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WORKING CAPITAL MANAGEMENT OF PT PERKEBUNAN NUSANTARA VIII

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Abstract

PT Perkebunan Nusantara is a state-owned company in the agriculture sector. The main commodities that managed by PTPN VIII are Tea, Palm Oil, and Rubber. PTPN VIII current condition is showing the decreasing in current ratio. This indicates that The Company does not manage their working capital optimally. The aim of this research is to give an optimal working capital management and also working capital financing strategy for the Company. Managing current assets (inventory and account receivable) and current liabilities (account payable) are present in this research. Inventory managed by finding the optimal level of inventory and suggest the selling policies for The Company. Account receivable management that used in this research is relaxing the credit standard and account payable management to get the optimal credit terms from the supplier without damaging credit rating. The management of current asset and current liabilities positively impact to Cash Conversion Cycle (CCC). The result of this research shows that conservative financing strategy will result in the less expensive cost compared with aggressive financing strategy.
Keywords: Working Capital, Agriculture, Inventory Management, Working Capital Financing Strategy

INTRODUCTION

Financial management is a vital part of a business. Financial management is an art to managing money for maximizing shareholder wealth. A business can grow well if they can manage their money optimally. There are two kinds of financial management of a company, long term, and short term. Long term policies of financial management are capital budgeting, capital structure and how to manage dividend. For the short term, there are current asset management and current liabilities management. Short term financial planning is very important for a company's operational activity.

Working capital management is a short-term financial management. Working capital is how a company manage their current asset and current liabilities. Working capital management is an operational activity. Working capital management is very important because it manages operational activity efficiently and how a company can meet their liabilities in short term.

Gitman (2015) said that the goal of working capital (or short-term financial) management is to manage each of the firm's current assets (inventory, account receivable, marketable securities and cash) and current liabilities (notes payable, accruals and account

payable) to achieve a balance between profitability and risk that contributes positively to the firm's value. Working capital management is included in the top of the list of most valued finance functions according to a survey which done by CFOs from firms around the world.

According to Gitman (2015), working capital refers to current assets, this respresents the portion of the investment that circulates from one form to another in the ordinary conduct of business. This means that how cash turning into inventory and then account receivable and turn back into cash. Current liabilities are funds that used for short-term financing of a company, debts that due in 1 years or less is part of current liabilities. Net working capital is the differences between current assets and current liabilities. Net working capital can be positive or negative. The negative value of net working capital means that a company's sources of funding are excessive.

Working capital management is needed for short-term financial management of a company. Optimal short-term financial planning can help a company to achieve an optimal long-term financial planning as well. Short-term financial planning includes the company's operational activities. The company must have optimal working capital planning because if the company's current assets are excessive it shows that the company is in an inefficient condition. Conversely, if the current asset is too small, it indicates that the company has a tendency of inability to meet its short-term liabilities.

Goel (2013) said that working capital management should aim at having balanced; the proportion of working capital should be optimized to achieve maximum profit and cash flow. Excessive working capital shows that inefficient use of fund while inadequate working capital will affect the operational activity and will impact to company's profitability. Therefore, a company should have an optimum working capital.

Soni and Trivedi (2006) said that capital-intensive companies require a good level of working capital to bring attractive earnings to shareholders. According to Kala (2011) optimization of working capital balance means minimizing the working capital requirements and realizing maximum possible revenues. A business organization should determine the exact requirement of working capital and maintain the same evenly throughout the operating cycle.

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The effective working capital necessitates careful handling of current assets to ensure short term liquidity of the business.

PT Perkebunan Nusantara VIII is a state-owned company in the agricultural sector. PT Perkebunan Nusantara VIII is an agribusiness company and agro-industry. The main commodities managed by PTPN VIII are Tea, Rubber, and Palm Oil, while Kina and Kakao are the supporting commodities. PTPN VIII sell the main commodity for domestic market and exports to several countries namely, Asia, Europe, Canada, and America. The effective working capital management can affect to the Company's growth and profitability.

