

BUSINESS STRATEGY FOR PROJECT GAS PIPELINE (JARGAS) AND INTERNET CONNECTIVITY DEVELOPMENT WITH BUNDLING PRODUCT (CASE STUDY: PT. PERUSAHAAN GAS NEGARA, Tbk)

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ABSTRACT

Sustainable national development in each country will depend heavily on energy needs, especially the demand for oil and gas which is still very high. The government has begun to implement the transformation of energy supply as an effort to reduce the import activity of gas fuel (LPG). Massive implementation of the JARGAS Program is still very important to realize energy independence and optimize the potential of domestic natural resources. In the post-covid-19 pandemic, all business sectors are competing in improving business strategies to compete again to achieve a sustainable competitive advantage. This study aims to evaluate the implementation of the factors that affect PGN's business and provide recommendations for priority strategies that can be applied to the development of the JARGAS program in facing the competition in the natural gas business in Indonesia. From the results of internal and external analysis, it is known that PT. Perusahaan Gas Negara is facing changing business conditions. Therefore, it is necessary to implement a new strategy for companies to face the challenges in market. This paper research uses a qualitative (interview) and quantitative (survey) approach for internal and external analysis. Internal analysis uses VRIO and SWOT Analysis. The external analysis uses PESTLE and Porter's Five Forces Analysis. Further analysis was formulated within the strategy using TOWS matrix tools, diamond strategy, strategic positioning and innovation technology.

Keywords: Business Strategy, Internal Analysis, External Analysis, Competitive Advantage.

INTRODUCTION

Many oil producing developing countries are non-diversified, sector-dependent economies, with oil contributing the majority of their exports and government revenues. The current fall in oil prices is limiting the ability of these countries to respond to the multidimensional domestic pressures produced by COVID-19, at a time when more money is needed to finance service delivery, mitigate health risks and ease macroeconomic pressure. Indonesia spent decades relying on the oil and gas sector's contribution to economic growth. Indonesia has a diversity of geological basins that continue to offer sizeable potential for oil and gas exploitation. , the economic impact from pandemic covid-19 evident through the fall in the IHSG and the Rupiah. The government has already followed countermeasures implemented by other affected countries: social distancing and strong encouragement of work from home policies. Natural gas has a high potential to be developed in Indonesia. The potential for gas reserves in the country is greater than oil. Since several years ago, the Government has tried to make various efforts to suppress the growth in the use of fuel by switching to alternative energy. The construction of a gas distribution network for households is one of the national priority programs that aim to diversify energy, reduce subsidies, supply of clean and cheap energy as well as complementary programs for converting kerosene to liquefied Petroleum Gas (LPG) to accelerate the reduction of the use of petroleum. Utilization of natural gas for households also environmentally friendly. Moreover, network gas for households can be supported for programs environment run by the Government. Natural gas that is environmentally friendly can be seen from, for example, the reduction of carbon dioxide (CO₂) emissions from combustion. The government continues to strive so that energy subsidies, especially fuel oil (BBM), have been determined in the State Budget (APBN) is not exceeded. Relatively high usage of natural gas fuel for the residential sector and small customers is one of the government's strategic steps to replacing the use of petroleum. The gas network for household or city gas is the name given to this scheme. A gas network for a household has become a network of pipes that distributes gas to the house ladder. The construction of a gas distribution network for households is one of the national strategic initiatives order to diversify energy, decreasing subsidies, supplying clean and cost effective energy, and supplementary initiatives for converting kerosene to liquefied Petroleum Gas (LPG) to accelerate the reduction of petroleum consumption This program is expected to provide the society with cleaner, safer, and cheaper gasoline. This domestic natural gas distribution network development program is developed in cities or nearby areas natural gas sources also with natural gas transmission networks. Utilization of natural gas in the home sector stairs can replace consumption oil fuel. Nowadays, energy needs for household generally used in various appliances, such as for cooking, TV, gas cabinets, air conditioners, water heaters, washing machines, lamps, radio, fan and so on. The energy needs are generally supplied by PLN for equipment electronic.

