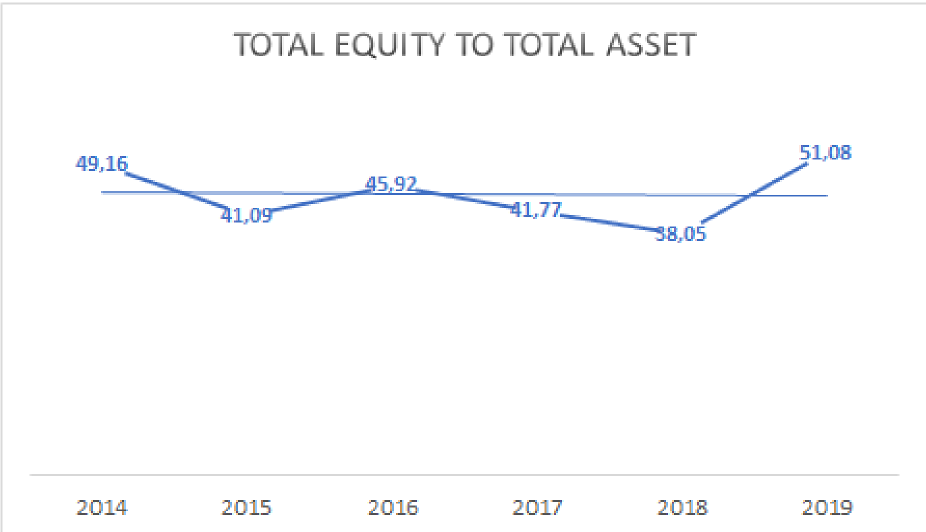

Figure 6.10. Solvency Ratios of ERAA

Financial Health

The decree of Ministry of SOEs No. KEP- 100/MBU/2002 is one of the tools to further examination of the financial ratio into a form of assessment with categories and scales that fully refer to the decree. Despite an assessment of financial ratios is a value in the past, but it is still the most reliable data to provide a complete picture of the past to the present (Anthony, 2012). The situation and status of the company need to be known and continuously evaluated not only for the benefit of internal improvements but also to provide transparency of information for potential investors and to measure the effects/ impacts of changes that occur around the business environment in a certain period.

Table 6.1. Test Result of ERAA

Indicator	2014		2015		2016		2017		2018		2019	
	Ratio	Score	Ratio	Score	Ratio	Score	Ratio	Score	Ratio	Score	Ratio	Score
ROE (%)	7,46	10	7,40	10	7,91	12	9,76	14	20,85	10	6,64	10
ROI (%)	10,93	9	10,15	7,5	10,72	9	11,82	9	23,22	15	11,03	9
Cash Ratio	5,83	1	2,88	0	15,62	3	7,26	1	3,52	0	12,38	2
Current Ratio	147,42	5	124,24	4	131,33	5	132,40	5	129,88	5	150,46	5
Collection Period	32	4,5	34	4,5	26	4	24	3,5	15	2,4	12	2,4
Inventory Turnover	6,58	5	7,25	5	8,51	5	6,51	5	4,65	5	8,15	5
Total Asset Turnover	236,07	5	256,50	5	276,74	5	273,05	5	273,94	5	337,98	5
Total Equity to Total Asset	49,16	9	41,09	9	45,92	9	41,77	9	38,05	10	51,08	8,5
TOTAL SCORE	48,5		45,0		52,0		52		52,4		46,9	
Total weight	70		70		70		70		70		70	
Weight	69		64		74		74		75		67	
Performance	A		BBB		A		A		A		A	
Category	Healthy		Less Healthy		Healthy		Healthy		Healthy		Healthy	

Firstly, the evaluation indicator refers to several financial ratio values, then assigns a score to each of these indicators. The total score will be compared against the weighing scale. The final score will indicate the level of the company's financial health by criteria AAA, AA, A, BBB, BB, B, CCC, CC or C. As data the calculation results in the Table 6.1 shows during 2014-2019 company in a situation of good or healthy financial health. In 2015, there was a decline in performance which resulted in a decrease in the level of financial health to less health (BBB).

