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SUPPLY CHAIN MANAGEMENT OF PT HM SAMPOERNA INDONESIA

Cheng-Wen Lee[1], Taufiqquddin Ande[2]
[1]*Department of International Business, Chung Yuan Christian University, Zhong Li, Taoyuan City, Taiwan*
[2]*Ph.D. Program in Business, College of Business, Chung Yuan Christian University, Zhong Li, Taoyuan City, Taiwan*
[1] *chengwen@cycu.edu.tw* [2] *taufiquddin_ande@yahoo.co.id*

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ABSTRACT

Background: The mission of PT HM Sampoerna is to give adult smokers in Indonesia the best smoking experience possible. One of the reasons for the company's success is the work of supply chain management within PT HM Sampoerna.
Aim: The goals of this study are to see what factors influence supply chain management techniques in the cigarette sector in Indonesia, with a focus on PT HM Sampoerna Indonesia, to create supply chain management practices in PT HM Sampoerna, to evaluate the efficacy of PT HM Sampoerna's supply chain management, and to identify factors impacting supply chain management in PT HM Sampoerna.
Method: This research employs case study research, direct interviews with corporate employees, and secondary approaches such as industry and company websites.
Findings: The management of the supply chain is generally highly successful. Because they only employ one distributor, PT HM Sampoerna's supply chain management is distinctive. PT Sampoerna gained various benefits that influence the performance of the organization after unifying its supply chain management.

KEYWORDS *supply chain management, PT HM Sampoerna, logistics*

INTRODUCTION

Supply chain management is a strategic approach to manage multinational enterprise corporate relationships to deliver products or services to end customers (Brewer & Speh, 2000). As a result, supply chain management concept application is a critical aspect in improving corporate performance (Wu et al., 2009). It is a competitive strategy for bridging the gap between the company and its suppliers and distributors in an inter-organizational system (Felea & Albăstroiu, 2013).

Supply chain management is an international and interfirm process that is dependent on the effectiveness of all management functions coordination and performance measurement standards (Chopra & Meindl, 2007). The supply chain's performance can be measured by supply sides, demand sizes, production, logistics, and finance (Mena et al., 2013; Trkman & Groznik, 2006). Saleh et al. (2017) conducted a case study on supply chain dynamics and discovered that supply chain dynamics were related to power balance, structure, interdependence, and relationship stability. This proves that supply chain management is esssential for a company. Even the big companies need it, including cigarette companies and one of them is PT HM Sampoerna.

PT HM Sampoerna is the biggest cigarette producer in Indonesia, producing brands such as Kretek Sampoerna, A Mild Sampoerna, and Dji Sam Soe. PT Philip Morris Indonesia has a

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subsidiary named Sampoerna. PT Philip Morris bought 97 percent of PT HM Sampoerna's shares in 2005 (Detik Finance, 2005). It is because PT Philip Morris is the world's top cigarette maker, it is one of PT HM Sampoerna's initiatives to strengthen its position. PT HM Sampoerna's objective is to provide adult smokers in Indonesia with the greatest smoking experience possible. The work of supply chain management inside PT HM Sampoerna is one of the causes in the company's success (PT HM Sampoerna, 2021).

Studies regarding supply chain management have been conducted by numerous researchers. Syahir et al. (2022) studied how supply chain management affect supply chain performance in a contruction company, while Suryana et al. (2018) designed an electronic system of supply chain management for a garment factory to support and improve the flow of information there. Another one conducted by Hutagalung and Aisyah (2022), in which they discovered that the application of supply chain management might help the company in the process of purchasing raw material, meeting customers' demands, and product distribution. This proves that the implementation of supply chain management has a significant role in optimizing companies' potentials, including in PT HM Sampoerna.

The operational management of PT HM Sampoerna has numerous challenges. One of the most complex aspects of supply chain management is logistic supply, which deals with the day-to-day operations of supplying raw materials, collecting raw materials, distributing raw materials, and producing data. As a result, the goal of this study is to assess the factors that influence supply chain management techniques in the Indonesian cigarette sector. The study's goals are to create supply chain management practices in PT HM Sampoerna, assess supply chain management efficacy in PT HM Sampoerna, and identify factors impacting supply chain management in PT HM Sampoerna.

