

# Business Strategy of Automotive Company After Sales Costs Structure to Optimize Profitability (Case Study PT. XYZ TBK. in Banjarmasin, South Borneo, Indonesia)

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## Abstract

The Covid-19 pandemic affected PT. XYZ Tbk., specifically in Banjarmasin branch After Sales area. The overall gross profit increased compared to 2019 before pandemic hit which was 0,6%. However, in the After Sales area itself, there was a significant decline of -17,4% where the largest decline was in the body repair sector, which was -47,7%. PT. XYZ Tbk. must minimize the impact of the Covid-19 pandemic and continues to strive to grow in its performance. This study aims to formulate strategies for PT. XYZ Tbk. Banjarmasin branch to earn potential profits during and after the pandemic. The researchers use sensitivity analysis methods on feasibility studies to find the most impactful variable. Next, the researchers formulate an alternative financial and operational strategies for PT. XYZ Tbk. Banjarmasin branch. The sensitivity analysis found that changes in COGS and OPEX in cost structure had the greatest impact on overall profitability during this pandemic. In this study, the researchers compare the costs structures when only using COGS during the pandemic, OPEX during the pandemic, and when the two cost structures are combined and look at PT. XYZ Tbk. Banjarmasin branch projections for the next 5 years. Based on the results of the sensitivity analysis, PT. XYZ Tbk. Banjarmasin branch may choose to use a mixed composition between COGS and OPEX during the pandemic because it has a fairly large impact on the company's overall margin. From the projection results on the fifth year, the margins that will be obtained are 26.57% on Gross Profit, 19.26% on Operating Profit, and 19.83% on EBITDA. To ensure to get maximum results, the researchers support PT. XYZ Tbk. Banjarmasin branch with detailed operational strategies for each department in the After Sales area.

**Keywords:** automotive, business strategy, costs, covid-19, profitability

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## 1. Introduction

The automotive industry in Indonesia has begun to become a tertiary need, it can even be said to be secondary. Because in addition to being a factor in stimulating economic growth and Gross Domestic Product (GDP) from manufacturing in Indonesia to 19,88%, this also facilitates the daily activities of people who incidentally must travel a considerable distance to reach the expected destination, such as a workplace or shopping center from their home. Since the last few years, the contribution of the automotive sector to the national gross domestic product (GDP) is quite significant, which is around six percent. The automotive sector also involves many supporting sectors, has an average added value of IDR 700 trillion and 91.6% of the automotive market in Indonesia has been supplied by the domestic industry with a domestic content level (TKDN) of 60%-70%.

The Covid-19 pandemic that has hit the country and all corners of the world in the past year has weakened the economy, including dampening the performance of the automotive industry. Referring to data from the Central Statistics Agency (BPS) submitted by the Head of BPS Suhariyanto (2021), the decline in car and motorcycle sales was affected by the Corona outbreak throughout 2020 until now. Despite growth, BPS revealed that, trade in cars, motorcycles, and motor vehicle repairs still experienced a contraction of 9.71 percent in the fourth quarter of 2020. In line with BPS, data from the Association of Indonesian Motor Vehicle Industries (Gaikindo) (2021) also noted that car sales during November 2020 rose 9.8% to 53,844 units compared to October which was around 49,018 units. However, when compared to November 2019, national car sales still fell -41%. Likewise, during January-November 2020, car sales reached 474,908 units, down 49% compared to the same period last year.

With the help of lower tax rates, retail sales are gradually growing. however, the total profit generated still has not reached the maximum expected number because companies in the automotive sector do not only depend on the car sales business, but also on the after-sales and spare parts business. Today's car sales can be supported by online virtual transactions, in contrast to the purchase of vehicle repair services or spare parts which must make transactions directly because the physical vehicle must be in a repair workshop or spare parts shop. With the Covid-19 pandemic that still exist and government regulations which limiting meetings and direct interaction between the community (which is currently called PPKM), these two businesses especially in PT. XYZ Tbk. Banjarmasin Branch still would not feel much from the side effects of a decrease in the tax rate on luxury goods purchases.

## 2. Literature Review

### 2.1 Revenue

The revenue number is the income a company generates before any expenses are taken out. Therefore, when a company has "top-line growth," the company is experiencing an increase in gross sales or revenue. Both revenue and net income are useful in determining the financial strength of a company, but they are not interchangeable. Revenue only indicates how effective a company is at generating sales and revenue and does not take into consideration operating efficiencies which could have a dramatic impact on the bottom line.