This research is based on annual reports and financial statements of PT Perkebunan Nusantara VIII 2012 – 2017. PT Perkebunan Nusantara VIII is a state-owned enterprise in the agricultural sector. PT Perkebunan Nusantara VIII is an agribusiness company and agro industry in the commodity of Tea, Rubber, Oil Palm, Quinine, and Cocoa. The main commodities managed by PTPN VIII are Tea, Rubber, and Palm Oil, while Kina and Kakao are the supporting commodities. PTPN VIII sell its commodity for domestic market and exports to several countries namely, Asia, Europe, Canada, and America.

The current ratio of Company is showing a small number. There is a decreasing current ratio from 2012 – 2017. This indicates that the Company's ability to meet their short-term liabilities is low. The smaller the current ratio showing that company is illiquid. The Company cannot cover their short-term liabilities by their current assets.

LITERATURE REVIEW

Working Capital Management

Working capital management is short term financial planning that helps corporations to maintain their operational activity. Horne and Wachowicz (2000) said that an inadequate level of working capital could lead to shortages and problems in day-to-day operations. Managing working capital is important for a company's growth and profitability. Working capital management is the differences between current assets and current liabilities.

Karadagli (2012) said that effective handling of a firm's working capital dictates its performance. According to Azeez, Abubakar, Olamide (2016) the result of an ineffective and/or inefficient working capital management affect profitability reduction and also has tremendous financial implications in terms of insolvency, loss of customer/patronage, loss of revenue and crisis.

Working capital management is including current asset and current liabilities management. Inventory, account receivable, marketable securities and cash is part of the current asset. Whether account payable, notes payable, accruals are part of current liabilities. There are trade-off between profitability and risk in working capital fundamentals. The excessive current asset will decrease profit and also the risk. Otherwise, excessive current liabilities will increase profit and also the risk. According to Goel (2013), working capital management is creating value for a company by an ideal balance level between risk and return, profitability and liquidity.

Managing the cash conversion cycle to find an ideal balance level between risk and return, profitability and liquidity. Azeez, Abubakar, Olamide (2016) said that in order to handle working capital efficiently, a company has to be conscious of the average length of time between sales of goods and services and the receipt of the associated cash. He also said that efficient management of working capital needs effective administration of all the three areas of working capital: revenue management (account receivable), expenditure management (account payable), and supply chain management (inventory management).

According to Gitman (2015), the cash conversion cycle is the lengths of time required for a company to convert cash invested in its operations to cash received as a result of its operations. Cash conversion cycle is the difference between average payment period and a sum of average age of inventory and average collection period. The smaller the cash conversion cycle means that the company can generate cash faster. It indicates a good condition of a company.

Azeez, Abubakar, Olamide (2016) finds that cash conversion cycle and average payment period has a positive and significant relationship with return on asset. However, the

return on asset has an inverse relationship with the average collection period. They conclude that average payment period, cash conversion cycle, inventory turnover and average collection period affect the return on asset of quoted Nigerian conglomerates.

There are several goals to minimize the length of cash conversion cycle according to Gitman (2015), the strategies minimize the inventory turnover, collect an account receivable as quickly as possible and pay account payable as slowly as possible without damaging company's credit rating. There are two kinds of funding requirements of cash conversion cycle, Gitman (2015) permanent funding requirement is a constant investment in operating assets resulting from constant sales overtime and seasonal funding requirement an investment in operating assets that varies over time as a result of cyclic sales.

In the working capital, there are also two funding strategies, aggressive funding strategy, and conservative funding strategy. According to Gitman (2015), aggressive funding strategy uses short term debt to fund the seasonal requirement and use long term debt to fund permanent requirement. While conservative funding strategy only uses long term debt for fund both seasonal and permanent requirements.

Inventory Management

Inventory management, account payable management and account payable management support an efficient working capital management. Inventory management is the first things that affect the cash conversion cycle. According to Gitman (2015), the objective of managing inventory is to turn over inventory as quickly as possible without losing sales from stockouts.

