

Vertical Intergration Strategy of CV. Putra Umban on Production and Marketing Based on Law Number 5 of 1999 in Pekanbaru, Riau Province

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Abstract: The purposes of this research are to analyze the vertical integration strategy of CV. Putra Umban on its Productions and marketing of *Nata de Coco* and to analyze the law consequences on the vertical integration strategy of CV. Putra Umban on its production and marketing based on law number 5, 1999 in Pekanbaru. This research is of sociological law. Technique of data collecting used are observation, interview, and library research. The sources of data in were taken from primary and second any data. The results of this research showed that vertical integration strategy used by CV. Putra Umban, together with Sari Nata de Coco company and Sari Coco was top-down control. The agreement started from collecting the raw materials, processing, marketing to PT. Garuda Food placed at Pasir Putih, KM 8, Desa Baru, sub-district Siak Hulu, District Kampar. Law consequences to the vertical integration strategy of CV. Putra Umban on production and marketing the products of Nata de Coco was closure to the access for rival company to raise costs. Another law consequence was the emergence the coordinations that could lead to collusion. This was allegedly in contrast with law number 5 of 1999 against prohibition of vertical integration.

Keywords : Vertical Integration, Production, Control.

1. Introduction

World of bussines never missed from the word competition. Rapid development of the world of bussiness sometimes does not come with regulation that would become the signs to compete. Even when there are signs, its usually violated to what it's desired to defeat the opposite competitor for the pursuit of profit by monopolizing production and marketing with vertical integration strategy. On article 14 Law no.5, 1999 mentioned, bussines actors shall be prohibited from entering into agreements with other bussines actors with the aim of controlling the production of several goods constiuting products which are included in the production chain of certain related goods and of services whereby each production series is the end of product processing or further processing, either in a direct or indirect series, which may potentially cause unfair bussines competition and or may be harmful to society. (article 14 law No.5 of 1999). As for vertical integration, relation between companies in market is a complex one. On the one hand, the companies are dependant on other companies to supply raw materials, on the other hand, the companies also depend on distribution companies in term of product sale. If the bussines actor wants to expand his market shares, increase his profits, make faster growth and higher efficiency level and more important in supply of raw materials as necessity for production and marketing, usually companies will merge with other bussiness actors that have continuity on production process (Vertical Integration). (Nurimansjah Hasibuan, 1993). However, its development turns out, the merging companies did not always show a strong relationship between the merging with the expected profit rates, but atleast with the merging there will be parts of calculation lost or decreased, transaction costs, advertising, sharing information, and administration (explanation of article 14 Law No.5 of 1999).



The allegations of vertical integration that occurred were the monopoly of making Nata de Coco drink by CV. Putra Umban in Limbungan sub-district Rumbai Pesisir integrated with two other companies in Umban Sari; Sari Nata de Coco company and Sari Coco company which controls 100% of Nata de Coco company. CV. Putra Umban is the sale agent or supplier for PT. Garuda Food located in Pasir Putih. The allegations of violation committed by CV. Putra Umban is controlling the production and marketing of Nata de Coco drink from top to bottom, sold to PT. Garuda Food in Pasir Putih.

What is meant by vertical integration is controlling a chain process of production of certain goods from top to bottom or continuing process on certain services by certain business actor (explanation of article 14 Law no.5 of 1999).

The practice of vertical integration although could produce goods or services with low process, but could cause the unhealthy business competition that could ruin economic principals of society. This practice is prohibited by article 14 Law no 5 of 1999, as long as it causes unhealthy business competition and/or disadvantageous society (explanation of article 14 Law no.5 of 1999).

The vertical integration has precompetitive and anti-competitive effects, so that only the vertical integration that can cause unhealthy business competition and disadvantageous to society will be prohibited.

Company factors of doing vertical integration based on the reason to create “barrier to entry” for newcomer; giving investment facilities, maintain products quality; and fix scheduling (Adi Nugroho Susanti, 2014)

Approaches that should have been done to determine what is illegal, and not the vertical integration is rule of reason approach. Meaning, it should have been proved that the practice of vertical integration is in accordance with anti-competition or not (Sujud Margono, 2009).

1.1 A Glimpse of Nata de Coco

Nata de Coco is a dessert that look like jelly , coloured white to clear and have chewy textured. This food is produced from the fermentation of coconut water, and originally made in Philipines.

“Nata de Coco” in Spain means “coconut cream”. By cream is meant coconut milk. The name Nata de Coco originated from Spain because Philipnes was once a Spanish colony. Nata de Coco is some kind of chewy jelly coloured white milk to clear water which came from the process of fermentation of coconut water. Products of Nata de Coco was originally produced in Philipines. Etymologically, Nata de Coco means coconut cream. The process of fermentation of Nata de Coco was helped by bacterium named *Acetobacter xylinum*. Enzyme produced by bacterium of Nata de Coco changes sugar that contains in coconut water into sheets of cellulose fibers. These cellulose sheets become dense and coloured clear white called Nata. Nata is low-calorie cellulose (Rini Rahayu Sihmawati dkk, 2014).

Nata is a jell-like ingredients that float on medium that contains sugars and acids produced by *Acetobacter xylinum*. Nata basically is celluloses. If seen under microscope, it will appear as an irregular massed fibril that looks like thread or cotton (Sutarminingsih, 2004).

