

Factors that Affecting Total Export of PTTM's Cigar to US

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ABSTRACT

This paper aim to analyze how far is the effect of the economic variables which are the average price of PTTM's cigar export, the exchange rate of Rupiah against US Dollar, GSP of Ohio USA, toward the export of PTTM's total cigars in USA. By using quarterly data from 1996.1 to 2013.3 on ECM, this research finds out: (1) the average price of PTTM's cigars Export is significantly statistically influenced export of PTTM's total cigars in USA positively. (2) Exchange rate of Rupiah against USD is significantly statistically influences export of total PTTM's cigars in USA positively. (3) GSP of Ohio USA is significantly statistically influenced by export total of PTTM's cigars in USA positively. (4) All of those independent variables significant statistically and simultaneously influences export total PTTM's cigars in USA positively.

From this results of study, this model significantly statistically influences the export of PTTM 's total cigars to USA. Because of the coefficient of average price of PTTM's cigars, export is positive-elastic, PTTM must increase the cigar price in USA. And, two other coefficient variables in this model can be used as consideration for PTTM in adapting its marketing mix programs in the USA market.

Keyword: International trade, marketing strategy

PRELIMINARY

This paper aims to analyze several *determinant factors*, which is affects the total export of cigar from PT Taru Martani (PTTM) to Ohio USA. PT TM is an export-oriented cigar company owned by the Government of DIY, established in 1918. As an export-oriented company, PT TM not just "deal" with the internal environment and domestic companies, but also with the international market environment to win the competition. To achieve high performance in running international business, management intensively designs strategies to capture opportunities in the international market. As a result, PT TM achieved very high profits, especially in the last ten years.

Michel Porter (1998) mapped out some important factors that affect the total exports of a company in the international market. These factors are the internal environment and external environment that includes the domestic and international environments. Company cleanliness in marketing products on the market international relies heavily on the variables above in influencing sales. By understanding these concepts well, company will be sharper in arrange international marketing strategy - mainly related to the marketing mix, *segmenting, targeting and positioning* - and ultimately earn more profits in international markets.

The motivation of this research is driven by the concept of international business which states that the success of export-oriented companies depends on the international environment. That is, the export revenue from the company heavily dependent on foreign residents. However, the consumer typology of each country is not the same, so the profile and consumer preferences in each country must be understood by exporters. Armed with a good understanding, the company will be more successful exporter in offering its product abroad. From the background on above, the purpose of this paper is to answer: what variables significantly influence the total value of PT TM cigar exports to the US.

This paper uses primary and secondary data from the company's financial statements and selected databases. To achieve the results of quantitative analysis, this paper uses a regression method its intended to sharpen the analysis. The regression model that will be used is the error correction model (EMC), as a dynamic regression models that offer more valid results in predicting relationship between variables. After the regression results calculated, the next step in this article is intended to analyze the relationship between variables. International marketing strategy theory to answer what

strategies PT TM must do in order to obtain high sales in international markets will be raised in the next discussion.

The findings of this study showed that the price of product, *gross state product* (GSP) of export destination countries are selected and the value of the rupiah against the US dollar are significantly and positively affect the total exports of cigars PT TM to the US. By knowing these results, companies must increase product prices to increase profits. This paper is divided into five parts. The first part in this paper is the introduction. The second part is PT TM and performance on the international market. The third part is the latest studies in the same area. Part four is the research methodology and results analysis. And the last part is conclusions and recommendations.

PT TM AND ITS PERFORMANCE IN THE INTERNATIONAL MARKET

Since Indonesia faced the mid - 1997 economic crisis, PT TM's performance increase amazingly. The monetary crisis that hit Indonesia and some countries in Asia in July 1997, triggered by the depreciation of the rupiah against the USD has positioned PT TM cigar prices to be cheaper and more competitive, especially in the international market. Since 2000, recorded corporate profits increased by 20-30 percent. In its market coverage, PT TM's market share of cigar also undergone expansion, particularly in fitting international market. Before the economic crisis hit Indonesia PT TM products only concentrated in Ohio, US and the Netherlands, from 1997 to the present PT TM began exporting its products to Switzerland, Australia, and several countries in Europe and Asia.

In general, cigar made by PT TM can be classified into three formulas, namely: (1) natural cigar (pure cigar), (2) flavored cigar (Toba CCO whit accent sauce of mint, amaretto, vanilla, rum and hazelnut), and (3) mild cigar. The company's ability to produce several specific product formulas "*taste*" and size, as well as the motivation of this product that has delivered PT TM become one of the best cigar companies in Asia. In line with improving company performance - especially in finance, production and brand image - PT TM intensively improves its marketing program to capture market opportunities in the international market. In general, the current marketing program implemented by PT TM for its products is:

Table 1 Marketing Mix Program of PT TM in International Market

Product	Price	Distribution	Promotion
Mass production and order-driven production	Prices are set based on production costs	International Market: TM, Agent, Consumer	Sponsorship and Events

Table 2 PT TM Segmentation, Targeting and Positioning (STP)

Segmenting	Targeting	Positioning
1. Male and female smokers 2. Smokers with all levels of income	Male smokers aged 30 years and over with middle economic level	Position the product as a successful lifestyle for men.