Financial manager's general disposition toward inventory levels is to keep them low, to ensure that the firm's money is not being unwisely invested in excess resources.

There are several techniques in managing inventory. According to Gitman (2015), there are three common techniques for managing inventory. The first technique is ABC inventory system. ABC inventory system is an inventory management technique that divides inventory into three groups, A, B, and C, in descending order of importance and level of monitoring, on

the basis of the dollar investment in each. The A group is those items with the largest dollar investment and B second largest and C the smallest dollar investment. The quickest turnover must be in group A.

Gitman (2015) said that Economic Order Quantity (EOQ) is an inventory management technique for determining item's optimal order size, which is the size that minimizes the total of its order costs and carrying costs. Ross, Westerfield, Jordan, Lim, and Tan (2012) said that the EOQ model is the best-known approach for explicitly establishing an optimal inventory level. Gitman (2015) said that the EOQ model assumes that the relevant costs of inventory are order cost and carrying cost. Bowersox, Closs, Cooper, and Bowersox (2013) said that the EOQ is the replenishment practice that minimizes the combined inventory carrying cost and order cost.

Order cost is the fixed clerical cost of placing and receiving an inventory order (Gitman, 2015). The formula of order cost is as follows:

Order cost = $O \times S/Q$

O: Order cost per order

S: Usage in units per period

Q: Order quantity in units

While carrying cost is the variable cost per unit of holding an item in inventory for a specific period of time. The formula for carrying cost is as follows:

Carrying cost = $C \times Q/2$ C: Carrying cost per unit per period

The total cost of inventory in the EOQ model is the sum of order cost and carrying cost. EOQ is defined as the order quantity that minimizes the total cost function, the formula for EOQ models is as follows:

$EOQ = \sqrt{(2 \times S \times O)/C}$ S: Usage in units per period

O: Order cost

C: Carrying cost

According to Steiner, Pesch and Hoberg (2016), inventory optimization is an essential part of a complete and successful turnaround strategy. There is a study that uses the optimal inventory values. Optimal value inventory is obtained by calculating the maximum average

inventory. Maximum average inventory is Cost of Goods Sold divided by required turnover. Usually, the required turnover is obtained from the Company's policy. Optimal inventory is the difference between current inventory and a potential decrease, where the potential decrease is the differences between current inventory and the optimal value of inventory.

There are differences between managing inventory for manufactured products and agricultural product. Shi, Zhao, and Kiwanuka (2014) said that agricultural products have unique features, such as the limited and unpredictable supply, inelastic demand and thus highly unpredictable prices, and a decision of how much to sell. Shi, Zhao, and Kiwanuka (2014) present in their study differences between manufactured product and agricultural products, there are as follows:

	Manufacture Products	Agricultural Products
Supply	Ample	Unpredictable/limited
Demand	Unpredictable/limited	Inelastic
Price	Predictable	Unpredictable
Shortage	Must satisfy demand as much as possible	Can hold inventory and not satisfy demand
Why carry inventory?	Hedge demand uncertaint	Hedge supply /proce uncertainty
Decision	How much to order/produce?	How much to sell?

The differences between manufactured products and agricultural products lead to the differences in managing their inventory. According to Shi, Zhao, and Kiwanuka (2014), there is some optimal policy that can be implemented for agricultural products. Fixed cost and holding cost are costs that affect the optimal policy for Company. The fixed cost of the agricultural company is including selling cost (shipping, loading/unloading, sampling, and testing). There are two conditions for fixed cost, zero fixed cost when buyers pay the selling transaction cost and positive fixed cost is when sellers pay the selling transaction cost. For holding cost, there are

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also two conditions, convex holding cost is when storage cost dominates and concave holding cost is when the capital cost dominates.

Shi, Zhao, and Kiwanuka (2014) also mention that there are two kinds of optimal selling policies for agricultural products, selling-all-or-retaining-all policies, and selling-down-to policies. The selling-all-or-retaining-all policies can be optimal for a company that has zero fixed cost and concave holding cost, also a company that has positive fixed cost and linear or concave holding cost. The selling-down-to policies can be optimal for a company that has zero fixed cost with convex holding cost and also company that has positive fixed cost and convex holding cost.

