

Business Strategy Development to Optimize Revenue of Medical Devices Company PT XYZ : Adapting Changes of Local Component Level Requirement

Yan Irwan Antoni Saragih^{1*}, Leonnard Ong²

¹²IPMI Institute, Indonesia, 12750

Author E-mail: yan.saragih@ipmi.ac.id

ABSTRACT

The government of Indonesia is implementing a transition in the sustainability of the health system that includes, among other things, the development of medical devices made in the country to reduce its reliance to imported medical devices. Through The Regulation of The President of Republic of Indonesia Number 12 of 2021, the ministries/institutions/regional apparatuses are obligated to use domestic products, including national design and engineering. The obligation to use domestic products is performed if there are domestic products that have the sum of National Contribution Value (Tingkat Komponen Dalam Negeri, TKDN) plus the Corporate Contribution Value (Bobot Manfaat Perusahaan, BMP) of a minimum of 40% (forty percent). The change of new regulation impacted PT XYZ, a company supplying medical devices mostly to government institution experienced turbulence, sales performance 2022 drop more than 50% compared with 2021. New business strategy is needed to adapt, develop distinctive value to set apart from rivals and at the end optimize the revenue. The study uses of a thorough research technique performed in June – October 2024 that comprises business model canvas, stakeholder analysis, TOWS matrix, Porter's Five Forces Analysis, VRIO Analysis.

Keywords: *Business Strategy, Tkdn, Medical Devices, E-Catalogue, Competitive Advantage.*



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INTRODUCTION

Healthcare is a priority on Indonesia's national agenda, the central and regional governments continue to build and upgrade healthcare facilities including hospitals. Figure 1 show the growth of hospital in Indonesia in the range of 2018 – 2022.

Indonesian government believes that developing medical devices is essential to support health resilience in Indonesia. Its implementation focuses on developing medical device research, manufacturing, and markets, which are fully supported by regulations. Presidential Regulation Number 16 of 2018 concerning Procurement of

Goods/Services Government in conjunction with Presidential Regulation Number 12 of 2021 concerning Amendments to Presidential Regulation Number 16 of 2018 emphasizes in the provisions of Article 66 that:

1. Ministries/Institutions/Regional Apparatus are required to use domestic products, including national design and engineering.
2. The obligation to use domestic products as referred to in paragraph (1) is carried out if there are domestic products that have a sum of the Domestic Component Level (TKDN) value plus the Company Benefit Weight (BMP) value of at least 40% (forty percent).

In July 2022, Indonesia's Ministry of Industry issued Regulation 31/2022 regarding Provisions and Procedures for Calculation of Local Content Requirement (TKDN) for Medical Devices and In Vitro Diagnostic Medical Devices. The computation of local content is split into two parts: development aspects, which include labor and factory overheads, make up the remaining 20% of the total, and manufacturing aspects, which include raw materials, production, and packaging, make up the remaining 80%. The rule also contains comprehensive mechanisms for the implementation of supervision, verification, and each element.

Hospital in Indonesia

According to Profile Kesehatan Indonesia 2022, curative and rehabilitative actions are required in addition to promotive and preventative ones in order to enhance the community's health status. Hospitals serve as providers of referral health services in addition to curative and rehabilitative healthcare. Based on Government Regulation of the Republic of Indonesia Number 47 of 2021 concerning the Implementation of the Hospital Sector, a hospital is a health service institution that provides comprehensive individual health services that provide inpatient, outpatient, and emergency services.

Figure 1 showing the number of hospitals in Indonesia during 2018-2022 increased by 9.2%. In 2018, the number of hospitals was 2,813, increasing to 3,072 in 2022. The number of hospitals in Indonesia until 2022 consists of 2,561 general hospital (RSU) and 511 special hospital (RSK).

Hospitals registered with the Ministry of Health are organized by various agencies or institutions, including the central government, regional governments, military/police (TNI/POLRI), state owned enterprise (BUMN), and the private sector.

Hospitals are grouped based on service capabilities, health facilities, supporting facilities, and human resources into Class A, Class B, Class C, and Class D.

The implementation of the new regulation regarding local component requirement gives an impact on imported number of medical devices and the business performance of company dealing in that segment. PT XYZ experienced turbulence where the sales decline by more than 50%. In order to keep the business profitable, the management need to take action and bring back the business on tract in terms of the sales performance which include option of business model, alternative strategy for full imported devices, how to minimize claim and lost from technical claim due to lack of experience and in the end convert the challenge become opportunity.

Research Objectives

In dealing with this mentioned problem, the objectives of this research are to formulate the sustainable competitive advantage strategy in order to get higher revenue and finally have better financial performance of the firm.