However, PT TM's sales performance in international market do not always stable and increasing from year to year. The depreciation of the rupiah against the USD which was believed to be a booster in the increase in international market exports only occurred in 1997, so the management of PT TM acknowledged that despite the increasing intensity of competition in the international market, other factors also affected the fluctuations in the total export of PT TM cigars abroad. Based on identification of problems above, this paper aimed to answer whether some controlled and uncontrolled variables to explain the theory of international trade literature and empirical studies influence the total exports of cigars PT TM abroad or not. Furthermore, this experiment will analyze how much influence the price (controllable variables), the Rupiah exchange rate against the USD, and gross state product (GSP) US (controllable variables), giving the effect toward total exports of PT TM to the US.

STUDY OF LITERATURE

Company In International Business Environment

In macroeconomic study, international trade (especially in terms of exports) will boost economic growth through increased productivity factors. Vendoorn's law states that there is a positive correlation between the rate of change in productivity and the level of change in output. The expansion of product demand through increased exports, would encourage the achievement of economies of scale, in which reduce production costs. Empirical studies about the relationship between exports and economic growth have been carried out. The study conducted by Robert, Emery, Alfred Maizels, Constatin S, Voivodal, Michael Michaely, Bella Ballasa, Robert B, Williamson, Olufemi, Sajana, William Tyler, and Gerson Eder provided strong empirical evidence on international trade theory, that orientation strategies export is an effective way to promote the growth of output (Doraisami, Anita, 1996. h.225).

While in microeconomic context (business), exports are an effective way for businesses to expand the scale and scope of their businesses through trade international. There are at least four reasons why many companies are interested in doing international business with other countries, as told by Thompson and Strickland (2003.200). They are: *first*, to gain access to new customers, *both* for access to lower cost and achieve excellence Integration, *third* to divide business risk across the broader market, and *the fourth* to capitalize its core competencies.

Determinants Factors in International Market Offering

Some variables contribute to the success of the international business. Philip Contera (2002: 19) describes these variables, namely: (1) *controllable variables* (including: products, price, promotion and distribution), (2) *controllable variables in domestic*

environment (Includes: macroeconomic conditions, political and legal conditions, and the situation and conditions of competition in the country), and (3) *controllable variables in foreign environments* (including: political and legal conditions, culture, geography and infrastructure, demography, distribution structure, macroeconomics, competitive conditions, and the level of technology abroad).

International Business Strategy and Management

At least, there are three stages that must be done by the exporter before entry into international market the three stages are analysis, planning and implementation. The entire division within the company, especially the marketing manager, has full responsibility they have to analyze how a market, strategy planning, and implement them appropriately. In the first stage, companies need to analyze the market potential by utilizing the existing marketing analysis tools. According to Philip Kotler (2003), *Five Forces Analysis*, *SWOT analysis*, *setting 4Ps*, and *Segmenting, Targeting, and Positioning (STP)* analysis are instruments can be used in analyzing the potential market. After the market analysis is done, second step is setting appropriate strategy to enter into international market and formulate *key success factors*, which will be used. In this step, the important points need to be considered by the company is to find the most effective way to enter the international market and find the key success factors to support companies to win the competition. The last stage is to carry out a strategy that has been planned by the company and conduct continuous monitoring.

International Marketing Strategy

Philip R.Cateora (2002) define international marketing as the performance of business activities designed to plan the product, price, promotion, and distribution to consumers over the country to create a profit targeted by the company. The difference between the definitions of domestic and international advice is not located on the concepts of suggestion itself, but more on analysis of the business environment in which planning in international marketing will be implemented. The uniqueness of international marketing comes from unusual problems (*un-familiar*) and full of uncertainty (*uncertainty*) faced by the manager. The competitive situation, *legal restraint*, the government watchdog, the weather, *freckle consumers*, and a number of other elements that can be controlled and filled with uncertainty may result in the profits obtained by the company. Thus, the exporter should be observant and careful in choosing a variety of marketing strategies suitable for adapting marketing strategy to international environment.

Marketing Mix Program (marketing mix) in the International Market

a. Product Strategy

Market-driver strategy become a mega trend of modern marketing strategy, and a barometer of success in marketing strategy for the company that focus on customer wants. By knowing the products needed and desired by consumers, companies can offer products with higher value and satisfaction to their customers than their competitors. In order to apply *market-driven strategy* is working well, companies must continually analyze and evaluate the changes in the consumers demand to the products they sell. Managing product lines is one form of analysis and evaluation of market change trends. In this case, the company must manage and maintain the performance of the products that are in demand market, and innovation and new product create products that acceptable in the hearts of consumers.

b. Price strategy

The pricing strategy also requires extra strict supervision by the company. Changing market conditions caused by changes in external conditions such as changes in consumer buying behavior, price competition, must be responded to appropriately by the company. According to Kotler: " *in general, the company has three options, namely (1) set a uniform price everywhere, (2) set a market-based price in each country, (3) and set a cost-based price in each country* (Kotler, Philip , 2003, c h.399).

c. Chanel Distribution Strategy

Distribution channel strategy must effective and efficient to strengthen the position of the company's products in international markets. According Kotabe and Helen (2004), at least there are three terms that must be understood by the business, to do with the distribution channels in the international market. These terminologies are global logistics, material management, and physical distribution.