Policies

Digital transformation in Indonesia has already started for more than 2 decades. The policy that accelerated this was Presiden Instruction Number 3 Year 2003 about National Policies and Strategies on E-government Development. The purpose of this instruction was to improve the efficiency, effectiveness, transparency, and accountability of government administration using Information and Communication Technology (ICT). This instruction makes both central and regional governments have to prepare public service based on ICT development. The impact of that instruction is more application builds *like e-billing, e-procurement, e-reporting.* This also changed society's habit of public service usage.

Infrastructure development focuses on a few big cities like the capital of the province. The government needs to expand development also in rural or remote areas. By releasing Government Regulation Number 78 Year 2014 about Accelerating Development of Underdeveloped Regions, the government will prioritize the development in underdeveloped Region for facilities and infrastructure of health, education, energy as well as telecommunication. Thus, society had more access to those sectors. In the telecommunications sector, the government performance indicator for 2015 – 2019 was to decrease blank spots. Less blank spots will increase the accessibility of the internet in underdeveloped regions. The government also cooperates with the private sector to build mobile broadband and to increase awareness of ICT literacy.

Political and economic forces may greatly affect the drive toward globalization (Simchi-Levi, 2000) Political related to the policies that may affect the business. Since the Indonesian government is very concerned about the accessibility of the internet, ERAA can strive their business by gaining collaboration with a brand like Apple, Samsung, Xiaomi, etc as their partner. Offline stores keep increasing all over Indonesia around 2014-2019. ERAA succeeds in maintaining its sales through both offline and online channels.

LIMITATION

The research limitation is using data and information during 2014-2019 and focusing on the financial aspect. Either way, further research is needed for other aspects such as operation, administration as well as market analysis, economic analysis, and comparisons with other business sectors. It turns out that 2020 is a year with tough economic challenges due to a pandemic, so it needs to be reconsidered to see the effects of the pandemic on growth and the health of companies.

The data used in this study is secondary data so that researchers cannot control and monitor the possibility of errors in calculations, but researchers have done their best in accordance with existing financial reports. Limited performance data of companies engaged in retail, especially telecommunications device retail companies that have gone public.

CONCLUSION AND RECOMMENDATION

Holding more than 15 mobile communication brands, ERAA is the largest distributor and retailer in Indonesia with more than 1,000 outlets throughout Indonesia, including 192 new outlets in 2019. The company has the most diversified portfolio, enabling it to cater large customer base from low to high income.

Descriptive financial performance analysis with performance ratios analyzed horizontally shows good trends in profitability, liquidity, activity, and solvency performance. Several financial ratios that have an upward trend during 2014-2019 include ROE, ROI, cash ratio, current ratio, and TATO. This indicates good performance. Likewise, the downward trend in collection period and inventory turnover ratios, indicating better performance. However, the TETA ratio is still in a stable condition, decreasing slightly, which is something that needs to be addressed by management. They still face several problems that must be resolved such as inventory management as well as challenges from outside, such as the threat of the black market and competition in online business. ERAA’s strategy to focus on company consolidation in 2019 might succeed to improve last year’s performance.

Evaluation of the company's financial health status shows a healthy performance, with a projection of 2020-2023 is expected to continue to be positive in a stable economic situation. Penetration of mobile phone products and other technology products related to the digital transformation era will still be large and have a positive effect on increasing net sales in companies engaged in retail mobile telecommunications. Strengthening the Company’s vision towards becoming a Lifestyle Smart Retailer, ERAA now offers more variety of devices, like smart connected devices to meet the lifestyle needs of consumers through online and offline retail shops. However, on the other hand, the digital transformation that occurs in business processes with the growing development of the online market is a challenge in itself for retail companies whose strength is an expansion of channels. Accordingly, companies need to continue to transform in this era of disruption in order to maximize the positive potential of the market.

Based on the conclusions that have been stated above, the suggestions put forward in this study are as follows: 1) to see other aspect and evaluation i.e. on operation and administration; 2) to conduct financial performance analysis after pandemic 2020 to see the impact of a pandemic on retail telecommunication device; 3) to conduct financial performance analysis comparison with the similar retail industry.

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