RESEARCH OBJECTIVES

Based on government regulations and policies, PT. Perusahaan Gas Negara has assigned Agreement in the form of planning, constructing and operating JARGAS from 2020 until 2024, to empower ventures and power plants in acquiring exceptional gas costs with the goal that they can grow faster and more sustainably the amidst of Covid-19. To make this program proceed satisfactorily, PGN propose *Bundling Product* for package by selling natural gas, internet connectivity, and TV channel. This program was created by collaboration with PGN subsidiaries. PT. Telemedia Dinamika Sarana is a subsidiary of PT. PGAS Telekomunikasi Nusantara. Conducting to business bundling product, PGN transmission and pipe distribution utilizes fiber optics for the telecommunications business. The objectives of this final project is to analyze and proposed the right business strategy for PGN with this bundling product in order to be able to carry out the business sustainability in this pandemic covid-19 situation.

LITERATURE REVIEW

Analysis, Formulation and Implementation: In order to define the propose of business strategy that strengthen company to compete and win in the market, the author will use a conceptual framework using Strategic Management: Analysis, Formulation, Implementation Framework (Rothaermel F. T., 2016). AFI Strategy Framework is a model of strategic management that analyse how to develop strategy/structure relationship that helps the company to achieve and sustain competitive advantage in the long run. This research will focus on the two phases, environmental analysis for external & internal analysis and strategic formulation for the business strategy for the company.

Business Environment: Internal Business Environment is a type of business environment that occurs within the company itself and has a high influence on business activities. This is important to the company's attention because it will affect the company's performance. The Internal Business Environment is divided into 3 parts, namely: resources, capabilities, and core competencies. In contrast to the internal business environment, the External Business Environment is a factor that occurs outside the company (Patil, 2020). The Internal Business Environment is divided into 3 parts, namely: resources, capabilities, and core competencies. In this research, the internal analysis will be conducted through the framework VRIO and SWOT while the external analysis will be conducted through Porter's Five Forces and PESTEL.

Strategy Formulation: Strategy formulation is the process of developing long term plans to deal effectively with environmental opportunities and threats. The formulation is important to guiding the force which all companies decision will be made (Alkhafaji, 2003). This framework give an understands in the current state and has a detailed analysis of their environment, their industry and themselves, they can start to look forward and consider the opportunities and threats that they may face. The strategic formulation in this research will be conducted through the business strategy framework using TWOS Matrix, Diamond Strategy, Proposed Business Model Canvas and Innovation Technology.

Strategy Implementation: Strategy implementation is the process of turning plans into action to reach a desired outcome. Essentially, it's the art of getting stuff done. The success of every organization rests on its capacity to implement decisions and execute key processes efficiently, effectively, and consistently. Strategy implementation is an iterative process of implementing strategies, policies, programs and action plans that allows a firm to utilize its resources to take advantage of opportunities in the competitive environment (Harrington, 2006).

PESTLE: According to (Rothaermel, Strategic Management, 2021), The PESTEL model is a simple technique to analyze, evaluate, and measure the important external factors and tendencies that could affect the company. These variables generate both possibilities and risks. PESTEL analysis involves analyzing related with market growth or decline, as well as the possibilities for a firm or organization.

Porter's five forces: Porter's Five Factors is a framework that identifies and analyzes the five competitive characteristics that affect any sector and assists in determining the industry's strength and weaknesses. Five Forces analysis is frequently used to define company strategy by identifying an industry's structure. According to (Porter, 1980), Porter's framework may be used to any sector of the economy to better analyze industry competitiveness and increase a company's long-term profitability. Five Forces analysis can be used to guide business strategy to increase competitive advantage. The five forces are competition among competitors, threat of entry, threat of substitution, bargaining power of buyers, and bargaining power of suppliers.

SWOT Analysis: SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats) is a framework used to analyze a company's competitive position in order to generate strategic planning. SWOT study focuses on understanding both internal and external factors. (Kenton, 2021). With this analysis, the company's competitive position and prospects can be known in the future, so that a strategy can be formulated and implemented so that the company achieves its goals (Rangkuti, 2018).