Several factors that determine the effectiveness and efficiency of distribution channels in the international market include: (1) the distance between companies and international markets, (2) fluctuations in exchange rates, (3) foreign intermediaries, (4) government regulation of importers, (5) security level (securities), and (6) transportation costs (Kotabe and Helen, 2004, p. 481).

d. Promotion Strategy

Promotional strategies are also an important key to success when we decide to conduct international trade. According to Philip Kotler (2003), there are four options where companies can choose the best way to promote their products. First, companies can use the same message in any market, or change the language, name and color. Second, companies can use the same promotional theme globally, but adjust the copy at each local market. Third, companies can use global advertising and choose one method that is most suitable for each country. Finally, some companies allow managers in each country to choose and create *country-specific ads* , with headquarter direction, of course.

Segmenting, Targeting, and Positioning

Segmenting - International market segmentation is used to adapt the heterogeneity of consumers in each country with the company's marketing program. Adaptation of consumer heterogeneity in each country with this marketing program is important for companies to achieve fit between product offerings and consumer characteristics in each country that are often different (Rugman, 1987, p. 342). Market segmentation can be done by analyzing in depth the characteristics of consumers based on geographic, demographic, and psychographic. Philip Kotler (2003) divides market segmentation based on consumer characteristics as shown in Table 3 below:

Table 3 Major Segmentation Variables for Customer Markets

Geographic	Region, City or metro size, Density, and Climate	Psychographic	Lifestyle Personality
Demographic	Age, Family size, Family life cycle, Gender, Income, Occupatio	Behavioral	Occasions, Benefits, User status, Usage status, Readiness

	n, Education, Religion, Race, Generation, Nationality, Social class		stage, and Attitude toward products
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Kotler, Philip, 2003, p. 288

Once market segmentation has been identified, marketers need to find the most dominant segment variables affecting consumer purchasing decisions. In order for the segmentation variable to be valid for the company, the following conditions must be fulfilled, namely (Rugman, 1987, p. 342): (1) the segment must be measurable, (2) the segment must be accessible and (3) the target must be substantial.

Targeting - The target market is conducted after international marketers find important variables obtained from the results of the segmentation process above. The target market alternatives that will be available to international marketers include "there are targets" and "no targets". If the available option is "there is a target", the company can take a strategy to enter one or more targeted (concentrated) segments, or enter all segments that can be covered by the company (differentiation). If the available option is "no target", the company will automatically leave the marketing location (Rugman, 1987, p. 334).

Foreign Positioning - is the last step that must be done by an international marketer. This stage is done after they succeed in finding the desired target market. International marketers must be smart, especially when they build *marketing mix programs* in the area of the market to be entered (Rugman, 1987, p.345). Errors in conducting *foreign positioning* often cause failure for international marketers to market their products abroad. There are four types of failures that are often experienced by marketing managers related to product positioning, namely (Kotler, Philip, 2003, p. 311): *under positioning, over positioning, confused positioning, and doubtful positioning.*

RESEARCH METHODOLOGY AND ANALYSIS RESULTS

Data Description

This study uses primary data, obtained from company 's financial statements, and secondary data taken from the Internet, BPS and Magazines. Data on total exports and the average price of PT TM cigars available is annual data. Regarding the amount of data must be more than the number of variables, and like 30 time series data to avoid classical assumptions in regression analysis the data is extrapolated to quarterly data using the 1991 Insukindro method (formula see Insukindro 1998).

Analysis Instrument

Root-Root Unit Test

Before statistical testing, all data will be analyzed whether it is stationary or not. This test is important because it deals with the problem of smooth regression that often occurs in time series analysis, so that often makes regression analysis invalid. To find out whether the data is stationary or not, this research will use stationary test with *unit root test* developed by Dickey and Fuller, namely DF (Dickey Fuller) test and ADF (Augmented Dickey Fuller) test. The model used to estimate this existence is estimating the authoritative model of each variable that will be observed with the following OLS method (Tien Setyawati, 1993).

$$\begin{aligned}
 & \text{DY}_t = a_0 + a_1 \text{BY}_t + \sum_{i=1}^k b_i \text{BY}_{t-i} \\
 & \text{DY}_t = c_0 + c_1 T + c_2 \text{BY}_t + \sum_{i=1}^k d_i \text{BY}_{t-i} \quad (2)
 \end{aligned}$$

Where $\text{DY}_t = Y_t - Y_{t-1}$, $\text{BY}_t = Y_{t-1}$, $T =$ time trend, Y_t is the variable observed in period t , and K is the amount of time inaction calculated by the formula $K = N^{1/3}$, where $N =$ number of samples. The next step is to compare DF values and ADF statistics with DF and ADF tables, indicated by the ratio t to the regression coefficient of BY_t in equations (1) and (2).

Degree of Integration Test

If the data observed in the unit root tests are not stationary, then the next step is to do the degree integration test. This test is conducted to determine the degree of integration of the data to be observed in this study stationary. To conduct the test, an assessment of the authoritative model with OLS was carried out as follows (Tien Setyawati, 1993):

$$\begin{aligned}
 & \text{D}_2 Y_t = b_0 + b_1 \text{D}_2 Y_{t-1} + \sum_{i=1}^k f_i \text{D}_2 Y_{t-i} \\
 & \text{D}_2 Y_t = d_0 + d_1 T + d_2 \text{BDY}_t + \sum_{i=1}^k h_i \text{BDY}_{t-i} \quad (4)
 \end{aligned}$$

Where $\text{D}_2 Y_t = \text{DY}_t - \text{DY}_{t-1}$, and $\text{BDY}_t = \text{DY}_{t-1}$. After calculating the DF and ADF values are known - by looking at the statistical values on the BDY regression coefficient t in equations 3 and 4 - the next step is to compare the DF and ADF tables. If b_1 and d_2 are equal to one, then variable Y_t is said to be stationary at degree one or Y_{t-1} (1). If otherwise, then the variable Y_t is not stationary at the first degree of integration. In this case, the integration degree test needs to be continued until at what degree of integration is a stationary condition obtained (Tien Setyawati, 1993).

