
PROPOSED BUSINESS STRATEGY TO DEVELOP THE OCEAN-GOING BUNKERS BUSINESS IN INDONESIA

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ABSTRACT

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The global bunker fuel market is projected to reach \$ 130,1 billion in 2027, growing at a CAGR of 3.1% from 2020 to 2027. Asia-Pacific dominates the bunker fuel market, and Singapore has been the world's pre-eminent bunker hub, with 22% of the global bunker market. It is estimated to grow at a CAGR of 3.5% from 2021 to 2030. With this growth of the bunker demand, Indonesia, which strategically lies on the world maritime trade route, should be able to take this opportunity. There are nearly 150.000 ocean-going vessels that pass through the Indonesia seas each year, and around 11.000 vessels do loading-unloading cargo in Indonesia's ports or anchorages. The business size of the ocean-going bunker in Indonesia is \$1.2 Billion/year or equal to 2.2 million Metric Tons. However, only 4% (0,08 Million Metric Tons) were bunkering in Indonesian port. Mostly they were bunkering in Singapore, Port Klang, Zhoushan, and Hongkong. Estimated Indonesia's opportunity loss from bunker transactions is \$1.1 Billion/ per year, while the opportunity loss from port charges and other services is estimated at more than \$1 Billion per year. This final project will use a qualitative research methodology consisting of desk research and field research through in-depth interviews of the key informants. To understand the level of competition and Indonesia's relative position in the Asia Pacific bunker market, this research uses an external analysis framework. Moreover, the internal analysis is applied to understand the current competitive

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advantage and list items to improve. This research recommends the Value Innovation strategy, which started with the cost-leadership focus strategy in attracting the ocean-going bunker consumer and is supported by increasing perceived customer benefits. This research suggests focusing on ocean-going ships that load and unload cargo at Indonesian ports as the target market. This research also proposes the business strategy using 7P's marketing mix approach. It consists of raising product specifications to a global standard, eliminating VAT components, reducing shipment costs, remapping supply points, increasing awareness of the global market, developing global skilled human resources, improving the bunkering speed and quantity accuracy, and improving the reliability of infrastructure.

KEYWORDS

Bunker, LSF0, Ocean-Going Vessels, Business Strategy, Competitiveness



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INTRODUCTION

The research will be focused on analyzing business strategy from a marketing point of view, especially for Low Sulfur Fuel Oil (LSFO) as the product most widely used by ocean-going vessels and seven market spots with the highest market potency of the ocean-going bunker (Deshpandé, Farley, & Webster Jr, 1993). The objective of the research is to find out the relative position and the current competitiveness of Indonesia in the competition of the ocean-going bunker market and to propose a business strategy for Indonesia's fuel company to improve the competitiveness of the bunker business in the Asia Pacific market (Wahyuni & Ng, 2012)

According to the report published by Allied Market Research, the global bunker fuel market reached a value of \$ 120.1 billion in 2019 and is projected to reach \$ 130.1 billion in 2027, growing at a CAGR of 3.1% from 2020 to 2027 (Maramba, Chatterjee, & Newman, 2019) Asia-Pacific dominates the bunker fuel market and is expected to continue to maintain this trend throughout the forecast period. This is attributed to numerous factors such as the presence of a huge consumer base and an increase in maritime trade activities in the region. For decades, Singapore has been the world's pre-eminent marine fuel hub, accounting for 22% of the global bunker market (Doshi, 2015) According to the report published by Allied Market Research, Singapore's bunker fuel market size was valued at \$17.6 billion in 2020 and is projected to reach \$24.5 billion by 2030, growing at a CAGR of 3.5% from 2021 to 2030. Unfortunately, the growth of the bunker business in the world and in Singapore has not been utilized by fuel companies in Indonesia. Based on data released by the Coordinator of the Ministry of Maritime and Investment and is supported by actual data downloaded from marinetraffic.com, there are nearly 150.000 ocean-going vessels that pass through the Indonesia seas each year, and the 11.000 of them, do loading-unloading cargo in Indonesia's ports or anchorages. The business size of the ocean-going bunker in Indonesia is \$1.2 Billion/year or equal to 2.2 million Metric Tons. However, only 4% (0,08 Million Metric Tons) were bunkering in Indonesia. Mostly they were bunkering

in Singapore, Port Klang, Zhoushan, and Hongkong. The estimated opportunity loss from bunker transactions is \$1.1 Billion/ per year, while the port charges and other services will be more than \$1 Billion per year (Bunker, 2020).



