

ANALYSIS TO MAKE MANAGERIAL DECISION TO PRESERVE OR TO CUT OFF ONE OF CORE BUSINESS (STUDY CASE OF PT POS INDONESIA)

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A. CASE

OPENING PARAGRAPH

Core businesses are those that are central to the main operations of a business organization, where the core earnings of the company are derived from. A core business product or service is strategic in nature and focused on the improvement of customer value. It is also deemed as the “profit center” (Anastasia, 2016). A study argues that company needs to focus on their core business to create sustained growth and profitability (Bain & Company, 2001). Every company has a core business which becomes a main activity from the company. To increase its profitability, company usually has supporting businesses that will help to increase its profitability.

PT Pos Indonesia is a state owned company (Badan Usaha Milik Negara / BUMN) that runs in courier service. It has four segment businesses, they are retail and property, financial services, logistics, and mail and parcel postals. From those businesses, PT Pos Indonesia has core business that is mail and parcel postal. This makes business segment of mail and parcel postal should become center profit of PT Pos Indonesia. As a matter of fact, from the year of 2013 to 2017, the core business segment got loss. According to Posindo financial report, its core businesses do not always give net income. One of core businesses named parceld postal which had loss income for four times during the year of 2013-2017. Seen from business side, a company should cut off business segments which give negative contribution to company. However, in the reality, Posindo doesn't cut off parcel postal business due to some reasons. Therefore, author conducts the case study to recommend various alternatives to make decision whether Posindo should cut off one of core businesses or not.

COMPANY BACKGROUND

PT Pos Indonesia is a company that had been established since Vereenigde Oostindische Compagnie (VOC) was in charge in indonesia, exactly in 1476. It was built to help Netherland to conduct free shipping and trading activities across region. Firstly, the company was not in a term of corporate. Yet, the amendment of Pos Indonesia had been conducted until in 1995, then Pos Indonesia has been appointed as limited corporation up to now.

Recently, PT Pos Indonesia is one of state companies (Badan Usaha Milik Negara / BUMN) which runs in postal service growing until owning financial service, retail and property, and logistic. The core business of PT Pos Indonesia is mail and parcel / parcel. As core businesses, mail and parcel businesses should have been giving positive contribution to PT Pos Indonesia.

Mail postal service is a delivery service of documents, letters, and postcards for all societies by using stamps in accordance with particular region's tariff. This product is derived from special delivery mail, corporate mail, and express post. Based on annual financial report of PT Pos Indonesia, mail postal achieved profit IDR 536,341,325,618. The increase was marked by the revenue increase of 29.04% from the previous year. In 2015, mail postal achieved profit IDR 253,981,888,790. The profit decrease was marked by the revenue decrease of 18.99%. The revenue decrease impacted on a significantly enough decrease in net income of 52.65%. In 2016, mail postal could achieve profit IDR 562,610,259,407. The increase of 121.52% in revenue was marked by the increase revenue of 17.61% compared with the previous year. In the following year, mail postal got loss IDR 386,948,149,536. The revenue decrease affected on a significantly enough decrease in net income of 169%. In the period of five years, mail postal got loss in only one year that ocured in 2017.

The next service is Parcel postal. Parcel postal is a packet delivery service with a very economical tariff (psosindo.com). Goods delivery through Parcel Postal can reach all around Indonesia. Goods including parcel postal characteristics are the weight of parcel delivery should be between 3 kgs to 20 kgs with maximum length dimension of 150 cms, the tariff is based on actual weight calculation, and the parcel postal will be delivered directly to receiver's address. Parcel postal is derived from standard parcel and special delivery service. In the period of five years, parcel postal was fluctuation. In the year of 2013, Posindo

achieved profit of IDR 146,276,250,303. But in 2014, Posindo got loss of IDR 303,757,980,890 but in the other hand, parcel postal increased its revenue 8%. In 2015, parcel postal got loss of IDR 98,969,949,957 which was less than the previous loss. In the following year, Posindo got loss of IDR 174,780,792,659. The loss was higher 77% than the previous year. This can be concluded that parcel postal got loss for four years in the period of five years.