Error Correction Model

To answer the identification above, this research will use error correction model (ECM). The reason for choosing this model is because ECM, as one of the dynamic models, is seen as a model that can practically overcome the problem of smooth regression that often appears in *time series analysis* in static models. Furthermore, the ECM model in this study can be written as follows:

Basic Models Used

This paper adopts the Dipack and Thompson's model (1996) model which can be written mathematically as follows:

$$Y_i = \alpha_0 + \beta_0 X_{i1} + \beta X_{i2} + \beta X_{i3} + \beta X_{i4} + \mu t$$

Furthermore, the above model was adopted into this study to be:

$$\text{DX}_t = c_0 + d_1 \text{DP}_t + d_2 \text{DE}_t + d_3 \text{DG}_t + d_4 \text{BP}_{t-1} + d_5 \text{BE}_{t-1} + d_6 \text{BG}_{t-1} + d_7 \text{ECT} \dots \quad (5)$$

Marker description:
 X = Total Export of Cigar Cigars in Ohio, USA
 P = Average Price of TM Cigars in Ohio, USA
 E = Rupiah Exchange Rate against US Dollars

G = Gross State products of Ohio, USA

Where:

$$\begin{aligned}
 \text{DX}_t &= L_n X - L_n X(-1); \text{DP}_t = L_n P - L_n P(-1); \\
 \text{DE}_t &= L_n E - L_n E(-1); \text{DG}_t = L_n G - L_n G(-1) \\
 \text{BP}_t &= L_n P(-1); \text{BE}_t = L_n E(-1); \text{BG}_t = L_n G(-1) \\
 \text{ECT} &= L_n P(-1) + L_n E(-1) + L_n G(-1) - L_n X(-1)
 \end{aligned}$$

From equation three above, we can further reduce the form of the short-term ECM model into the form of a long-term ECM model. The ECM model in the long term can be written as follows:

$$\begin{aligned}
 L_n X_t &= d_0 + e_1 L_n P_t + e_2 L_n E_t + e_3 L_n G_t \\
 G_t & \dots \dots \dots \quad (6)
 \end{aligned}$$

Marker description:

$$\begin{aligned}
 d_0 &= (c_0 / d_7); e_1 = (d_4 + d_7) / d_7; e_2 = (d_5 + d_7) / d_7; \\
 e_3 &= (d_6 + d_7) / d_7
 \end{aligned}$$

Analysis and interpretation

Using quarterly data from 1996.2 - 2013.3, the regression results obtained with ECM are as follows:

If value that presented in the form of the long-term equation of the ECM model, it will look like the following equation:

$$L_n X = -54.56 + 2,569 L_n P + 0.021 L_n E + 6,186 L_n G$$

Assuming that the ECM estimation results above are produced by Koyck transformation, it can be stated that the *rate of decline* is b_7 (ECT) = 0.576 and the mean lag is $[b_7 / (1 - b_7)] = [0.576 / (1 - 0.576)] = 1.3584906$. This means that around 57.60 percent of the gap will be closed in one period with the speed of $L_n X$ in response to changes in $L_n P$, $L_n E$, and $L_n G$ of 4.07 quarters or about 1 year ($4,0754718 \times 3 = 12.23$ months).

Interpretation

To interpret the variable coefficients in this study, the analysis will use model 6, because the core of regression analysis is intended to understand the behavior of economic variables in the long run.

a. Product Price

The coefficient value of PT TM cigar export prices ($L_n P$) is 2,569. The number of these coefficients reflects the level of elasticity of the average price of cigar to the demand for PT TM cigar imports by the US. Because the coefficient value is more than one, it can be said that the relationship between the price variable and the total value of PT TM cigar exports to the US positive and elastic correlation. Economically, this number of coefficients (or levels of elasticity) shows that if the average price of PT TM cigar exports increases 1 percent, it will result in an increase in the total value of PT TM cigar exports to the US amounting to 2.569 percent.

According to economic theory, the increase in product prices should reduce the quantity of demand, because the *theory of the law of demand* states that if the price of a product increases, assuming *ceteris paribus*, it will reduce the demand for the product itself. However, this theory does not apply to PT TM cigar export products to the US. The increase in the price of PT TM cigars actually increased the total value of its exports. There are two plausible reasons, which caused the increase in PT TM cigar export prices did not negatively affect the total value of its exports to the US. These two reasons can be explained by looking at: (1) the price of PT TM cigar products in the US market and (2) the demand for cigar products by Chinese consumers.

