

It was Friday, June 27, 2008. The marketing manager responded after a brief of silence, "It is indeed true what the operations manager mentioned. But, if we want to enter wider market segments, it is a must for us to keep innovative products with more variants in the market. In the future, there is no doubt that innovative products like Fteh with various flavors will hold a strong market segment. Their contribution to revenue is increasing over time." The second product type is called Fteh, a tea with a fruity flavor, packaged either in glass bottles, tetra packs, or cans. Fruity tea is more directed toward teenagers and the distribution of products is through modern retail chains such as Sogo, Giant, Carrefour, Alfa, Superindo, Torseba, Yogya, and Indomaret. This is simply to please the wholesalers and retailers as they usually feel uncomfortable with a sudden price change (note that some other soft drink companies in Indonesia do not give wholesalers and retailers the privilege of knowing price increases well in advance, as this company does). Currently, Tehindo has two main interrelated businesses: one is in manufacturing and the other is in the distribution of tea products. Downstream, the products are distributed through 11 regional sales centers located in Sumatera, Java, Bali, Kalimantan, and Sulawesi. Currently, the company offers various flavors of Fteh including guava, strawberry, lemon, apple, and black currant. "But too many variants of Fteh increase the difficulties in production and distribution activities. Our performance looks bad because we often experience out of stock situations for certain variants, but an excess of inventory for other Fteh products," the distribution manager continued. "We have too many product variants of fruity tea. Such a significant shortage has never happened to our main product, Goteh. Why don't we focus on Goteh? Its sales volume is high and demand fluctuation is low," the operations manager added. The manufacturing processes are based in ten manufacturing plants whose locations are spread across three islands in Indonesia: Sumatera, Java, and Bali. The second category is one-way product (OWP), where the packages will not be returned to the factory but will be disposed of after the products have been consumed. The marketing manager insisted that the increasing number of new variants of Fteh has enabled the company to hold a strong segment of teenagers. As a consequence, the retailers and wholesalers hold larger inventories temporarily. For example, two factories in Sumatera supply the whole market area on Sumatera island, while the factory in Bali supplies Bali and the Nusa Tenggara market area. However, this outsourcing practice is only for OWP products that are delivered through traditional rather than modern retail chains. One of the challenges would be to ensure a smooth flow of the products downstream as well as the empty bottles upstream. The marketing manager showed sales data of the two types of products, Goteh and Fteh. Other factories produce both RGB and OWP products. The first is called return glass bottle (RGB), where the empty packages are returned to the factory and used to produce new products. Managing RGB products is certainly more complicated than OWP. The opening of the factory created a significant increase in sales, reflecting a healthy market for tea products. Thus, the increase in orders from wholesalers and retailers only happens temporarily and then will drop to a level below average for some time after a price increase. From the figure, it is evident that some products are shipped directly to consumers. The marketing manager showed sales data of the two types of products, Goteh and Fteh. The other model is to deliver the products through the wholesalers and retailers. The retailers here could be a supermarket, a shop, a restaurant, or other parties selling the products to the end

customers. Today, Tehindo produces three types of tea products. A vertical integration model is still very much practiced in this company. This enables the wholesalers and retailers to carry out forward buying. A newly appointed supply chain manager attended the meeting. There was a discussion on whether or not the company should reduce the product variants of the fruity tea.