Account Receivable Management

The other thing that should be managed by the Company to achieve efficient working capital management is account receivable management. Gitman (2015) stated that to collect an account receivable as quick as possible there are three topics, credit selection and standard, credit terms and credit monitoring.

The popular credit selection technique is the five's C of credit. The dimension of five's C is Character, Capacity, Capital, Collateral, and Conditions. The better the five's C of a company, the better their credit rating. Ross, Westerfield, Jordan, Lim, and Tan (2012) credit scoring is the process of quantifying the probability of default when granting the consumer credit.

The average investment in account receivable is calculated to know which credit standard is better for the company. The average investment in account receivable formula is as follows:

Average investment in account receivable = $\frac{Total\ variable\ cost\ of\ annual\ sales}{Turnover\ of\ account\ receivable}$

Were

Turnover of account receivable = $\frac{365}{Average\ Collection\ Period}$

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Account Payable Management

Account payable management is also important to achieve an efficient working capital management. Preve and Sarria-Allende (2010) said that account payable is outstanding dues yet to be paid on suppliers' invoices that were ralsed earlier for goods or services. Azeez, Abubakar, Olaimide (2016) stated that unpaid credits are classified as costless fund and the longer this amount remain unpaid the more beneficial it is to the firm. They also said that the time of payment should be set as late as possible to optimize/maximize the advantages of external financing all with a view to increasing the firm's value in terms of profitability.

Gitman (2015) said that account payable is the major source of unsecured short term financing for business firms. He also mentions that account payable management is management by the firm of the time that elapses between its purchase of raw materials and its mailing payment to the supplier. When the seller of goods charges no interest and offers no discount to the buyer for early payment, the buyer's goal is to pay as slowly as possible without damaging credit rating. A firm can take a cash discount if only the cost of giving up cash discount is higher than if the firm does not take the cash discount.

Working Capital Financing Strategy

Working capital needs a source of financing. The Company should determine what sources of financing that they choose to fund their working capital. The determination of the source of financing is affecting the cost that a company should pay. The Company can choose short term fund or long-term fund for financed their working capital. Gitman (2015) said that short term funds are typically less expensive than long term funds.

Gitman (2015) stated that there are two kinds of the working capital funding strategy, aggressive and conservative funding strategy. Aggressive funding strategy is a funding strategy under which the firm funds its seasonal requirements with short term debt and its permanent requirements with long term debt. While conservative funding strategy is a funding strategy under which the firm funds both its seasonal and its permanent requirements with long term debt.

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In working capital financing, there are three kinds of approach according to Sathyamoorthi (2002), moderate approach, conservative approach, and aggressive approach. The moderate approach is minimizing the level of risk involved in meeting the obligation. The firm attempts to approximate assets and liability maturities. Conservative approach the firm only use long term fund for financed permanent asset and seasonal requirements. The aggressive approach is when the firm uses the short-term fund for financed their seasonal current assets and part of the permanent current assets.

Zakaria and Amin (2006) said that the main difference between conservative and aggressive approach lies in the level of short-term credit used to financed fixed and current assets. The aggressive policy uses most short-term financing while the conservative policy calls for use of short-term credit for its seasonal requirement.

METHOD

By definition, research methodology is a way that used for solving the research problem. There are some steps in research methodology that leads to the goal of the research. The gap between actual and theory that presented in a flowchart is a research methodology. The data that is used in this research is annual reports and financial statements of Company. In order to solve the research problem, author uses the theory of working capital. The research methodology that consists of several steps to solve the research questions. In order to analyze the financial statement, author uses annual reports and financial statement of The Company. Author uses financial statement analysis to analyze the current performance of Company. Author calculate the liquidity, activity, debt and profitability ratio in order to analyze the financial condition of The Company. After that author doing the internal and external analysis to formulate SWOT analysis. Internal analysis is analyzing the Company's resources, capability and core competencies. PEST analysis is part of an external analysis. PEST analysis is the tool that shows how the political, economic, social and technological condition that affect company's business activities. Working capital management in this research is including current asset and current liabilities management. Author using inventory management, account

receivable management and account payable management give such an efficient working capital management for Company. After that, author formulation strategy of working capital financing to provide the optimal working capital strategy for Company.