Regarding to comparison between two services above, it can be concluded that parcel postal has in average lower income than postal mail. Seen from business side, a company should cut off products or services which give negative contribution to company. However, in the reality, Posindo doesn't cut off parcel postal business due to some reasons. Therefore, Posindo ought to think various alternatives to continue its business by deciding whether one of its core businesses should be cut off or not. Since Posindo hasn't done any study related to the problem, so author is going to carry out the case study.

SPECIFIC AREA OF INTEREST

The specific interest in this case study is mostly concerned in managerial decision of the company to run. PT Pos Indonesia had issue due to the volatile profitability of its core businesses in the year of 2013-2017. The core businesses of Posindo consist of mail postal and parcel postal. According to its financial report, the core businesses generated negative contribution to company in term of net income. During 5 years, it was occurred once for mail postal to get negative income (loss). It was in the year of 2017. Meanwhile for parcel postal, there were four times loss income to occur. The problem can be seen based on the phenomenon happened, Posindo should immediately take action to its core businesses. It is whether PT Pos Indonesia should preserve both of core businesses or to cut off one of them.

SPECIFIC PROBLEM

Problem appeared in this case study is how to decide the better managerial decision for PT Pos Indonesia in handling its issue in term of preserving both of core business or cutting off one of core businesses. During its work, one of core businesses of Posindo is suffering loss income since it is a state company, Posindo needs to cover all of Indonesia region. As a result, it affects the cost paid by Posindo. The cost becomes larger than its income gained. To reduce the loss income, this case study is conducted to see which alternative is better for future. Posindo hasn't conducted the study of cutting off business line. Therefore, the case study is conducted to give recommendation based on data analysis using relevant cost and benefit analysis.

ALTERNATIVES

In this case study, two alternatives will be analysed. The first alternative is whether PT Pos Indonesia will preserve both of core business. The second one is whether PT Pos Indonesia will cut off the one which gets loss, it is parcel postal. Thus, the second one will present the amount of mail postal only. The alternatives will be firstly identified their own relevant costs and benefits. Relevant costs and benefits, shorten relevant cost, are costs that differ between alternatives (Garrison, 2012). Costs which must be analyzed in relevant costs are avoidable costs. Avoidable cost is cost that can be eliminated by choosing one alternative over another. By choosing the alternative, the cost of another alternative can be avoided (Garrison, 2012). In the other hand, in relevant cost analysis, there will be irrelevant cost which shouldn't be calculated because irrelevant costs is cost that can't be avoided (non-avoidable cost) when an alternative is chosen. Relevant cost consists of two broad categories. They are sunk cost and future cost. Sunk cost is a cost that has already been incurred and cannot be avoided regardless of what a manager decides to do (Garrison, 2012). It is the same as future cost that will not differ among alternatives as well as irrelevant cost which is unnecessary to include in relevant cost analysis. There is sunk cost which is avoidable cost (Wang, 2010). To identify whether a cost can be mentioned as sunk cost or avoidable cost, Xenny Wang classifies it through asking following question.

Q1 : Is this cost now irrevocably committed over the relevant time period?

Yes → It is a sunk cost. (It is now irrelevant whether the firm intended the costs to be fixed or variable at the time they were irrevocably committed.)

No → It is avoidable cost.

After determining whether the cost is included in sunk cost or avoidable cost, the cost must be identified whether it is avoidable fixed cost or variable cost to simply the calculation of total cost. To identify whether the avoidable cost is included as fixed or variable cost, Xenny Wang classifies it through asking following question.

Q2: Does this cost vary with the output level to be produced over that time period?

Yes → It is a variable cost (avoidable).