First, the price of PT TM cigar products sold to the US is far below the market standard price. For example, the price of cigars that PT TM sells to US agents is between 0.06 USD (the lowest price) to 0.19 USD (the highest price) per stem during the study observation period. While cigar prices received by the end users (users) from their agents are less than 3 USD. On the other hand, the prices of their competing cigars are accepted by consumers - such as from Cuba - at least 3 USD per stick, the premium price is 5 - 9 per stick, and the exclusive price reaches 12 USD per stick. In fact, when viewed from existing products, PT TM acknowledges that the quality of their cigars is very appropriate to the taste of " *taste* " of US cigar smokers and the raw materials used are also not much different from premium priced products sold by other producers in the market. This is the reason that the increase in PT TM cigar prices has no negative effect on the value of its sales, because cigar consumers in the US see PT TM cigar prices as very cheap, despite price increases.

Second, the demand for cigarette products for all types in the US market very large, and even reaches 475 billion sticks per year. If the market shares of cigar products is only 0.5 percent of the total demand for cigarette products, that means demand for cigar products in the US reaching 2.38 billion sticks per year. Assuming Ohio's population is 6 percent of the total US population, that means the demand for cigarettes in the market reaches 142.8 million per stick year. On the other hand, the ability of PT TM cigar production far meets the target market. The available data shows that the capability of PT TM cigar production is only 3 - 5 million cigarettes per year. Thus it is clear that there is an imbalance between the amount of production and the number of target markets that exist causing despite an increase in the selling price of PT TM cigar products to the US, the demand for their products continues to increase.

This imbalance between PT TM's cigar product demand and supply also occurs in other international markets such as Europe and Asia. For example, PT TM cigar exports to Germany are only able to meet market demand of 49,000 cigarettes in 2011, while the market share of cigars in Germany is 50 million cigarettes per year. Cigar market share in other countries such as the Netherlands 40 million and France 70 million, has also not been fulfilled.

PT TM acknowledged that there is an imbalance between production capabilities and world cigar demand due to their substandard production processes. Procurement of cigar raw materials, whether supplied from local or foreign markets, is increasingly difficult to fulfill. For example, cigar tobacco materials purchased from Besuki East Java are increasingly difficult to obtain because besides they have to fight over raw materials with other competing cigarette competitors, the results of dry tobacco production in the area are increasingly decreasing. Besides that, the quality of tobacco used in its production is in need of strict supervision, so it can be said that the ingredients (tobacco) used by PT TM are of high quality and few in number.

b. Exchange Rate

The variable value of the exchange rate of the Rupiah against the United States Dollar ($L_n E$) is 0.021. This number of coefficients reflects the level of elasticity of the Rupiah exchange rate / USD against the total export of PT TM cigars to Ohio, United States. Because the coefficient value is less than one, it can be said that the relationship between the exchange rate variable and the total value of PT TM cigar exports to Ohio, the United States has a positive and inelastic correlation. Economically, this number of coefficients (or levels of elasticity) indicates that if the Rupiah exchange rate depreciates by 1 percent against the US Dollar, it will

result in an increase in the total value of PT TM cigar exports to the US amounting to 0.021 percent.

The results of this calculation are in accordance with the existing theory, which states that exchange rate depreciation has a positive effect on the sale of the company's export products. Although the statistical indicator on this coefficient signifies significant, but the coefficient value is very small (inelastic), it can be said that the depreciated Rupiah exchange rate against the US Dollar will not have a significant influence on the value of PT TM cigar exports to the US. The strongest reason why the exchange rate is so small compared to the other two independent variables, occurs because the production process in the manufacture of PT TM cigars is related to imported raw materials from abroad which reaches 50 percent of its products. So it makes sense if the depreciation of the Rupiah against the US Dollar is also a burden and increases production costs, which in turn reduces the company's production.

Judging from the data available during the study period, the total value of PT TM cigar exports to the US experienced sharp fluctuations, while the exchange rate depreciated. The depreciation of the Rupiah value against the US Dollar which occurred in July 1997, only had a large influence on the increase in the total cigar export of TM in that year, which amounted to 571.8887.77USD, which means an increase compared to the previous year which was only 157.611.50USD. Whereas in the following years, the total value of PT TM's cigar exports declined again. In 1998 and 1999, PT TM's total export revenues amounted to 344,749.00USD and 134,143.93USD. And in 2013, the total value of their cigar exports amounted to 217,774.00 USD. Thus it can be said that although PT TM cigars are an export-oriented type of company, with a very high import content in their export products they will cause even though the Rupiah to US Dollar exchange rate depreciation does not significantly affect the value of their cigar exports to Ohio, United States.

This phenomenon is also supported by the existing theory, which states that exchange rate depreciation will only benefit export-oriented companies that have low import content in producing their products. While companies that have high import content in producing their products, they will not benefit from exchange rate depreciation, and can even reduce their export sales revenue.

c. Gross State Product (GSP)

The coefficient value of the variable Gross State Product ($L_n G$) is 6.186. The number of these coefficients reflects the level of elasticity of Gross State Product (GSP) to the total export of PT TM cigars to the US. Because the coefficient value is more than one, and is an independent variable that has the highest level of elasticity, it can be said that the relationship between GSP variables and the total value of PT TM cigar exports to the US has a positive and elastic correlation. Economically, the number of these coefficients means that if the Gross State Product value in the US increases by 1 percent, it will result in an increase in the total value of PT TM cigar exports to the US by 6.186 percent.

These findings are very consistent with the existing theory which states that the economic growth of importing countries will increase the company's export sales. In macroeconomic literature, an increase in a country's Gross State Product (which implicitly shows economic growth) also reflects an increase in the purchasing power of people in the country. Because the consumption variable in the national income equation (GNP) - the other variable is government expenditure, investment, and exports - has a positive correlation with national income.