Acetic acids or vinegar acids is used to decrease the pH or increase the acidity of coconut water. Good acetic acid is glacial acetic acid (99,8%). Acetic acid with low concentration could be used, but to achieve the desire acidity level between 4,5 to 5,5 pH requires large quantities. Besides Acetic acid , another organic and anorganic acids also could be used.

2. Methods

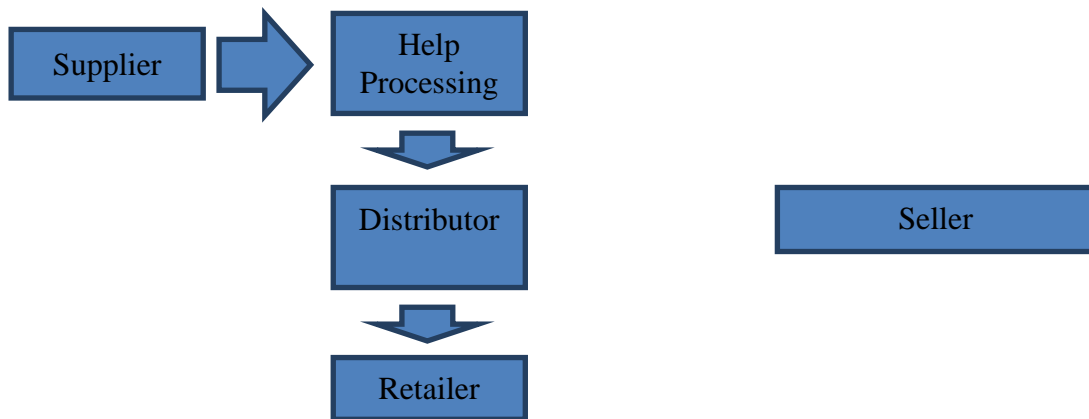
- 1) Type of reserach is sociological law concerning about allegation of vertical integration which has been done by company of CV. Putra Umban Sari as producent and supplier of Nata de Coco Drinks, PT. Garuda Food.
- 2) Location of research in Pekanbaru, sub-district Rumbai and Rumbai Pesisir.
- 3) Sources of data : Primary Data, Secondary Data, Tertiary Data
- 4) Techniques of collecting data are observation, interview, and library research
- 5) Data analyzing technique is descriptive qualitative for drawn conclusion using inductive methods

3. Results

In the process of production there are some phases that have to be followed started from collecting the raw material to processing it into semi-finished goods and then becomes finished goods. The production process then continues to distributing good and or services from distributor to consumers. CV. Putra Umbaran, together with Sari Nata de Coco Company and Sari Coco Company, did the top-down controlling process. The agreement started from collecting material law, processing to selling to PT. Garuda Food. Its law consequences is closure to the access of rival companies which is part of strategy in increasing cost for rival competition.

With the increased cost of production, the rival companies have to increase its products price. The closure of access is done through strategy of access closure to raw materials. Other law consequence is the emergence of coordinations that could lead to collusion. This is allegedly in contrast to Law no.5 of 1999 on vertical integration prohibition.

Scheme of Vertical Relations



According to top scheme, it is explained that vertical integration could happens if:

- Business actor with another business actor takes role as supplier
- Business actor with another business actor takes role as buyer

A business activity that is categorized as vertical integration backward or to bottom if the activity integrates to several activities that lead to providing raw materials for main products.

4. Discussion

CV. Putra Umban that is located at Jln. Umban Sari Atas, Gg. Geso V produces Nata de Coco, together with other companies such as, Sari Nata de Coco and Sari Coco company. In collecting raw materials these 3 companies, did it together. Nata de Coco Company at Jl. Pramuka specially produces processing coconut water as water for Nata de Coco. After this process, then these 3 companies only cooperate with one company as distributor, namely PT. Garuda Food that is located at Pasir Putih KM 8, Desa Baru, sub-district Siak Hulu, District Kampar. Law consequences emerging from vertical integration according to article 14, that vertical integration agreement prohibited the one that has purpose to control the production of certain products. Controlling the production of certain products means to control the market. Law consequences is unilateral. Law consequences that happened because of vertical integration is closure of access to rival competition which parts of strategy to increasing rival companies' cost. By increase the cost for rival companies, then the rival companies has to increase their product prices. The closure of access is done to close the access to supply raw material. This law consequences is also unilateral.

5. Conclusion

The strategy of CV. Putra Umbaran in doing vertical integration to produce and market Nata de Coco through agreement of collaboration with Sari Nata de Coco company and Sari Coco Company, started from producing to marketing to PT. Garuda Food. This was caused by the closure of access to rival companies. This condition is allegedly in contrast with article 14 Law No.5 of 1999. The law consequences is the closure of access for rival companies as part of the strategy to increase the costs of competitor. Law consequences is unilateral.

6. Suggestion

Parties who felt disadvantaged with this vertical integration should report to DISPERINDAG concerning with the establishment of regional supervising committee (KPD) in Pekanbaru. On the article 14 criteria of Law violation of a company should be enacted. Government should established a regional supervising committee (KPD).

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