Figure 1. Vessel traffic in Indonesian territory

This research will collect data from primary data through interviews with some key stakeholders and secondary data from some sources including journals, textbooks, published reports, and articles. The business analysis will consist of external and internal environment analysis and then it will provide a summary of the competitive advantage. In formulating the strategy, this research will formulate a business-level strategy.

RESEARCH METHOD

This research will use a methodology of qualitative research that consists of desk research and field research. Desk research includes primary data and secondary data using books, journals, articles, government documents, and official websites related to this research. Field research is based on depth interviews of the key informants such as global bunker traders, ship liners, and salespersons of Indonesia fuel suppliers. Data collected in this research was obtained through some interviews. It gained valuable information to analyze the global practice, customer expectations, and current domestic competitiveness. This research used simple tabulation to identify the answers from the respondents in each interview. The findings are divided into two categories and some sub-categories based on the result. The category is based on the similarities and differences of the findings that are translated from the responses. This interview involves 12 respondents from a trading company, shipping liner, and Indonesia fuel supplier.

The business analysis will consist of external and internal environment analysis. In the external analysis, this research will use competitor analysis, PESTEL's framework, and Porter's Five Forces model to analyze the industry and the competitive forces that surround the firm from the outside. While in the internal analysis will use the VRIO Analysis and Value Chain Analysis. After doing the analysis, the author will provide a summary of the competitive advantage of the firm in this business. The second step is formulating the strategy. In this step, the research will formulate a business-level strategy.

RESULT AND DISCUSSION

The interview in this research discovers that spot buying is the most common relationship approach in the global bunker business. They do not want a long-term contract because the bunker price fluctuates daily, and the end-users (ocean-going vessels) frequently change routes. It also found three critical factors when a shipping

company decides where to bunker: the destination port, bunker price (bunker cost), and product availability. Customers frequently request credit transactions without a guarantee, according to the findings. They also request surveyor services during the bunker to reduce quantity disputes between seller and buyer (Fang et al., 2014). Traders are still the primary point of contact and source for shipping liners looking for bunker prices, product availability, and so on. Among those who have done bunker in Indonesia, the average frequency of bunker is 3 to 5 orders per month, with customers providing one week's notice of order confirmation. Bulk Carriers are the most common ocean-going vessels that bunker in Indonesia, with Jakarta, Surabaya, and Balikpapan being the most frequently requested ports for bunkering. It corresponds to port traffic and the availability of LSFO products in the nearby fuel terminal (Malmros, 2013)

During the interview session, the researcher also asked about the respondent's comments and expectations on bunkering in Indonesia. It finds that the ocean-going vessels are willing to have a bunker in Indonesia because they have activities in the domestic port (Campbell, 2016). While loading or unloading cargo, they expect to get a competitive bunker supplier as well. It also discovers that they are still willing to have bunkers in Indonesia, if the bunker is at least \$ 5 /MT higher than the Singapore price, few of them still tolerate \$ 20 /MT. However, if Indonesia and Singapore's price gap is more than \$ 20 /MT, the vessels will prefer to search for another port for bunkering. In terms of payment terms, all respondents expect to have credit transactions with no guarantee. Bunkering quantity accuracy is also important to customers. They avoid having quantity disputes with the bunker supplier because it is time-consuming to resolve. The competitiveness of port tariffs (port dues) is also an important aspect of the bunker business because, in the end, customers will calculate the total bunker cost, which includes not only the fuel price but also other costs such as agency tariffs and port dues.

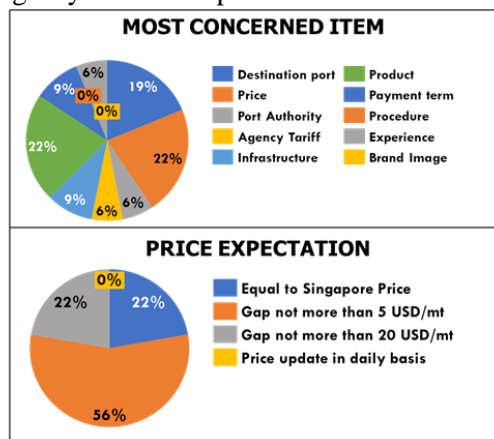


Figure 1 Buyers' Expectations on Bunker Price

Considering the dominance of the domestic bunker market share and the goal of capturing a larger market by leveraging Indonesia's geographical position in world shipping lanes. According to the Ansoff Matrix, the Market Development strategy is the best strategy for increasing bunker sales. It aligns with the Porter's Generic Strategy approach that recommends the Value Innovation strategy, which started with the cost-leadership focus strategy by eliminating underutilized supply points and reducing cost factors such as taxes and delivery costs consumer (Pathak, n.d.). This approach is followed by increasing perceived customer benefits thru raising the standard of product specifications in