RESULTS AND DISCUSSION

Working capital management is including managing current assets and current liabilities. PTPN VIII needs working capital management and also working capital financing strategy. Author will focus on how to solve the Company's business issue that stated in chapter 1. In this chapter, author will focus on managing current assets (inventory and account receivable management) and managing current liabilities (account payable management). After that, author also formulating working capital financing strategy for PT Perkebunan Nusantara VIII for the next 5 years.

Common technique of inventory management is Economic Order Quantity (EOQ). Based on Gitman (2015) EOQ model is an inventory management technique for determining an item's optimal order size, which is the size that minimizes the total of its order costs and carrying costs.

There are several differences between managing inventory in manufactured products and agricultural products as author mention in chapter 2. PTPN VIII is an agriculture company. Its business activity is producing several commodities, such as tea, palm oil, rubber, quinine, banana, pineapple, and papaya. The main commodity of PTPN VIII is tea, palm oil, and rubber. The main decision in inventory management of the agricultural company is the optimal selling products. The EOQ model is not suitable for this Company, because Company does not need the optimal order size that can minimize its order costs and carrying costs. Based on that reason, author calculates the optimal inventory of Company by determining the minimum requirement of turnover to decrease Average Age of Inventory (AAI) and Cash Conversion Cycle (CCC) that will also impact to Company's profitability. Author also give a recommendation for the optimal strategy whether to use selling-all-or-retained-all policies or selling-down-to policies.

The ratio that shows the Company condition of inventory is the Average Age of Inventory (AAI) and inventory turnover. As we calculate the ratio in chapter 2, the critical problem is AAI and inventory turnover. The AAI of Company is increasing over years from 2015 to 2017. The lower the AAI it will give a good impact on The Company. Also, the inventory turnover of the Company is small. So, inventory management is used to reduce the cash conversion cycle. The optimal condition is Company should turn over inventory as quickly as possible.

Year	Sales	COGS	Inventory	AAI
2018	1.739.426.574.882	1.217.598.602.418	222.868.383.099	67
2019	1.826.397.903.626	1.278.478.532.538	234.011.802.254	67
2020	1.917.717.798.808	1.342.402.459.165	245.712.392.367	67
2021	2.013.603.688.748	1.409.522.582.124	239.618.838.961	62
2022	2.114.283.873.185	1.479.998.711.230	251.599.780.909	62

In order to get an optimal inventory policy, there are several conditions, according to Shi, Zhao, and Kiwanuka (2014), there are two selling policies that can be implemented in the agricultural business, selling-all-retaining-all policies and selling-down-to policies. PTPN VIII selling term is Free Container Area (FCA). This selling term requires the shipping and loading/unloading cost charge to buyers. Based on that term, it means that Company has zero fixed cost. According to information that obtained from PTPN VIII, Company has no storage cost, if it is any, the storage cost is incidental. Due to that reason, it can conclude that capital cost dominates in PTPN VIII. This condition is referring that PTPN VIII has convex holding cost. The policies that suitable for zero fixed cost and convex holding cost is selling-down-to policies. Based on Shi, Zhao and Kiwanuka (2014) said that selling- down-to policy suggests to sell a portion of the available inventory (if any) down to the threshold level and retain the rest. Here are the comparison of the benefit between Selling-All-Retaining-All Policy and Selling- Down-To Policy.