The cigarette company of HM Sampoerna is chosen because it is the uniqueness of material flows, in which the material flow is direct without any small suppliers and the distribution strategies apply to one distributor. There was a change of supply chain management from many distributors of tobacco as raw materials to one distributor. To fulfil the supply of raw materials and supply of goods, the company must apply an effective supply chain. Production and product delivery to customers is affected by the practices of supply chain management.

There have been many academic studies and research related to the management of the supply chain but none of the research discusses the factors that affect supply chain management in the cigarettes industry in Indonesia. This research intends to address the knowledge gap.

Research objectives of this study are to evaluate supply chain management practices at PT HM Sampoerna, to evaluate PT HM Sampoerna supply chain management effectiveness, to find out factors that affect strategies of supply chain implementation in PT HM Sampoerna, and to examine measures taken to upgrade supply chain management of PT HM Sampoerna.

This study is beneficial as a guideline for all stakeholders and the cigarette industry to understand supply chain management practice in the cigarette industry by focusing on PT HM Sampoerna. This study also will present factors affecting the implementation of supply chain strategies in PT HM Sampoerna, present measures to take in improving supply chain management in the industry and a reference for academic research to conduct future research

METHOD

This study uses two types of methods. The primary method was interview, specifically direct interviews with employees of a company to obtain real-time information and the second method uses the industry website and company website to confirm the information by analyzing the data there. Literature review on studies related to Supply chain management and Cigarette companies' industry aims to identify the current research state in the area. The study uses keywords search such as supply chain, logistic management, cigarette companies, etc. in electronic databases of Elsevier, Emerald, Springer, Willey, and Google Scholar. The literature research was conducted for papers published in 2017. The researchers also interviewed 5 managers who are closely related to logistic and supply chain management activities.

RESULTS AND DISCUSSION

Sampoerna Indonesia

Products and services of Sampoerna are:

1) Sampoerna A
2) Dji Sam Soe
3) Sampoerna's Clove. Handmade clove cigarette produced in Denpasar in 1968
4) U Mild which was released on 2005
5) Sampoerna Evolution was released on 2008
6) Marlboro by Philip Morris International and distribute in Indonesia. It consists of 5 variants: Marlboro Red, Marlboro Lights, Marlboro lights Menthol, and Marlboro Ice

The Existence of Philip Morris

Philip Morris did acquisition to PT HM Sampoerna in 2005. Philip Morris developed connections to sales offices and warehouses in 30 branches that were not connected. By implementing Enterprise Resource Planning (ERP), the company responds quickly to the need of the company because the data are provided very efficiently by the system.

The Implementation of Management Information System in PT HM Sampoerna

One approach that is familiar and commonly used in information technology is Enterprise Resource Planning (ERP). This system supports daily transactions and operational systems consisting of resources of materials and capacities, finance, human resources, product distribution, and its supply chain, payments, and after-sale (Shannak, 2015).

The benefit of the implementation of MIS in PT HM Sampoerna:

1) Supply chain management (Supplier, warehouse, distribution, etc.) is more effective and efficient;
2) The better monitoring process of key performance indicator;
3) Support customer service;
4) Support industry vertical; and
5) Support decision-making process.

Strategy Implementation and Business Strategies

Successful strategy implementation needs support, a commitment of high discipline, and a willingness to do more from the team and managers (Holbeche, 2018). It depends on collaboration and cooperation from functional and divisional managers in an organization. An organization needs to do effective strategy evaluation because it allows an organization to maximize resources from its internal strength, seek opportunities outside, identify the threats and be able to defend from threats, respond to reduce weakness in internal organization, and also understand and be aware of the strategies of business such as geographic, diversification, acquisition, development of the product, penetration of the market, retrenchment, company liquidation, joint ventures action, etc.

Business Model Framework of PT HM Sampoerna

Key Resources

1) Man;
2) Money consists of profit, shareholder and investment;
3) Materials consist of Tobacco leaf and clove;
4) Machine; and
5) Information.