VRIO Analysis: VRIO analysis is an internal analysis that helps businesses identify the advantages and resources that give them a competitive edge. The VRIO framework is a four-pronged review of an organization's resources and metrics of long-term performance. It focuses on four primary factors: value, rarity, imitability, and organization (Grant, 2014)

METHODOLOGY

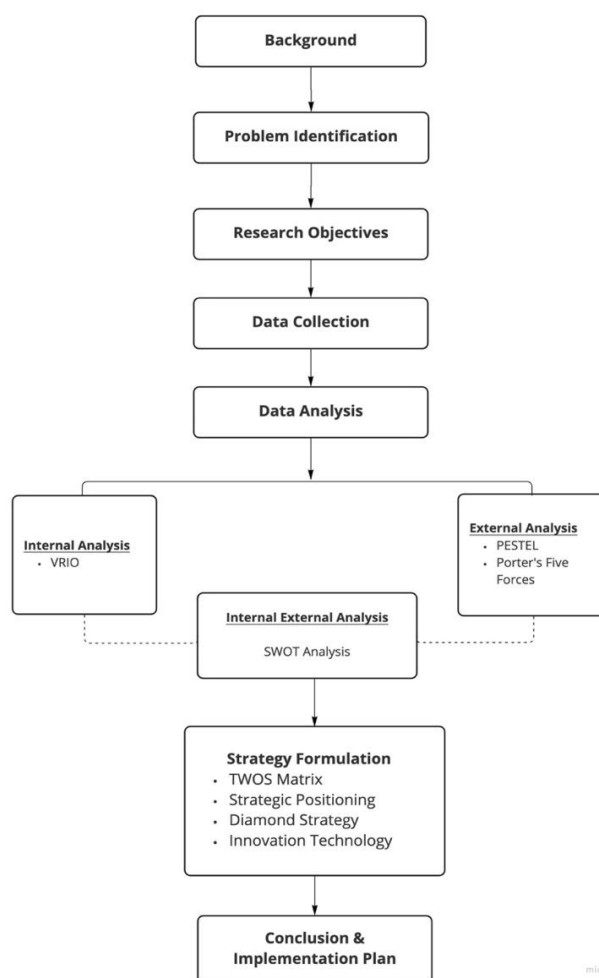


Figure 1. Conceptual Framework

The research begins with backgrounds to provide context to the information discussed through the research paper. Second, problem identification to identify what is the main cause in this issues, and continue with the framework which will be explain with Internal analysis using VRIO), External analysis using PESTLE and Porter's Five Forces) and also Both of External and Internal analysis using SWOT. After knowing what internal and external problems occurred, this research will give the strategies that can be implemented using the TWOS Matrix Framework, Diamond Strategy, Strategic Positioning, and Innovation Technology. After define the strategy, in the last chapter will explain about the conclusion and implementation plan to summarize the findings obtained this research and will be answer the questions of research questions. For data collection for the reference to this research will come from various sources, internal information obtain from PT. Perusahaan Gas Negara and PT. Telemedia Dinamika Sarana management like interviews with several employees who have capabilities and authority with each topics of analysis and external information obtain from conducting surveys in the form of distribute questionnaires with the customer who experienced and already using JARGAS. Interview are completed by the interviewer based on what the respondent says. All informants are related and have capabilities with each topics in order to JARGAS Program and Internet Connectivity. 3 informant from PT. Perusahaan Gas Negara and 1 informant from PT. Telemedia Dinamika Sarana. The survey conduct with the questionnaires of this research are from external perception and also presented in an open-ended questionnaire form, so the respondent can fill the answers based on their opinion about using JARGAS. The result of quantitative will provide customer response and reaction about this products if it will be implemented in JABODETABEK. The whole population for this questionnaire is a customer who already using JARGAS Program. The questionnaire was distributed online through social networks (WhatsApp) and social media (Instagram) and calculated using Slovin Formula.