Research Method

This study adopts a qualitative method. Qualitative approach is performed by conducting in-depth interview method with the management. The data

that will be used in this study is primary data and secondary data. Primary data is data obtained directly through the interview process or in-depth interview with respondents that have been determined, while secondary data is data obtained from literature studies as well as literature from various relevant sources. Data collection was conducted in the office of PT XYZ in the period of June-October 2024.

LITERATURE REVIEW

Resource View-based Theory

The resources and competencies that a firm possesses to turn those resources into financial gains define its success. There are two categories of resources: tangible and intangible. For instance, machines, buildings, land, and medical equipment are examples of tangible resources (Barney, 1991). In the meantime, intangible assets like knowledge, perspective, culture, and so forth (Ferreira, Azevedo, & Ortiz, 2010). According to the Resource Based View Theory, a business can gain a competitive edge by depending on its resources, which enables it to steer itself toward continual sustainability (Barney, 1986). Understanding the relationship between resources, capabilities, competitive advantage, and profitability is the primary goal of resource-based theory.

According to RBV, a company's capacity to take advantage of its special assets and skills determines its competitive edge. According to this viewpoint, a firm's competitive advantage will be more durable the harder it is for rivals to replicate its resources and competencies. According to Barney (1991), a resource needs to satisfy four requirements in order to provide a source of sustained competitive advantage: it needs to be rare, valuable, hard to replicate, and non-replaceable. RBV highlights the significance of resource heterogeneity and resource immobility in addition to these criteria. While immobility refers to the challenge of transferring resources and capabilities between organizations,

heterogeneity refers to the variations in resources and capabilities among firms. According to Barney (1991), firms with valuable, rare, and difficult-to-imitate resources will have a sustained competitive advantage if these resources are both heterogeneous and immobile.

Strategic Business Management

Strategic management is the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives. As this definition implies, strategic management focuses on integrating management, marketing, finance and accounting, production and operations, research and development (R&D), and information systems to achieve organizational success.

Porter (1996) asserts that identifying and managing an organization's competitive edge is one of the most crucial facets of strategic business management. Porter contends that businesses must provide distinctive value for clients in order to set themselves apart from rivals and have long-term success in the industry. The function of leadership in promoting strategic transformation is another key element in strategic company management. According to Kotter (1995), putting strategic objectives into action requires strong leadership. Leaders need to be able to inspire and encourage staff members, overcome resistance to change, and communicate a clear vision.

Business Model Canvas

A business model explains the logic behind how a company generates, provides, and acquires value (Osterwalder & Pigneur, 2010). The Business Model Canvas (BMC) is a strategic management tool that helps businesses to visualize, analyze, and design their business model. It was written by Alexander Osterwalder and Yves Pigneur in their book "Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers" published in 2010.

The BMC consists of nine building blocks, which represent the key elements of a business model. The first block is Customer Segments which identifies customer segments that the firm served, the second block is Value Propositions which seeks to solve customer problems and satisfy customer needs with value propositions, the third block is Channels which define how value propositions are delivered to customers through communication, distribution, and sales. The fourth block is Customer Relationships which describe how relationships are established and maintained with each customer segment, the fifth block is Revenue Streams which shows the different ways the business generates revenue, the sixth block is Key Resources which describe the assets required to offer and deliver its value proposition, the seventh block is Key Activities, which are the activities that the business needs to perform to create, deliver, and maintain its value proposition. The eighth block is Key Partnerships which define key partner to the business to create and deliver the value proposition, the ninth and the final block is Cost Structure that outlines the costs associated with creating and delivering the value propositions.

TOWS Analysis

TOWS analysis, an extension of SWOT, involves synthesizing the findings of a SWOT analysis to develop actionable strategies. The entrepreneurial personality analysis and the surroundings are studied using the TOWS analysis method of strategic analysis. SWOT analysis and TOWS are closely related concepts. Threats, opportunities (in the environment), weaknesses, and strengths (of the organization) should be examined in this order as a problem-solving sequence in the process of formulating a strategy, according to H. Wehrich (1982). TOWS stands for Threats, Opportunities, Weaknesses, and Strengths. In this tool, there are four set of variables:

1. The WT strategy (mini-mini), aimed to minimize both weakness and threats.
2. The WO strategy (mini-maxi), attempts to

minimize the weakness and to maximize tile opportunities.

3. The ST strategy (maxi-mini), aim to maximize the strength and minimize threats.
4. The SO strategy (maxi-maxi), aim to maximize both strength and opportunities.

TOWS analysis encourages a proactive approach to strategy formulation by aligning internal capabilities with external dynamics. It facilitates a deeper understanding of how strengths can be harnessed to exploit opportunities, and how weaknesses can be addressed to mitigate threats.