Judging from the existing data, the Gross State Product (GSP) of Ohio, the United States experienced

significant fluctuations from year to year during the study observation period. From 1996 to 2013, based on current prices, US GSP grew by 4.6 percent per year. In 2011, China's GSP grew by only 0.01 percent, and in 2012 - 2013, it increased again by 4.6 percent. According to the International Monetary Fund / IMF (2014), in the coming 2014 and the nominal GDP of the United States is expected to increase to 6.9 and 6.6 percent. That means, the estimated increase in US economic growth will have a positive impact on PT TM because, assuming *ceteris paribus*, their exports will increase by 42.68 percent ($e = 6.186 \times 6.9$) in 2014, and by 40.83 percent ($e = 6.186 \times 6.6$) years 2015.

From the discussion above, it can be concluded that the economic variables in this study are statistically significantly influential on the total value of PT TM cigar exports to the US. Nevertheless, there are still many other variables outside the model that affect the value of PT TM cigar exports to the US. Other economic and non-economic factors, both variables that can be controlled by the company, such as products, distribution channels and marketing, as well as variables that cannot be controlled by companies in the domestic and foreign environment, such as government regulations of exporters, competition intensity, factors trade barriers, demographic types of importing countries that are difficult to map, etc., are part of 23.44 percent of the variables that are not covered in this study. Given, based on statistical analysis, the R-square of this analysis model is 76.56 percent. That is, the independent variables included in the model affect the variation of the dependent variable by 76.56 percent, while the rest (23.44) is influenced by other variables outside the model. ©

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

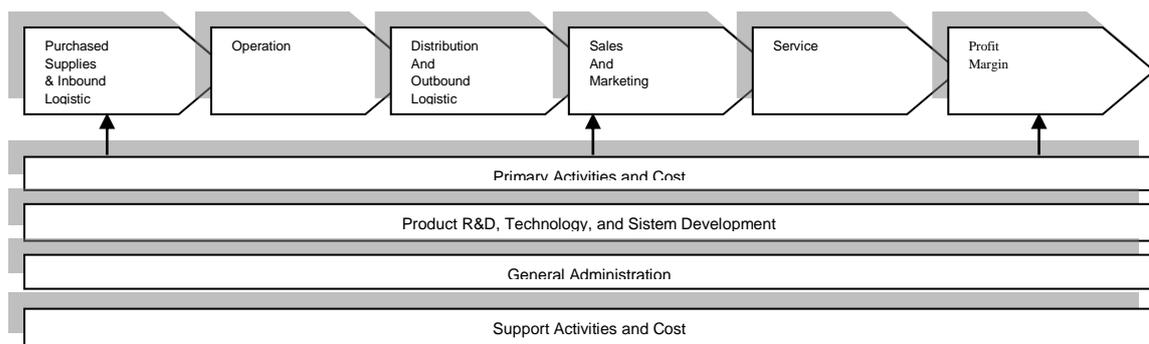
After knowing the relationship or influence of economic variables on the total export of PT TM cigars to the US with the ECM model approach above, the following conclusions can be drawn:

1. The average price of PT TM cigar export products has a statistically significant positive effect on the total value of PT TM cigar exports to the US.
2. The exchange rate of the Rupiah against the United States Dollar is statistically significant and does not significantly affect the total value of PT TM cigar exports to the US.
3. Ohio US's Gross State Product (GSP) has a statistically significant positive effect on the total value of PT TM cigar exports to the US.
4. The average price of export products cigar PT TM, Rupiah exchange rate against the US Dollar, and the Gross State Product (GSP) The US is statistically significant, together affect the value of total exports of cigars PT TM to the US.

Recommendation

Based on the results of quantitative and qualitative analysis obtained from this study, some of the recommendations below can be considered by PT TM in developing the company's strategy, especially in relation to the international business activities they run. Using the *Value Chain Analysis* diagram in Figure 1 below recommendations from the results of research on TM are as follows:

Figure 1 Value Chain Analysis at PT TM



a. Primary Activities and Costs

1. Purchased Supplies and Inbound Logistics - PT TM must be able to maintain and improve the continuity of raw materials (tobacco) purchased from domestic and foreign suppliers. Because local raw materials are increasingly difficult to obtain in the domestic market (Besuki, Jember, etc.), PT TM must increase the intensity of trade contracts with their suppliers, if necessary, find new suppliers to ensure the availability of local raw materials, so that the PT TM cigar production process in meeting the demand for the cigar market which is currently still very large, it is not disturbed. While for suppliers of raw materials from abroad, PT TM must be able to increase their bargaining power to obtain raw materials that are cheaper, if possible, look for import locations that are relatively close to the company and offer high-quality raw materials at low prices. Second, PT TM needs to improve inventory management related to the procurement of goods, so that they can control and adjust existing raw materials with the production targets desired by the company.