RESULT AND DISCUSSION

PESTLE Analysis

For *the political factors*, the government of Indonesia aims to limit the country's gas exports in an attempt to ensure domestic supplies while encouraging usage of natural gas as a fuel source for industrial and personal consumption. Oil and gas comprises upstream and downstream activities. The Indonesian government is expected to divert more LNG cargoes from national oil company Pertamina for domestic use to combat energy shortages in 2022 and launch a carbon tax for its coal-fired power sector in April. For *the economic factors*, the pandemic had a tremendous impact on the world economy and the countries affected. the

impact is also experienced by Indonesia. In two consecutive quarters, national economic growth experienced a drastic decline. To prevent and suppress the positive number of Covid, the government has made efforts to lock down, quarantine the area to PSBB. PGN established a new gas pricing strategy for specific customers expected to begin in the 2020, by decreasing its gas price from the price workplace adjustments by PGN. *For the social factors*, These factors include – population growth, age, health awareness, career and so on. These factors are very interesting because they have a direct effect on how marketers understand consumers and what drives them to a product (Sammut-Bonnici, 2015). After conducting a survey in the form of a questionnaire to several JARGAS customers, the social trend towards the demand of people who are interested in this product bundling program is *quite high* with a percentage of 62 % as we can see in figure 2 below;

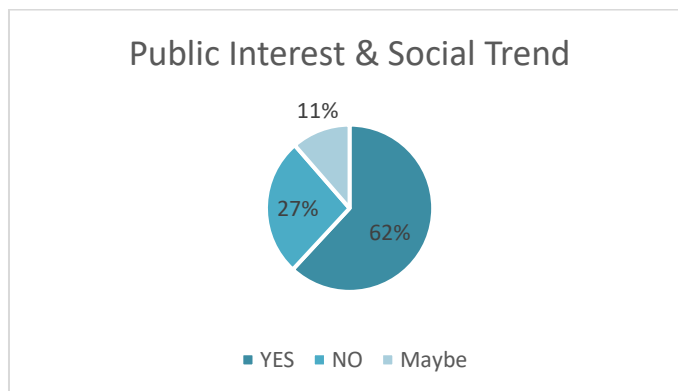


Figure 2. Public Interest & Social Trend of Customer

For technological factors, this pandemic covid-19 give an opportunity for this program to generate their revenue, because high number of internet usage. In addition, technology that is currently developing rapidly will still depend on internet connectivity for the next few years. The internet is an important key for carrying out activities in this sophisticated era. What's more, at this time of covid-19, internet usage is increasing rapidly, many people are using and installing more than one Wi-Fi router connection at home due to increased usage such as working from home, schooling from home, doing business from home that requires sufficient Wi-Fi to accommodate. With the development of this technology, it provides a great opportunity for PGN, especially in developing and selling this product bundling. Internet usage in Indonesia is increasing and people who have subscribed to JARGAS will be interested in using internet connectivity and tv which is already provided in one package by PGN. This product bundling actually provides convenience for the community and will not eliminate PGN's core business, namely gas sales. *For legal factors*, Distribution of pipeline gas for Household (JARGAS) will develop rapidly in accordance with the Government program of the Republic of Indonesia, President Pak Joko Widodo and Vice President Pak Maaruf Amin from 2019 to 2024. This vision will be focused on the APBN with the target for development is the household sector and the last for environmental factors, in power plants, natural gas emits 50 to 60 percent less carbon dioxide (CO₂) than regular oil or coal-fired power plants. It also emits greenhouse gases with a lower life cycle into the atmosphere. *For the environmental factors*, based on the renewable energy program is being proposed by Pertamina, this program is to reduce CO₂ emissions and prevent the impact of climate change, in 2050 fossil fuel plants will be limited. Therefore, Natural Gas as a fuel with the lowest CO₂ emissions relative to coal and oil will be prioritized as a generator that is more environmentally friendly.