Key partnership

1) PT Asia Tembakau;
2) PT Harapan Maju Sentosa;
3) PT Persada Makmur Indonesia;
4) PT Union Sampoerna's Dinamika;
5) PT Agasam;
6) PT Golf Taman Dayu;
7) PT Handal Logistic Nusantara;
8) PT Perusahaan Dagang dan Industri Pangan;
9) PT Sampoerna's Print Pack;
10) PT Taman Dayu; and
11) PT Wahana Sampoerna.

All the key partnerships have cooperated with PT Panamas as a sole distributor company of PT HM Sampoerna.

Distribution Channel and Product Flow of PT HM Sampoerna

The distribution strategy of PT HM Sampoerna is a sole distributor that only uses one single distributor namely PT Panamas. In the level of distribution flow, PT HM Sampoerna uses three levels of distribution in where PT Panamas distributes the products to agents and retail all over Indonesia. PT Panamas are a marketing unit that does markets products of PT HM Sampoerna.

Material flows from farmers directly to PT HM Sampoerna without the use of any distributor. Thousands of farmers are managed by PT HM Sampoerna using IT which is based on bar code. Bar code consists of information about farmers such as the name of farmers, the

farming areas, variety of tobaccos, etc. This information system only has one arrow information because the owner of the farming is the company of PT HM Sampoerna.

All results of farming are collected by the company and the farmers do not get any information from the company such as the number of orders and so on.

Product Flow of PT HM Sampoerna

The distribution strategy used by PT HM Sampoerna's in distributing the cigarette is sole distributor called PT Panamas and in the level of distribution flow PT HM Sampoerna use three levels:

1) PT Panamas;
2) Agent; and
3) Retailer.

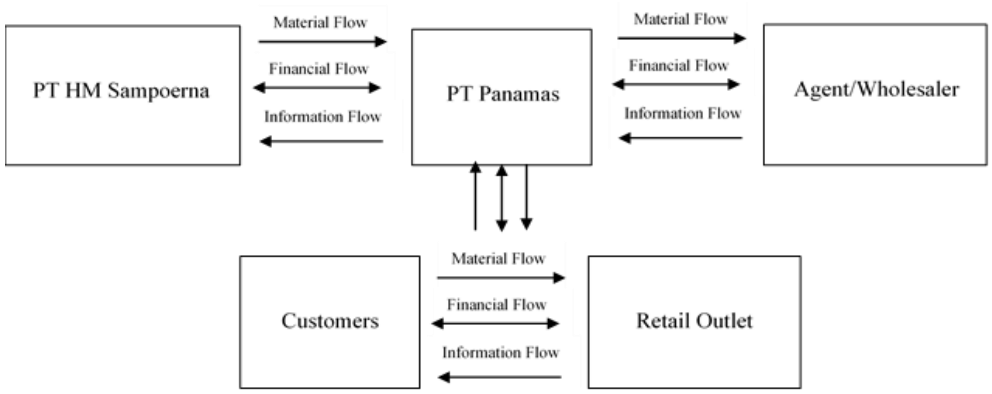


Figure 1. The Function of PT HM Sampoerna Agent and Retailers in Distributing to All Indonesian Markets

PT Panamas is the unit business of PT HM Sampoerna. PT Panamas manage some divisions. One of its divisions is to distribute cigarettes to direct selling and outlet, therefore they need one application that prepares speed and easy access to data administration deals with cigarette distribution. PT Panamas received information from PT HM Sampoerna about how many cigarettes products that distributed by PT Panamas as sole distributors and when is the payment of the products. All the information is managed by PT Panamas by using an application of technology to know the distribution. It also provides information about the potential market and the effort of agents and suppliers in marketing the cigarettes.

Marketing products of PT HM Sampoerna is divided into 5 regions (PT HM Sampoerna, 2020):

1) Jawa I Region is based in Bandung, consists of 7 branches in Bandung, Sukabumi, Tasikmalaya, Cirebon, Purwokerto, Semarang, Yogyakarta;
2) Jawa II Region I based in Surabaya, consists of 8 branches in Surabaya, Madiun, Pamekasan, Malang, Jember, Denpasar, Banjarmasin and Samarinda;
3) Sumatera Medan region is based in Medan, consists of 6 branches in Banda Aceh, Loukseumawe, Medan, Padang Sidempun, Padang and Pekan Baru;
4) Jakarta Region is the Head office consists of 10 branches in Jakarta I, Jakarta II, Jakarta III, Jakarta IV, Serang, Jambi, Palembang, Bengkulu, Lampung, and Pontianak; and

5) Eastern Indonesia is based in Makassar consists of 3 branches in Makassar, Manado, Ambon.