2. Operation - PT TM must continually improve production processes related to the manufacture of products, packaging, facilities, operations, and others within the company, so that they can produce products with lower costs and good quality to support product repositioning to be carried out.
3. Distribution and Outbound Logistics - PT TM must improve and build a more effective product distribution, and build better outbound logistics to convince their products to reach consumers with uniform and competitive prices in each retailer.
4. Sales and Marketing - PT TM must be more intense in building marketing programs that are more sophisticated and appropriate for their markets. Marketing mix programs that were originally not optimal, must be improved again with the following strategies:

a. **Products** - PT TM must maintain product quality in certain variants that have been accepted in domestic and international markets. For the international market, PT TM can use the *invention / forward*

invention product strategy, by creating new products with certain "taste" in accordance with market demand. For example, the PT TM cigar trend favored by the US market is cigar flavor, with a variety of flavors. Because flavor cigar is very popular, PT TM must maintain the quality of these types of products, and especially to create new cigar flavor products in accordance with the "taste" of cigar fans in the US.

- b. **Price** - PT TM needs to reposition their cigar prices on the US market because they are classified as low both at the agent level and at the end consumer level. Starting from this condition, and supported by the findings in the regression analysis that reflects PT TM's cigar demand by the US to be inelastic - meaning that the price increase does not negatively affect demand because the quality and taste of products in accordance with consumer tastes - PT TM needs to adopt a policy of raising prices in US market to increase corporate profits. Based on the quality of the products that are attached to their cigars - namely the quality of premium products - the appropriate price estimates are

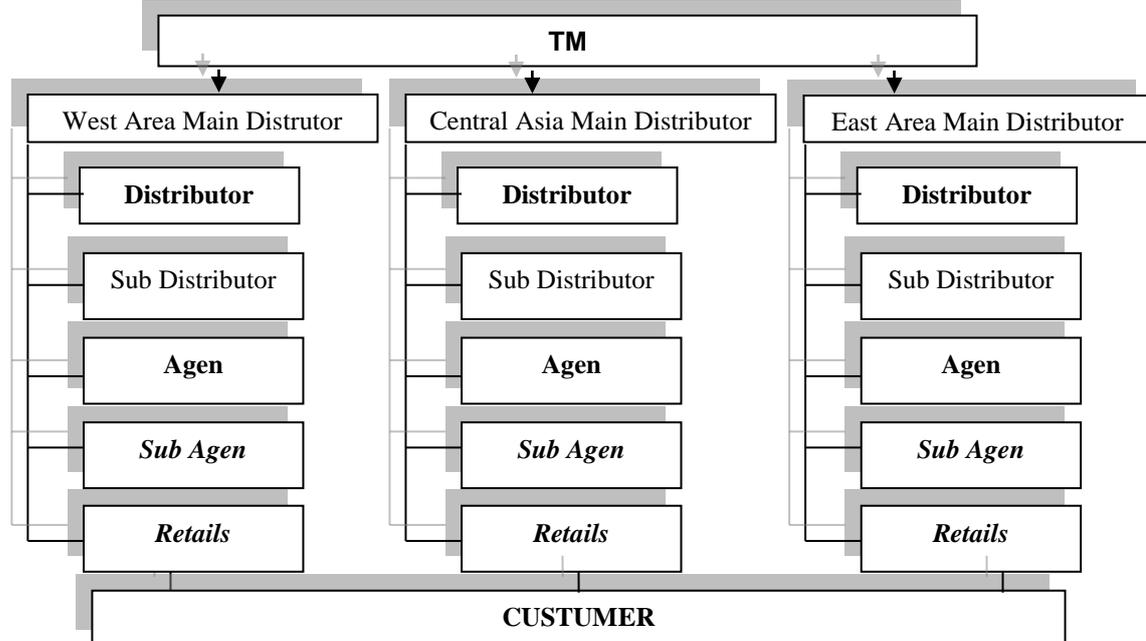
accepted by the end users (users) of cigars in the US between 5 - 9 USD per stick. PT TM cigar prices in the local market also need to be raised, because they are still relatively low compared to products sold by local and foreign cigar producers in the domestic market. For example, the average price of PT TM cigars per stem is sold at less than Rp. 1000 per stick, while cigar products from abroad in the domestic market reach 6USD per stick.

- c. **Distribution** - PT TM must quickly realize the product distribution channel plan that they have made in the domestic market. By immediately changing the old distribution channel (Figure 2) into a new distribution channel (Figure 3), companies will be more effective and efficient in marketing their products in the domestic market. In addition, the problem of price differences received by consumers in each retailer can be overcome. With this change in the distribution system, the strategy of product repositioning that has been planned by PT TM in the local market will be more successful.

Figure 2 Old Schemes of PT TM Product Distribution Channels in the Domestic Market



Figure 3 New Scheme of PT TM Product Distribution Channels in the Domestic Market



The distribution channels for PT TM products in the international market must also be improved, because the existing product distribution system has so far not supported their marketing strategies abroad. Because cigar products are included in the *convenience goods* category, PT TM needs to build a long distribution channel. This needs to be done to make it easier for companies to reach consumers who are very broad and diverse, who cannot be reached simply by applying the existing distribution channels, as shown in Figure 4 below. Although long distribution channels often affect price margins, the conditions of PT TM cigar demand in the inelastic US market and the prices are very low, will not have an impact on the competitive position of their cigar products in the market. By converting existing distribution channels into new distribution channels (Figure 5), later, PT TM will also be more successful in repositioning their products on the international market.