Selling-All-Retaining-All Policy	Selling-Down-To Policy

Selling the commodity when the price is high	Selling the commodity routine with current price
Retaining the commodity to get the best price	Generate cash in the certain time from sales of commodity
Carry more inventory when retain the commodity	Carry less inventory into the future

It is clear that PTPN VIII better to use Selling-Down-To Policy because the Company needs more cash from the sales of the commodity to operate the business activity. The Company better to get cash quicker than to retain the commodity to get the best price. Selling-down-to policies would be suitable for Company. It will reduce the inventory that had by Company to the certain level and also will positively impacting the profitability due to the increase in sales. After that, Company can maintain their level of inventory for the next years and keep the AAI in the optimal level, that is 67 days and will be estimated decrease to 62 days assuming the increases in sales.

Account Receivable Management

Account receivable performance of Company can be showed by Average Collection Period (ACP). The small value of ACP shows a good condition. It means that company can collect receivable quickly from the customers. If the ACP is high it means that company need more time to collect the receivable. Company's ACP is showing a good condition from 2012-2017.

Average Collection Period (ACP) of Company is in a good condition. It needs 27 days on average to collect the account receivable. This is quite short of time. But, Company can increase the profitability by several methods of account receivable management. According to Gitman (2015) Company can manage credit selection and standards, credit terms and credit monitoring in terms to increase the sales. PTPN VIII can increase the sales by relaxing the credit standards for the customer that have a good credit rating. Customers that have good credit rating are the ones who comply with the Five C's credit:

Character: Customers with good record in meeting past obligation, customers always pay the obligation on time.

Capacity: Customers with good ability to repay the requested credit.

Capital: Customers with good condition of debt to equity.

Collateral: Customers that have a collateral to securing the credit.

Condition: Customers that meet a good condition of economic and industry.

Current Liabilities Management

In this section, author would like to present management of current liabilities. Account payable management is the only one that author will manage. The account payable condition of Company will be seen in Average Payment Period (APP).

Account Payable Management

The Average Payment Period (APP) is the length of time that to pay Company's liabilities. Gentry & Garza (1990) said that the best strategy for payables management occurs when credit terms are lengthened or when the payment time is modestly stretched without lowering the firm's credit rating.

Average Payment Period of Company is increasing it is good condition for Company, because the longer the Average Payment Period, it means Company can hold the cash and lengthen the payment. But, the longer APP also can give a negative impact on the Company. The longer APP can damage the Company's credit rating. This is can happen in PTPN VIII.

Working Capital Financing Strategy

According to Gitman (2015), there is two funding strategy that can be applied to Company are as follows aggressive funding strategy and conservative funding strategy. He explained that aggressive funding strategy is a funding strategy under which the firm funds its seasonal requirements with short-term debt and its permanent requirements with long-term debt. While conservative funding strategy is funding strategy under which the firm funds both its seasonal and its permanent requirements with long-term debt.

Forecasting

In order to get the total funding requirements of Company for the next 5 years, author will forecast the Company's sales and cost of goods sold first. The forecast of sales and cost of goods sold are as follows:

Table Sales and COGS forecasting

In Rp.	2018	2019	2020	2021	2022
Sales forecast	1.739.426.574.882	1.826.397.903.626	1.917.717.798.808	2.013.603.688.748	2.114.283.873.185
COGS	1.217.598.602.418	1.278.478.532.538	1.150.630.679.285	1.208.162.213.249	1.268.570.323.911

Source: Analysis, 2018

1. The basis of this forecasting is based on Company's historical data and estimation from Company.
2. Sales growth for the next year is estimated increased by 5%. The assumption is based on estimation from Company[3].
3. The percentage of Cost of Goods Sold (COGS) growth is average of cost of goods sold divided by sales from previous 5 years. The percentage of COGS is 70% from sales for 2018-2020 and growth COGS will be decrease to 60% as Company maintain the production. This calculation based on proforma income statement from Gitman (2015).