PT Panamas distribute information to agents and suppliers about delivery and payments. PT HM Sampoerna market distribution employee 4000 people with 700 vans and 2000 motorcycles operated in all Indonesian areas through 34 branches and 84 sub-branches (PT HM Sampoerna, 2021).

Supply Chain Management in PT HM Sampoerna

Supply Chain Partnership

The suppliers' relationship needs to be implemented in the long-run relationship both supply-side and demand side (Sturm et al., 2021). Good cooperation between the company and suppliers' performance will improve productivity, quality, and flexibility (Palandeng et al., 2018). Company operations performance is improved by long-term cooperation relationship (Prajogo & Olhager, 2012).

Supply Chain Capabilities

To provide the best value to the customers, companies need to have full capabilities to achieve excellent performance. The characteristics of this supply chain are gain speed, low cost, have differentiation, and can provide the best value to customers (Tracey et al., 2005).

Supply Chain Performance

Supply chain performance could be achieved with good performance planning, high-performance production, delivery performance, customers service performance, and good financial performance (Gunasekaran et al., 2001).

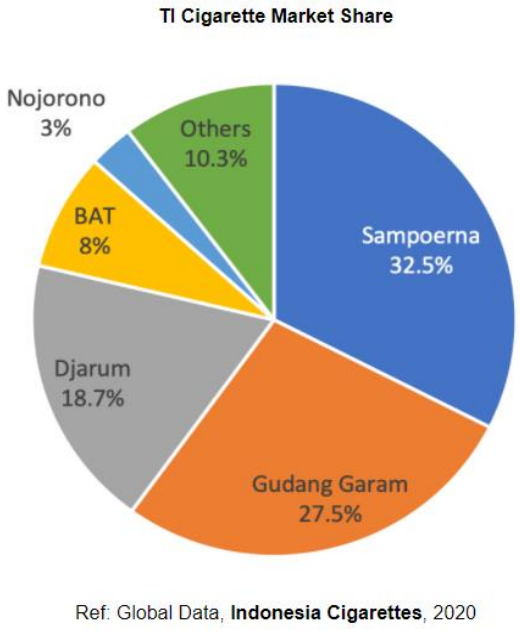


Figure 2. Direct Competitor of PT HM Sampoerna: PT Gudang Garam Tbk

PT Gudang Garam implements ERP applications from Oracle to integrate their system. Supply chain, logistics, and management control. Thousands of tobacco farmers are managed using a bar code basis to create effectiveness in the supply chain of raw materials.

In 2020, sales of PT Gudang Garam had a critical crisis to its competitor where the sales were only IDR 86.10 trillion compared to HM Sampoerna's which was 179.71 trillion Indonesian rupiahs. This situation happened because of the moderate system of management in PT Gudang Garam (T. Saleh, 2020).

Saham	Rp	1D	1W	1M	3M	6M
GGRM	44.750	+4,37	+9,90	+3,89	-12,25	+0,51
HMSP	1.545	+4,04	+7,67	+3	-10,17	-0,69

Source: BEI

Table 1. Head-to-Head Stocks of Gudang Garam Vs HM Sampoerna's

There was a difference between HM Sampoerna and PT Gudang Garam in supply chain was PT HM Sampoerna used sole distributor while PT Gudang Garam Tbk used three distributor companies namely PT Surya Kerta Bhakti, PT Surya Bhakti Utama and PT Surya Jaya Bhakti. PT Gudang Garam has problems managing distribution since every distributor has their procedures so that it was not efficient. Looking into competitor HM Sampoerna, Gudang Garam changed its model of management in 2012, the three distributors were merged into one namely PT Surya Madistrindo. The management did revitalization. To succeed with its revitalization, the management used organizational change including employee recruitment from its competitor.