No → It is an (avoidable) fixed cost.

After identifying avoidable cost, this case study will have two alternatives chosen which one of them will be selected by using differential costs and benefits analysis. Differential costs are conducted through calculating the difference between two alternatives in each scenario. If the calculation is positive, so the alternative is appropriate to choose. However, if the calculation is negative, so the alternative is inappropriate to choose. Then, benefits analysis will be added as additional information if the alternative is chosen. Here is the table of differential costs and benefits analysis

Table 1. . Differential Cost Analysis Table between Two Alternatives

Source: Garrison (2012), p.533, Income Statement of Core Business of PT Pos Indonesia 2017, and Author Analysis

ALTERNATIVES		Preserve Both (Rp)	Cut Off Parcel Postal (Rp)	Differential Cost (Rp)
Revenues		2,635,835,708,64	1,299,366,990,87	1,336,468,717,76
		2	7	5
Cost of Service	Cost of Service	(2,220,828,570,12 8)	(1,116,539,950,65 8)	(1,104,288,619,47 0)
	Salaries	(1,551,162,973,32 5)	(1,012,837,900,56 0)	(538,325,072,765)
	Operational Expenses	(667,124,029,002)	(102,315,820,225)	(564,808,208,778)
	Overhead Expenses	(2,541,567,801)	(1,386,229,873)	(1,155,337,928)
	General Expenses	(2,541,567,801)	(1,386,229,873)	(1,155,337,928)
	Depreciation And Amortization	-	-	-
	Depreciation of Fixed Assets and Amortization	-	-	-
TOTAL COST OF SERVICE		(2,220,828,570,12 8)	(1,116,539,950,65 8)	(1,104,288,619,47 0)
Gross Profit Margin		415,007,138,514	182,827,040,219	232,180,098,295
Operational Cost	Operational Cost	(281,983,499,849)	(148,849,870,657)	(133,133,629,192)
	Marketing Expenses	(36,876,121,863)	(18,676,428,183)	(18,199,693,680)
	General and Administrative Expenses	(245,107,377,986)	(130,173,442,474)	(114,933,935,512)
	Salaries	(88,763,402,917)	(47,780,841,354)	(40,982,561,563)
	Operational Expenses	(24,344,247,193)	(15,971,697,230)	(8,372,549,963)
	Administrative Expenses	(25,833,046,861)	(18,114,990,497)	(7,718,056,364)
	General Expenses	(106,166,681,014)	(48,305,913,393)	(57,860,767,622)
	Depreciation of Fixed Asset Depreciation and Amortization	- -	- -	- -
TOTAL OPERATIONAL EXPENSES		(281,983,499,849)	(148,849,870,657)	(133,133,629,192)
Operating Profit		133,023,638,665	33,977,169,562	99,046,469,103

Alternative 1, preserve both, is the alternative showing that PT Pos Indonesia will continue both of core businesses. The calculation in preserve both alternative is the result of the sum of relevant costs from mail and parcel postals. On the other hand, alternative 2, keep mail postal, is the alternative chosen if PT Pos Indonesia will cut off one of its core business, it is parcel postal. The calculation in keep mail postal column is the calculation result of relevant cost of mail postal only.

Based on the analysis above, the difference between two alternatives gives positive result with amount of IDR 99,046,103. This shows that alternative to preserve those businesses (both mail and parcel postals) will be more beneficial for PT Pos Indonesia than to preserve only one business (mail postal) only, even though parcel postal often gets loss. Based on benefit analysis, alternative chosen has several benefits. They are by preserving both of core businesses, PT Pos Indonesia will get higher revenue than cutting of one of them even though PT Pos Indonesia will have higher cost. Besides that, PT Pos Indonesia will not face the lack of employees since more than 50% expenses belong to salaries. PT Pos Indonesia is also successfully doing its role to be a state owned company, by serving delivery goods to the whole of Indonesia areas in affordable price.

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