### 2.2 Net Operating Profit

Net operating profit or usually it also called net income is calculated by taking revenues and subtracting the costs of doing business, such as depreciation, interest, taxes, and other expenses. The bottom line, or net operating profit, describes how efficient a company is with its spending and managing its operating costs.

### 2.3 Income Statement

An income statement is one of the three important financial statements used for reporting a company's financial performance over a specific accounting period, with the other two key statements being the balance sheet and the statement of cash flows. Also known as the profit and loss statement or the statement of revenue and expense, the income statement primarily focuses on the company's revenues and expenses during a particular period. The income statement focuses on four key items – revenue, expenses, gains, and losses. It does not differentiate between cash and non-cash receipts (sales in cash versus sales on credit) or the cash versus non-cash payments/disbursements (purchases in cash versus purchases on credit). It starts with the details of sales, and then works down to compute the net income and eventually the earnings per share (EPS). Essentially, it gives an account of how the net revenue realized by the company gets transformed into net earnings (profit or loss).

### 2.4 Income Statement Structure

Mathematically, the Net Operating Profit is calculated based on the following:

$$\text{Net Operating Profit} = (\text{Revenue} + \text{Gains}) - (\text{Expenses} + \text{Losses})$$

However, real-world companies often operate on a global scale, have diversified business segments offering a mix of products and services, and frequently get involved in mergers, acquisitions, and strategic partnerships. Such wide array of operations, diversified set of expenses, various business activities, and the need for reporting in a standard format as per regulatory compliance leads to multiple and complex accounting entries in the income statement.

Table 1. Income Statement December 2020 of PT. XYZ Tbk. Service Dept. Banjarmasin Branch

Description	Actual Dec-20 (IDR x1.000)
Revenue	1.005.238
COGS	687.629
Gross Profit	317.609
OPEX	175.099
Net Operating Profit	142.510

### 2.5 Costs Structure

Cost of goods sold, operating expenses, and selling, general, and administrative expenses (SG&A) are the types of costs involved in running a company, and significant in determining its financial well-being.

#### 2.5.1 Cost of Goods Sold

COGS includes direct labor, direct materials or raw materials, and overhead costs for the production facility. Cost of goods sold is typically listed as a separate line item on the income statement. Operating expenses are the remaining costs that are not included in COGS.

#### 2.5.2 Operating Expenses

Operating expenses, or OPEX for short, are the costs involved in running the day-to-day operations of a company. They typically make up most of the company's expenses. OPEX are not included in cost of goods sold (COGS) but consist of the direct costs involved in the production of a company's goods and services.

#### 2.5.3 Selling, General, and Administrative Expenses

Selling, general, and administrative expenses also consist of a company's operating expenses that are not included in the direct costs of production or cost of goods sold. In other words, SG&A includes all non-production costs. While this is typically synonymous with Operating Expenses, many times companies list SG&A as a separate line item on the income statement below cost of goods sold, under expenses.

### 3. Methods

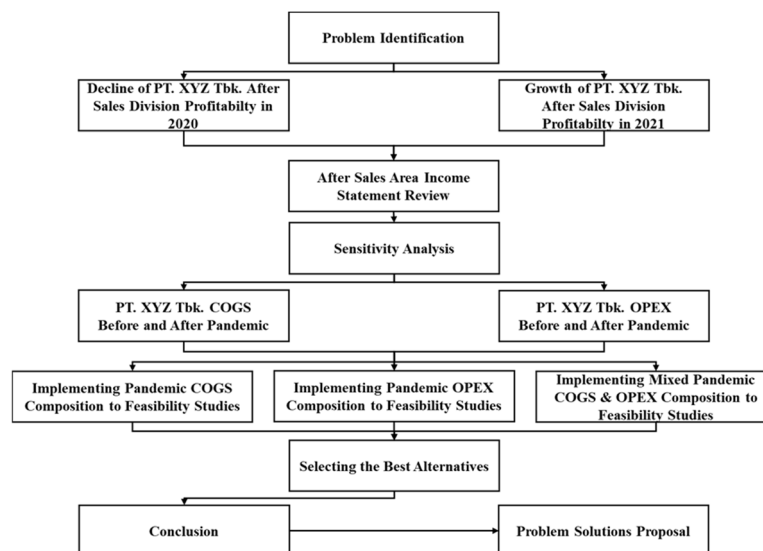


Figure 1. Conceptual Framework

This research aims to selecting the best alternatives cost structure composition factors that affecting the After Sales business and present strategic recommendations. This study uses a sensitivity analysis of the feasibility study on the data of PT. XYZ from the last 4 years and then the projections are calculated for the next 5 years. Then interviews were also conducted with internal branch officials from PT. XYZ Banjarmasin to produce an operational strategy that can support the financial strategy. The projections will use some assumptions for feasibility studies.