Five Porter's Forces Analysis

Porter presented the idea of strategy in a clear and concise manner at the beginning of 1990. The so-called "five forces model," which offers recommendations under each major area, allows us to create a thorough and in-depth analysis of the competitive situation. This analysis may then be applied to the creation of plans, strategies, or investment decisions for a company or organization.

The Five Forces model by Porter offers advantages for gaining a competitive edge. An organization can improve performance management between buyers and suppliers by implementing Porter's Five Forces model (Gamayanto, 2004). Porter's Five Forces model analysis makes it simple to identify business continuity issues and suggests tactics that can be used to improve business continuity. Dwianika & Fiorenita, 2021).

These five forces are shown in the figure below:

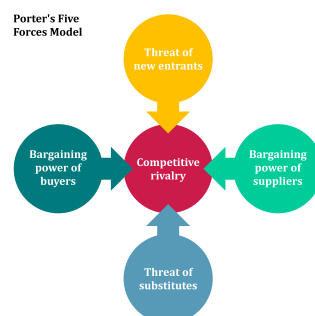


Figure 1. Porter's Five Forces Model

1. **Threat of New Entrants**
Low entry barriers make it simple for new competitors to take market share and jeopardize profitability. According to Porter, there are 7 main sources that influence the height of entry barriers: supply-side economies of scale, network effect, switching costs, capital requirement, unfair advantage, unequal access to distribution channels, government policy.
2. **Bargaining Power of Suppliers**
Suppliers provide the inputs (components, materials, and services) that a company needs to function. There's a good probability that suppliers might raise the price of those inputs or lower the quality without taking any negative action when their negotiation strength is strong. If a company has several options for suppliers, their negotiating position will probably be weak, making it easy to move to a new provider if necessary.
3. **Bargaining Power of Buyers**
Robust buyer power has the ability to drive down prices, incite rivalry among competitors, and insist on better quality or service—all at the expense of industry profitability. When there is a small number of customers and a wide selection of sellers, the customers have more influence.
4. **Threat of Substitute Products or Services**
The hazard of substitutes is significant if there are numerous alternatives that can carry out a comparable task as your good or service. The risk of substitution arises when there are few alternatives that can perform the same function as your good or service.
5. **Competitive Rivalry**
When there are many options for customers, no service or product differentiation exists between competitors, and industry

development is slowing down, the level of competition is at its peak. When competitors don't really stand out from one another, good or service will be seen as a commodity, and the customer will only consider pricing when making a purchase.

VRIO Analysis

Another analysis that this research aims to reveal the strategic design used as business practices at PT XYZ through VRIO analysis (Barney, 1991). It is an internal analysis tool, to classify their internal resources of an organization according to whether or not they possess particular characteristics listed in the framework. Organizations can then use this categorization to pinpoint the internal resources that provide them a competitive edge. According to (Yudiono et al, 2019) VRIO Analysis is a tool to measure competitiveness based on resources (Resource Based View), there are four elements in this VRIO analysis namely: Valuable resources, Rare resources, Inimitable resources, Organized resources to capture value. A resource that is valuable, rare, hard to imitate, and organized to capture value is a long-term competitive advantage. Table below is used in categorizing the resource of a firm.

Performance

A company's ability to perform well in business is essential to its survival in the global economy (Hartini, 2013). According to Zuliyanti et al. (2017), business performance instructs business actors on how to operate their companies more effectively by implementing a structured management system. The success attained in operating a business is known as business performance. Innovation is one of several aspects that affect an organization's business performance. High levels of competition and quick technical breakthroughs drive constant innovation, which eventually boosts an organization's financial performance.

Table 2. VRIO analysis framework

Is it valuable?	Is it rare?	Is it hard to imitate?	Is the organization organized to?	
Yes	No			Competitive Parity
Yes	Yes	No		Temporary competitive advantage
Yes	Yes	Yes	No	Unused competitive advantage
Yes	Yes	Yes	Yes	Long term competitive advantage

Theoretical Conceptual Framework

This research paper uses a framework in order to structure the thoughts and navigate the different aspect of the strategy. Gathering facts, information and business’ challenges are important to define suitable strategy for PT XYZ. Started from analyzing the current business model that describes the rationale of how an organization creates, delivers, and captures value of the firm to see the whole picture of current structure according to Alexander Osterwalder & Yves Pigneur (2010). Followed by Porter’s Five Forces tools to analyze the competitive environment of the business. To complete the internal analysis, finally followed by VRIO which is focus to internal resources and capabilities. Evaluation of internal and external environment and continued by Internal and external factor evaluation, then followed by TOWS matrix are used. Alternative strategy derived from matching external opportunity and threat with strength and weakness of the firm. Strategy prioritization is the next step and finally come to conclusion and recommendation.