accordance with the global standard ISO 8217 and creating market awareness about the readiness of the bunker business in Indonesia (Guo, 2017). In choosing the best segments and designing strategies for profitably serving chosen segments, this research uses a customer-driven marketing strategy (Ifediora, Igwe, & Ukpere, 2015). The proposed segmenting, targeting, and positioning are as follows:

1. Segmentation: Ocean-going vessels who are doing activity in Indonesian territory: container, Bulk Carrier, Cargo, Tanker, and Cruise ships.
2. Target: Ocean-going vessels who are doing activities (cargo load/unload, transfer) in the port of Jakarta, Surabaya, Balikpapan, Merak, and anchorage of Taboneo, Muara Berau, and Nipa and they need fuel for the bunker.
3. Differentiation: Country that has a wide coverage area of product supply point (LSFO)
4. Positioning: New alternative of competitive bunker hub in the Asia Pacific

Based on the interview findings and observation of the current competitiveness of the ocean-going bunker business in Indonesia, the researcher proposes a marketing mix as follows:

1. Product: Provide the customer with a regular test of the LSFO product with ISO parameter that meets ISO 9217 parameters, even though the government does not regulate it. Indonesia.
2. Price: Reduce the vat (value-added tax) component in the fuel price negotiate transportation costs with mobile bunker agents, particularly in the Balikpapan area, at 20% off the current rate.
3. Place: Relocate the LSFO supply point by removing LSFO products from Ambon, Makassar, and Panjang and creating availability in Nipa / Batam, Tanjung Gerem, Taboneo, and Muara Berau.
4. Promotion: Apply a marketing communication mix that focuses on increasing ocean-going market awareness about the competitiveness of doing bunkers in Indonesia and collaborating with global traders for broader market penetration.
5. People: Develop salesperson and operational team capabilities regarding bunker business and operations according to global standards
6. Process: Improve the speed and accuracy, by upgrading the pumping rate of the barge and applying mass flow meters as measurement tools to avoid the quantity dispute.
7. Physical evidence: Improve the reliability of supporting infrastructure for ocean-going bunker services such as floating storage facilities, pumping rates, and laboratories.

CONCLUSION

Based on the discussion in the previous chapters, the following are the conclusions to answer the research questions.

1. Indonesia's current competitive advantage in facing the competition in the ocean-going bunker market in the Asia-Pacific region:
 - a. The level of competition in the ocean-going bunker business in the Asia Pacific market is relatively high.
 - b. Indonesia's competitive advantage is the existence of a product supply point with broad coverage.
 - c. The 7P marketing mix parameters that are not yet competitive with other

- bunker hubs, are ISO certification of products (Product), imposition of VAT on bunker prices (Price), the proximity of product supply points to market point (Place), payment term (Process) and measurement device (Physical device).
2. The approach strategy to develop ocean-going bunker business
 - a. The strategy used was based on a cost-leadership focus strategy by eliminating underutilized supply points and reducing cost factors such as taxes and delivery costs.
 - b. It is aligned with a strategy to increase perceived customer benefits in order for it to be successful (Value Innovation strategy) by raising the standard of product specifications and creating market awareness and new supply points close to the market.
 3. The proposed business strategy to improve the competitiveness and increase the sales of ocean-going bunker
 - a. Indonesia must focus on the target market, namely ocean-going ships that load and unload cargo at Indonesian ports.
 - b. According to the 7P marketing mix approach, the proposed strategy to increase competitiveness and sales of ocean-going bunkers in Indonesia is as follows:
 - Product: Raising the product specifications to global standards
 - Price: Eliminating the VAT component and renegotiating the cost of transporting fuel
 - Place: Remapping the LSFO supply point to be closer to the market
 - Promotion: Increasing market awareness about the competitiveness of doing bunkers in Indonesia and collaborating with global traders for broader market penetration
 - People: Developing capabilities of bunker business and operations to global standards
 - Process: Improve loading speed to consumer's vessels and adopt the use of mass flowmeters
 - Physical Evidence: Improve the reliability of infrastructure for ocean-going bunker services.

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