Aggressive or Conservative Strategy

There are different calculation between aggressive and conservative funding strategy. According to Gitman (2015), the calculation of aggressive and conservative funding strategy are as follows:

Aggressive funding:

Cost of short-term financing = Interest rate of short-term fund x Average of monthly funding requirements - the minimum funding requirements

Cost of long-term financing = Interest rate of long-term fund x Minimum amount of total funding requirements

Total cost of aggressive strategy = Cost of short-term financing + Cost of long - term financing

Conservative funding:

Cost of long-term financing = Interest rate of long-term fund x Maximum amount of total funding requirements during the year

Earnings on surplus balances = Interest rate on the investment of any surplus balance x (Maximum amount funding – Minimum funding – Average of seasonal funding requirements)

Total cost of conservative strategy = Cost of long-term financing - Earnings on surplus balances

There are several assumptions to calculate the total cost of aggressive and conservative funding strategy. Here are the assumption:

1. Interest rate for short-term financing is obtained from interest rate that Company get from bank Mandiri for working capital credit, the rate is 9,75%
2. Interest rate for long-term financing is obtained from interest rate that Company get from bank Mandiri for investment, the rate is 10%
3. Interest rate on the investment of any surplus balance is obtained from Indonesia equity risk premium, the rate is 7,62%.

Here are the cost of aggressive funding strategy and conservative funding strategy. The detail information about the calculation of financing strategy will be provide in appendix 2.

Table 3.14 The Total Cost of Financing Strategy

Year	Total Cost of Aggressive Strategy	Total Cost of Conservative Strategy
2018	75.756.607.477	89.815.105.025
2019	295.042.603.412	244.565.891.754
2020	497.712.455.205	336.667.678.802
2021	669.810.974.464	424.934.030.252

2022	843.978.381.620	528.554.109.829

Source: Analysis, 2018

Based on the calculation of total cost financing strategy, cost of conservative strategy is less expensive than aggressive strategy. The financing strategy that can be implement by Company is aggressive financing strategy for 2018 and conservative financing strategy for the next 4 years because it will give the less expensive cost for Company.

CONCLUSION

PT Perkebunan Nusantara VIII main business issue is the current ratio that decreasing over 5 years period. This impacted the Company's profitability. The low of current ratio shows that Company cannot meet their current liabilities by its current asset. The decrease of the current asset is caused by high level of inventory. The Company cannot generate profit optimally because of inventory turnover is small. Hence, Company needs working capital management and also working capital financing strategy in order to have optimal working capital management and to increase its profitability for the next year.

For that reason, the Company needs to manage its current assets especially inventory and account receivable. The Average Age of Inventory (AAI) of Company is showing an increase in 5 years period. Also, Company turns over its inventory slowly. This is impacting the Company's profitability. The Company should maintain their level of inventory optimally. The Company can turnover its inventory quicker by doing direct selling because the low of inventory turnover is because the shipment from KPBN to buyers needs a long of time. Selling- down-to policy is suitable for Company to get an optimal inventory management. Moreover, Company should produce the best quality of the product in order to compete with the other country.

Account receivable as the other current asset that can be improved by the Company. The Average Collection Period (ACP) of Company is showing a good condition. It takes 27 days on average to collect the account receivable from buyers. Still, Company can improve its profitability by increasing the sales of the product. In order to increase sales, Company can relax the credit standard and give a cash discount in a longer time of period to buyers.

Average Payment Period of Company is showing high period. The longest period to pay the account payable to the supplier is 96 days. This number is showing a quite long time to pay the Company's account payable. It can be good for the Company, but it also can damage the credit rating itself. The higher Average Payment Period the longer time to pay the obligation, so Company can use the money to invest in other investment. But, if it is too long, this also impact negatively on Company. The Company should pay the obligation in accordance with the credit terms that suppliers made. The Company should maintain a good relationship with the supplier. There are two kinds of financing strategy that can be implemented by the Company, aggressive financing strategy and conservative financing strategy. Based on the calculation, the aggressive financing strategy is giving a less expensive cost than the conservative financing strategy for 2018. For the next four years, the conservative financing strategy will give less expensive cost than aggressive financing strategy. It is clear that Company better to use aggressive financing strategy for 2018 and conservative for 2019-2022 because the cost is less expensive.

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