Table 2. Financial Assumptions for Feasibility Studies

Assumptions	2022-2026
Inflation	4.00%
Sales Growth	10.90%
Target Operating Margin on 5th year (Directors' Guidance)	17.50%
Target EBITDA Margin on 5th year (Directors' Guidance)	18.00%
Target COGS to Revenue pandemic fixed according to 2020-2021	70.00%
Target OPEX to Revenue pandemic fixed according to 2021	7.31%

Table 3. Service Demand/Day Assumptions for Feasibility Studies

Service Demand/Day	2018	2019	2020	2021	2022	2023	2024	2025	2026
Existing Demand Banjarmasin	45	50	32	48	53	58	53	58	63
Existing Demand Banjarbaru							10	15	20
<b>Total Demand South Borneo</b>	<b>45</b>	<b>50</b>	<b>32</b>	<b>48</b>	<b>53</b>	<b>58</b>	<b>63</b>	<b>73</b>	<b>83</b>

### 4. Results and Discussion

#### 4.1 Financial Strategy

By using only COGS composition during the pandemic can result in a larger Gross Profit Margin value. By maximizing labor productivity so that Direct Costs only follow inflation growth of 4%, then the average GPM generated is 26.48% or 5.13% greater than the average for the last 4 years. The OPEX figure calculated by normal forecasting (based on non-pandemic conditions) experienced significant growth compared to the average for the last 4 years.

Furthermore, the researchers perform calculations for the cost structure of the second strategy, using the composition of OPEX numbers based on 2021. The average of 5 years only increased by around IDR 2 million compared to the previous 4 years despite of inflation. However, the Operating Margin and EBITDA Margin figures are actually smaller than when the researchers used only COGS composition strategy.

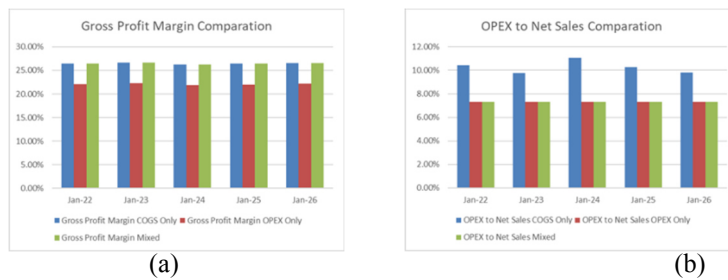


Figure 2. Comparison Results: (a) Gross Profit Margin; and (b) OPEX to Net Sales

Utilization of COGS composition can produce maximum Gross Profit while the use of OPEX composition can produce maximum Operating Margin as well. By monitoring the level of depreciation of assets owned by PT. XYZ Tbk. Banjarmasin branch will provide a satisfactory final value of EBITDA Margin.

The average Operating Margin value generated in the projection for the next 5 years is 19.17% or 9.21% greater than the last 4 years, while the EBITDA Margin can be recorded at 19.74%, where the reference margin has exceeded the expectations of the Director PT. XYZ Tbk.

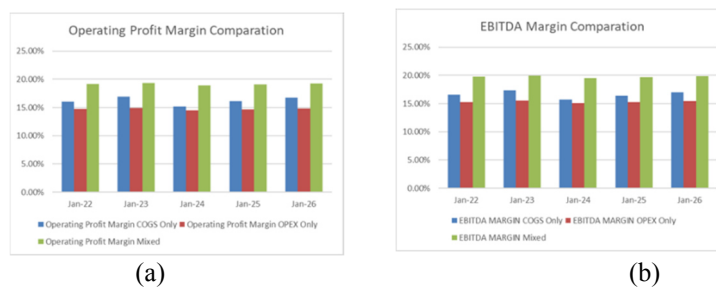


Figure 3. Comparison Results: (a) Operating Profit Margin; and (b) EBITDA Margin

The result from the feasibility study in the third strategy must be supported by a non-financial strategy to ensure that the results of the projection calculations do not miss the mark.

#### 4.2 Operational Strategy

To support the financial strategy, it must be supported by a good operational strategy as well. Therefore, the researchers also provide several solutions in each department for the After Sales Service division of PT. XYZ Tbk. Banjarmasin Branch.

##### 4.2.1 General Repair

The main issue regarding General Repair (Service) related to COGS and OPEX is about labor productivity and tool availability. The thing that is quite risky from increasing the number of sales but not increasing the number of people is the inability of the workforce at PT. XYZ Tbk. Banjarmasin branch. If we look at productivity by the level of training, then we must increase some level of training of the existing workforce.