Porter's Five Model

With the oil and gas law which provides opportunities for business actors to do business in the natural gas sector through pipelines as well as CNG or LNG, it can be said that the power of new-entrants for the gas distribution industry give rise to many new competitors who will compete in gas prices. and customer service. This entrants that PGN faces from this bundling program is the length of the pipeline construction process from procurement contracts to usage poses a challenge for PGN to digitize the development process. The ability of suppliers to determine trade terms that benefit both parties is strongly influenced by the following elements of the industry structure: differentiation of inputs, switching costs of supplier and firms in the industry, presence of substitute inputs, supplier concentration, importance of volume to supplier, cost relative to total purchases in the industry, impact of inputs on cost or differentiation, threat of forward integration. The customers of household who using JARGAS is important to the business in the long term because to generated the sales revenue by offering the company's products to buyers. Buyers' negotiating stance against enterprises that offer products and services is defined by two factors: bargaining leverage and price sensitivity. PGN's supplier is the largest gas producer with a high bargaining position. Oil and renewable energy in the future as a substitute for current gas because the use of oil and renewable energy can be done on a switching basis. however, oil prices are not as competitive as gas. Oil prices are determined by international conditions.

SWOT Analysis

Table 1. SWOT Analysis

<p>Strengths</p> <ul style="list-style-type: none"> ● PGN have a uniqueness product ● To possess business within the value chain of natural gas ● To possess massive and vast unfold assets and infrastructure ● Easy pay for gas transactions and cheaper than LPG Gas ● Integrated IT with high technology ● Organizational structure are accommodates businesses on the natural gas price chain 	<p>Weakness</p> <ul style="list-style-type: none"> ● High Dependencies to Gas Supplier ● Infrastructure development regulation ● Section of infrastructure business is restricted margin
<p>Opportunity</p> <ul style="list-style-type: none"> ● The demand for gas that continues to increase every year will increase gas sales, especially in Jargas program for household ● Government policy on environmentally friendly opportunities for PGN's business development ● Technology Innovation ● COVID-19 as an opportunity for Internet Connectivity Provider Companies ● Digitalization (Big Data, AI) 	<p>Threats</p> <ul style="list-style-type: none"> ● Lack of natural gas supply; ● Competitions are ready to take overmarket. ● Renewable energy

VRIO ANALYSIS

PGN has a strong market share which is valuable to the operations of the company. The bundling product (JARGAS & Internet Connectivity) are highly differentiated and will be useful assets. The employees of the company are highly trained and skilled with good knowledge management. Perusahaan Gas Negara has four criteria from the VRIO framework model. The criteria are valuable, rare, imitate, and organize it makes PGN on *Sustainable Competitive Advantage*. With a sustainable advantage position, it will be easier to sell and provide services and product markets for customers because PGN knows what customers want and needs beside natural gas they also provide their business with internet connectivity. It will also create customer loyalty for PGN end users. Competitive advantage refers to factors that allow PGN to produce goods or services better or more cheaply than their competitor with combined selling natural gas and internet connectivity for household. As we know, natural gas is more cheaper than LPG so many households who will feel the ease of cooking using natural gas.

STRATEGY FORMULATION

The first tool used for strategy formulation in this chapter is the TOWS Matrix analysis, which is used to design a strategy based on pairing internal environment (by Strength and Weakness) and external environment (by Opportunity and Threats). PGN using this strategy to preserve the market leadership position through efficient their value chain management by using the backbone of they have for the internet connectivity. PGN also use concentrate of marketing, whereas the company produced products with competitive price for the bundling product (natural gas + internet connectivity) for specific group of people (household and family). This strategy will give benefit for PGN such as expanding the customer base, encouraging consumption and achieving sales targets by emphasizing the product affordability and accessibility. Product differentiation strategy (differentiation), which encourages companies to be able to find their own uniqueness in the target market. The uniqueness of the product (goods or service) that is put forward allows a company to attract the greatest interest from its potential consumers. PGN strategic objective of using this strategy is to differentiate by embedding the innovation and address the consumers' growing concerns. PGN is focusing using the *differentiation* as its generic strategy for competitive advantage. It involved unique products offered to many market segments with their new package bundling product for the household. PGN has grown become the biggest state owned gas company because its services development that including business to business. The combination of the *differentiation and cost leadership* has helped PGN build a strong and loyal company. In its implementation, especially in medium and large scale companies, the focus strategy is integrated with one of two other generic strategies: a low cost strategy or a product characteristic differentiation strategy. This strategy is commonly used by "niche market" suppliers (a special segment in a particular market; also known as a market niche) to meet the needs of a particular product or service.