RESEARCH METHODOLOGY

The research method is using qualitative approach. Primary and secondary data are used in this study. Primary data was gathered by

conducting interviews with five purposive sample participants, including the CEO, Product Manager, Client, Commissioner, and Subject Matter Expert. Literature reviews from books, journals, the internet, professional comments, and company brochures were examples of secondary data sources. The conclusions from this study can guide future business owner to build strategy which related to the local component level requirement.

DATA ANALYSIS TECHNIQUE

The data collected in this research is analysed with appropriate tools such as: Business Model Canvas, Porter’s Five Forces analysis, VRIO analysis and TOWS matrix. Started from input stage which used to summarize the basic input information needed to formulate strategies. In this stage, the current business model of the firm is analyzed using the business model canvas. The next stage is Porter’s Five Forces analysis intended to analysis the business competitiveness of the firm. Internal factor analysis to evaluate the strengths and weaknesses of the firm, evaluate internal environmental factors as well as measuring its strength and weakness by giving the weight and rates to the internal factors. External factor evaluation is intended to formulate strategies used and measure the external

environmental factors continued by measure the opportunities and threats faced by the firm. The total of IFE and EFE matrix scores were used to determine the firm's position and applicable strategies (Kinnear, et al., 2000). The IE (Internal-External) matrix is done by the mapping IFE and EFE matrix scores and analyzing the company's conditions in the SWOT (Strengths, Weaknesses, Opportunities, Threats) diagrams consisting of several quadrants (David, 2010). VRIO analysis to evaluate the resources and capabilities of the firm. Formulating strategies to achieve competitive advantage and to minimize critical factors. TOWS matrix is the tools used in this stage.

DISCUSSION

From the interview with customer, it is known that the medical devices segment is highly regulated business specially for the hospital organized by government. Compliance to applicable regulation is mandatory and become

the first point to check prior to procure any devices. A firm according to regulation from Ministry of Industry 31/2022 have to calculate the local component level and verified and then certified by appointed accessor.

From the interview with internal team of PT XYZ, the current business model is known and shown in the table 3 below. The Business Model Canvas (Osterwalder & Pigneur, 2010) explains how PT XYZ generates, provides, and acquires value. The data is gathered through in-depth interviews and focus groups discussion with five (five) subject matter experts, including the company's management, product manager, purchasing, CEO, association, and customer.

CONCLUSION

Medical devices segment is highly regulated business, local component level is one of mandatory requirement based on regulation, hence compliance to this point is like gate keeper

Table 3. Business Model Canvas of PT XYZ

PT XYZ Business Model Canvas				
Key Partners	Key Activities	Value Propositions	Customer Relationships	Customer Segments
<ul style="list-style-type: none"> • Local manufacturer (sister company) • Insurance • Main supplier, principle • Logistic/trucking/forwarder • Assessor agent (Succofindo) 	<ul style="list-style-type: none"> • Selling new medical devices • After sales service and maintenance • Customer service and support • Product development <hr/> <p>Key Resources</p> <ul style="list-style-type: none"> • Marketing and sales team • 9 branch office • Product manager • Well-known brand • Strong financial support • Sister company resources • Distribution networks 	<ul style="list-style-type: none"> • Local component level (TKDN) > 40% • Well known brand • Customization • Cost reduction • User friendly (interface bhs indonesia) • Design • After sales and service exist across Indonesia • Insight of internal manager 	<ul style="list-style-type: none"> • Dedicated personal assistance • Self-service through e-catalogue • Communities <hr/> <p>Channels</p> <ul style="list-style-type: none"> • Direct sales forces • Web sales • E-catalogue • Exhibition 	<ul style="list-style-type: none"> • Government hospital • Class A,B,C,D • Private hospital • Oxygen supplier • Hotel • Laundry provider
Cost Structure		Revenue Streams		
<ul style="list-style-type: none"> • Fixed cost (salary, rent, utilities) • Variable cost <ul style="list-style-type: none"> ◦ Freight ◦ Insurance ◦ Handling and warehouse ◦ Marketing, promotion ◦ Certification ◦ Installation ◦ Service & maintenance ◦ Incentives 		<ul style="list-style-type: none"> • Capital sales (medical devices) • After sales (spare parts) • Maintenance 		

to do business with government institution which in this case is hospital. PT XYZ encourage to appoint a role who responsible in legal compliance and closely work with the association to get the update of regulation changes include the vision of the government in local component regulation.

It is recommended to do market and competition analysis, including competitor activities and their core selling point, consumer preferences, current trends, and changes in regulatory requirements.

The competition in the industry is categorized high, PT XYZ has to develop its unique selling point of its products and service. Develop local supplier and standardization of local components will make the operation more efficient and increase its bargaining power to the supplier. Focus to district area (kabupaten) where product substitutes are not exist. Due to decentralization policy from government, appointing local agent to support the branch office is recommended.

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