Table 4. General Repair Workforce Target Training Level

General Repair Workforce Training Level					
Current			Target		
Service Advisor	Foreman	Mechanic	Service Advisor	Foreman	Mechanic
Master	Pro	Diagnose	Master	Master	Master
Pro	Pro	Diagnose	Master	Pro	Diagnose
Pro		Diagnose	Pro		Diagnose
Basic		Pro	Pro		Diagnose
		Pro			Pro
		Pro			Pro
		Basic			Pro
		Basic			Basic
		Basic			Basic

##### 4.2.2 Body Repair

Body Repair at PT. XYZ Tbk. mostly depend on vendor partners because repairmen who work at PT. XYZ Tbk., no employees other than Service Advisor and Foreman. COGS in this department focuses on External Work Orders (EWO) and the value of EWO depends on the amount of work performed. With the existing composition, which

are Light Repair, Medium Repair, and Heavy Repair. The more Heavy Repair work done, the smaller the COGS EWO on each repaired car, and vice versa if the more Light Repairs, the greater the COGS EWO will be.

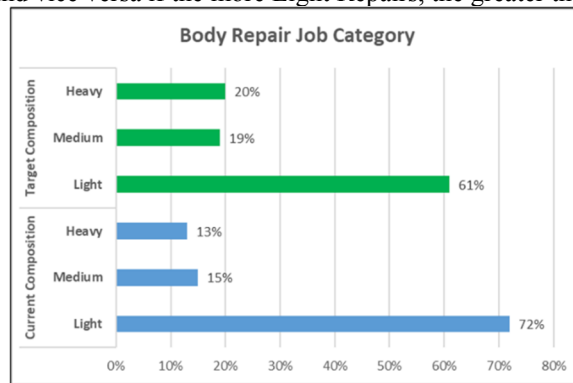


Figure 4. Body Repair Job Category Target Composition

#### 4.2.3 Parts

With a Gross Profit Margin of 9.7% when viewed from the average for the last 3 years for the Banjarmasin branch, the Parts Department becomes the anchor of the total After Sales Service Division for margin issues. The price determined by the Parts Department is approximately the same as if the spare parts were sold by the workshop. But the main difference is in the discounts and promotional costs that can be issued to spare parts shops. So, at these two points, the Parts Department must make a little restraint to maximize the margin.

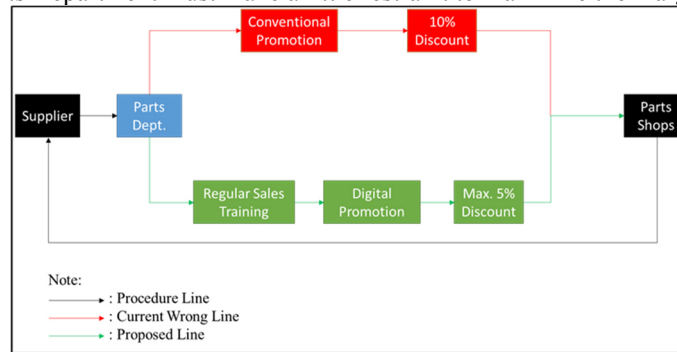


Figure 5. Parts Department Selling Proposed Flowchart

### 5. Conclusion

There are several external and internal factors that affect this increase in profitability on After Sales Services business. Externally, this was influenced by several easing of policies from the government and the emergence of vaccines so that people are more willing to leave the house and service the vehicle. While internally the increase in margin was accompanied by control from PT. XYZ Tbk. Banjarmasin branch to minimize the COGS and OPEX and tend to increase productivity to maximize margin from sales. By utilizing mixed pandemic costs structure composition and integrated operational strategy recommendations, PT. XYZ Tbk. gets the best result with details Gross Profit Margin 26,6%, Operating Profit Margin 19,3%, and EBITDA Margin 19,8% on the 5th year of projection.

The composition of this pandemic costs structure on After Sales Services business can indeed be carried out effectively at PT. XYZ Tbk. Banjarmasin branch. However, if this research is applied to the other branch of PT. XYZ Tbk. or in various similar automotive companies, a new feasibility study must still be carried out to test the operational system running at that branch or company. Considering the different character and pattern of society in each region, of course, one must be careful when applying this method. For example, if the character and lifestyle of the people in a city demands that everything be fast paced, maximizing productivity cannot be a solution because it will take longer service time and have an impact on the Customer Satisfaction Index.

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