BUSINESS STRATEGY

Arena in this business strategy is product categories that PGN provide is bundling product (Natural gas + internet connectivity). PGN will collaborate with their affiliation (PGNCOM and TDS) to realize government programs (JARGAS for household) with this product differentiation. PGN industrial area is both existing and newly developed where the owner or manager of an industrial area or other business entity builds natural gas infrastructure to enable to provide natural gas energy facilities to its tenants in the region or zone. PGN support government and accept the regulation about JARGAS APBN to support the fulfilment of natural gas energy needs in household, including the allocation of gas for energy security and development of natural gas infrastructure. This bundling products have a uniqueness business because customers can get natural gas and internet connectivity at the same time. It will give convenience for end users especially household with this certain pandemic condition. This product provide unique value

to customers by utilizing affiliates so it will not give a high cost. To increase market share of selling natural gas, PGN also makes new innovation according to technological sophistication. PGN understand the current situation, in the era of the pandemic, many households need the internet to carry out their activities such as working and studying from home. PGN already have a high market share and profit, but with this program, PGN will getting more profit and a market share as well as PGNCOM as an affiliate of PGN. Natural gas is less economical and secure than LPG gas, therefore the provision of bundling items will reach a number that is quite affordable and available to households.

INNOVATION TECHNOLOGY

As the dynamics of global business reshuffles to embrace remote work, e-commerce, and the latest technologies in automation and artificial intelligence, there has never been a better time to add an innovation component to your business. PGN classified as an explorer company because the company invests minimally in innovation but still explores external assistance like collaborate with third parties for selling natural gas in area which are far from pipeline gas network. With this bundling products, PGN want to create new innovation to get more profit besides selling natural gas as a main product of Perusahaan Gas Negara. Sustaining innovation can also help companies create cheaper products, as the companies identify areas to reduce production costs and leverage a more efficient production process. With this figure of innovation above, we can see that the proposed of bundling products by PGN is categorized as *Incremental Innovation*. Incremental innovation is one of the most common forms of innovation that we can observe. It uses existing technologies within an existing market

CONCLUSION

The conclusion of this research is divided into two parts where each section will acknowledge and addresses research question of this research and will be followed by the proposed business solution for the targeted company. After conducting a survey with several people who already used the JARGAS program, the author founds that the level of demand and interest in this product is very high and this will provide an opportunity for PGN and TDS as business operators. PGN needs to generate and evaluate their services for better performance, the author argues this concern is important, so this program can be implemented properly in accordance with the objectives of the government and the company. This product bundling program will provide many opportunities and strengths for PGN because this product has a uniqueness that other competitors in Indonesia. This program should be continued, because it can generate additional revenue for PGN outside their core business (Gas Transmission and Distribution). In order to reach the target of 4 million customers, PGN needs a breakthrough such as an attractive program for household customers. This program is considered very interesting and will get high interest from the community if it is continued. From this analysis, it can be concluded that the right strategy to generate revenue and achieve sales targets is to re-strategize the current strategy in terms of products and services for this program. PGN can coordinate with local/private governments such as housing developers in the development of gas distribution. PT. Perusahaan Gas Negara in facing the current situation (COVID-19) in business is to make differentiation. Differentiation in this case is making additional services from the existing business in the form of several services and products. This product provides (household gas network, internet connectivity, and tv) in one package. This strategy can also strengthen the HR network in the fields of operation, maintenance, and marketing to ensure network reliability and respond quickly to customer complaints. This product has an advantages than other competitor and will sustain as a *Competitive Advantage* businesses. If the companies already in competitive advantage stages, the company will have more opportunities to get the attention from consumers.

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