Figure 4 Old Scheme of PT TM Product Distribution Channels in the International Market

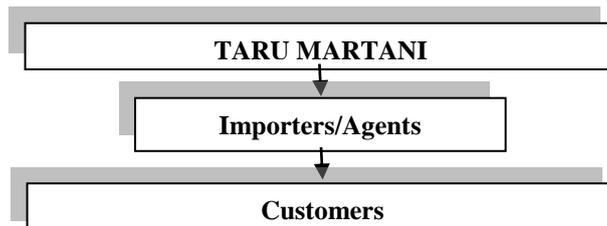
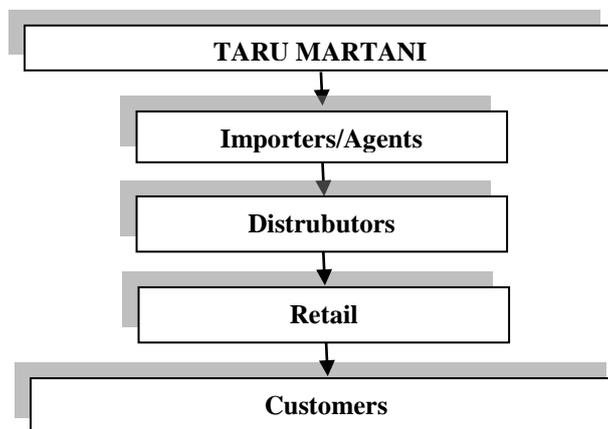


Figure 5 Proposed New Scheme Channels of PT TM on International Market



d. **Promotion** - PT TM can maintain the promotion method that they currently do, namely by sponsoring certain events that are recommended on the domestic market. For the international market, PT TM also has to take part in world-class cigar *exhibitions* which are often held in several countries, such as in Europe, Asia, the United States and others, so that PT TM cigar products can be more widely known in the international market. Internet media also needs to be utilized more optimally by PT TM, because this media offers a low-cost promotion method with very wide access to all parts of the world.

e. **Service** - PT TM needs to improve service to stakeholders, especially their agents, suppliers and direct consumers by giving bonuses and added value to the quality of their products as a whole (whether on "taste", packaging, and product safety), so that the image PT TM cigars in the local and international markets are getting better.

b. Support Activities and Costs

1. **Product R & D, Technology, and systems Developments** - PT TM should continue to expand R & D, Technology and System Development them, because these three components is the key to a successful company in the *market-driven strategy* they would do. If this is carried out properly, PT TM will continue to exist and be better prepared to compete with its competitors, both in the local market and in the international market. R & D products need to be developed to dig deeper into the potential demand of consumers for products they do not know, and will bring PT TM production closer to the demand for products that are truly desired by cigar lovers. Technology development is needed to accelerate the company's response in producing products as requested by the market, and can reduce the company's production costs. The development system is aimed at improving the overall performance of the company, and to ensure the sustainability of PT TM.
2. **General Administration** - PT TM needs to improve this section to ensure PT TM's good transactions with local consumers and suppliers as well as with consumers and suppliers overseas more easily, smoothly and safely. Thus, the ease of transactions with outsiders will be an attraction and comfort for customers and suppliers in conducting business transactions with companies.

c. Segmenting, Targeting, and Positioning Strategy

1. **Segmenting** - PT TM can expand their market segment, from smokers of all ages, genders, and income, to smokers and non-smokers of all ages, genders and income. To support the expansion of the market segment for non-smokers, PT TM can take a product differentiation strategy (*product differentiation*). The product differentiation that is meant here is that PT TM not only produces cigars for consumption only, but also produces souvenirs, charters, ordering logos, and others like those done by world famous cigar manufacturers.
2. **Targeting** - PT TM can expand their main target market, namely from men aged 30 years and over with middle-to-upper income levels, to be men and women aged 20 years and over with middle-down and middle-up-level income levels. For the target market for men and women aged 20 years and over, with middle to lower income levels, PT TM can set premium prices. As for the target market for men and women aged 20 years and over, with middle to upper income levels, PT TM can set exclusive prices by creating high-quality cigar products.
3. **Positioning** - PT TM immediately continues the strategy of repositioning their cigar products in the domestic market, and doing it also in the international market. Product repositioning at PT TM is needed to sharpen PT TM's cigar image as a commodity symbol of successful and exclusive people. In this way, PT TM can equate their cigar products with world-famous cigars. There are two ways that PT TM can do to reposition their products successfully. First by raising prices accompanied by increasing added value, especially in quality and product packaging. Repositioning in this way is very appropriate for PT TM because in addition to increasing the company's profits, this strategy is also commonly used to deliver their products in the minds of consumers as high-quality and exclusive commodities. Second, make a *brand* new product with premium and exclusive prices. Repositioning in this way is also effective for PT TM if the image on the old product brand that is currently underestimated is difficult to lift or improve.

d. Grand Strategy

1. PT TM must immediately transform *mass-production strategy* into a *market-driven strategy* to strengthen the sensitivity of the company in responding to changes or developments in the cigar market, both in the domestic market and in the international market.

2. PT TM must immediately realize the change of company status from PT Tertutup to PT Tbk (PT). In this way, companies can implement LBO to further strengthen the company's financial position, as is done by the four major players in the tobacco industry in Indonesia.
3. PT TM needs to study and examine the possibility of market expansion in countries that have not become the company's captive market, especially in international markets. American states such as Connecticut and Massachusetts (New England), New York and Pennsylvania (Midwest of America), Illinois, Ohio, and Michigan (Great Lakes), Florida and Georgia, (Southeast), Texas and Arizona (Southwest), California and Washington (Far West), are high-income states in the United States, and untapped TM "target" market targets. ©

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