The differences between HM Sampoerna and Gudang Garam in logistics are in PT HM Sampoerna's raw materials are cosmetic while Gudang Garam invested in logistic infrastructure to enhance the inventory control system in the ware-house. In operation, PT HM Sampoerna supports the business entirely by providing high-quality products to the adult smokers in Indonesia and delivering quality and innovation while Gudang Garam serves both the fast-growing light and mild segment and full flavour segment provide both quality and choices by names of Gudang Garam only.

Interviews Results

The interview is used to evaluate the practices of supply chain management used by PT HM Sampoerna, seek supply chain management effectiveness of PT HM Sampoerna, find out factors affecting supply chain strategies implementation, and measures that were taken to up-grade PT HM Sampoerna supply chain management.

The interviewer asked some questions to answer the research questions:

Table 2. The Results of the Interview

Questions	Answers
1) What is your opinion about the implementations of supply chain management in PT HM Sampoerna? 2) What is your judgment about the supply chain management effectiveness of PT HM Sampoerna? 3) What is your thought of decision-making performed by PT HM Sampoerna in their supply chain management practices? 4) What are the Challenges factors in supply chain strategies implementation faced by PT HM Sampoerna? 5) What actions that taken to reduce or eliminate some challenges in supply chain management strategies implementation? 6) What actions that taken to develop some practices of supply chain management of PT HM Sampoerna? 7) What is your opinion or recommendation for PT HM Sampoerna to implement supply-chain management strategies effectively?	1) Supply chain management used by PT HM Sampoerna is unique because HM Sampoerna uses only one distributor; 2) Supply chain management used by PT HM Sampoerna's needs to be more aggressive because the inventory policy is still very simple; 3) The supply chain management in PT HM Sampoerna is very effective; 4) PT HM Sampoerna applies moderate standards in decision-making in the practices of supply chain management; 5) PT HM Sampoerna needs to make decision-making faster and more communicative ways between department and supply chain internally in their supply chain management; 6) The factors challenging the implementation of supply chain strategies faced by PT HM Sampoerna is the limited technical skill of the employee; 7) Other factors challenging the implementation of supply chain strategies faced by PT HM Sampoerna start from the data collection and report daily about distribution data and production data. Even though it uses comprehend data management but still lack efficiency because mostly the data is still collected at the end of time deadline of the report; 8) PT HM Sampoerna reduced the challenges in supply chain management implementation in its strategies of supply chain management by building-the warehouse production close to the farming place and time deduction in materials movement from storage to production; 9) Measures to be taken to improve supply chain management of PT HM Sampoerna is management had an attempt to reduce

	Supply Chain Structure Complexity by making the simple structure of the department in the organization and reducing time in storage activity; and 10) To implement effective supply chains management strategy, Sampoerna's has to make the same perception of the people specified in the middle and up the level to reduce spending decisions related to materials supply. Since Sampoerna's has a single distributor chain. Sampoerna's has to implement better strategies to fulfil the needs of materials by designing an internal team that uses one single information system which links all operations so there will be no more information undelivered clear to all operation.

Source: Researchers' Interview

CONCLUSION

In general, the supply chain management is very effective. Supply chain management used by PT HM Sampoerna is unique because they use only one distributor. After PT Sampoerna changed its management in the supply chain into one distributor, some advantages that affect the performance of the company. The existence of ERP implementation in the factories in the operational, blended machine, sales, and production became one of the key successes in supply chain management.

The existence of Philip Morris into PT HM Sampoerna in 2005 brought some changes in information technology by the development of network infrastructure. Philip Morris developed connections to sales offices and warehouses in 30 branches that were not connected. By implementing ERP, the company is able to respond quickly to the need of the company because the data are provided very effectively and efficiently by the system.

Factors affecting the implementation of supply chain strategies in PT HM Sampoerna are the limitation of technical skill of the employee, data collection, and report in daily distribution data and production data. Even though it uses comprehend data management but still lack of efficiency because mostly the data is still collected at the end of time deadline of the report. The management had an attempt to reduce Supply Chain Structure Complexity by making the simple structure of the department in the organization and reducing time in storage activity.

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