

# The applicability of Porter's generic strategies in E-commerce Companies: Study Case in Indonesia

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## Abstract

E-Commerce is playing a more significant part in the Indonesian economy. (Rashidirad, Salimian, Soltani, & Fazeli, 2017) shows that an e-business without a clear competitive strategy is very unlikely to outperform; so that in order to succeed in the increasingly competitive environment of e-business, firms would need to carefully develop and implement successful competitive strategies. Competitive advantage grows fundamentally out of value a firm is able to create for its buyers that exceed the firm's cost of creating it. There is a general stream of strategy research that assesses strategy and firm performance (Dess & Davis, 1984; Fahey & Christensen, 1986; Miller & Cardinal, 1994; Kim & Lim, 1988). Considering its nature and objectives, the case study method will be considered as a suitable method for this research. The paper suggests that although cost leadership strategy is able to generate greater performance, pursuing a differentiation strategy can be more worthwhile and sustainable for e-commerce companies compared to cost leadership strategy. This research contributes to existing research by suggesting Porter's generic strategies as a valid and viable model for pure online firms which operate in the current e-business environment.

## Keywords:

Porter Generic Strategies, e-commerce companies, Competitive advantage

## 1. Introduction

Today's businesses are faced with the challenge of whether to incorporate an e-commerce strategy into their business model and if so, how will they do it. Business strategy is indispensable to a company which can become more active and sensitive to future threats. For external factor, environmental uncertainty needs to be considered for improving their strategy (Ary Kurniati & Rahmat Nurcahyo, 2018). The retail business has been significantly influenced by online business. Shoppers currently have the decision to buy merchandise online as opposed to truly going to the store. The Web has permitted buyers to investigate items all the more completely and participate in examination shopping all the more without any problem. This has brought about a more taught and educated client. With the capacity to effortlessly buy products on the web and a more taught purchaser, retail organizations are straightforwardly confronted with the serious idea of internet buying. With the expanding number of retail organizations carrying out internet business methodologies as a plan of action, retail organizations today are continually confronted with rivalry and for recognizing strategies to meet or surpass their opposition. Accomplishing consumer loyalty likewise has gotten more significant in the present cutthroat retail commercial center. To accomplish this objective, organizations search for procedures to advertise their items in a superior way or a more novel way.

### 1.1. Objectives

In a time where innovative advances move quickly, monetary turn of events and development happen so quickly in a country. The headway of innovation or computerized change which is getting quicker consistently makes it simpler for individuals to do exercises both in close to home and expert life, using applications, sites, which affect correspondence exercises with one another and purchasing and selling (exchanges). Reportal Digital Indonesia (2020), clarifies that there are 175.4 million web clients in Indonesia as of January 2020, an expansion of 17% from 2019, making web entrance in Indonesia at 64%. The increment in the quantity of web clients has a huge relationship with the absolute clients of computerized stages, for example, online media and commercial centers in Indonesia. As of January 2020, of the 160 million clients of advanced stages, specifically online media in Indonesia as a mode of correspondence and extending the organization with infiltration of 59%, while in the commercial center of absolute web clients

in Indonesia, 80% of clients utilize the computerized commercial center stage to make deals exchanges. purchase on the web. Monetary exercises that have begun to be completed dependent on applications and sites control practically all areas on the planet, from the exchange, banking, wellbeing, the travel industry, industry, instruction and preparing, transportation to farming. Of these numerous areas, the exchange area is the main area that at present controls practically all business sectors in Indonesia dependent on computerized innovation which we know as an online business.

The development of online businesses gives retail organizations another approach to offer to clients. In addition to the fact that it gives clients another vehicle for buying merchandise, yet additionally gives the client a speedier and simpler way. Retail associations as of now see the capability it can offer its customers and are looking for procedures to use web business to show up at their target market.

## **2. Literature Review**

### **a. Why Case Study**

Contextual analyses are accordingly misconstrued as a kind, just as a strategy for subjective exploration (Gerring, 2004). The subjective strategy for study upholds us to arrive at a perception of how Porter's traditional methods can be done in unadulterated online firms. The theory is that Porter's traditional frameworks are viable in the e-business environment, which engages unadulterated online firms to achieve and uphold high ground and improve their presentation. To find how the ordinary strategies have been executed in unadulterated online firms, a mindful appraisal of each nonexclusive procedure is coordinated through context-oriented examination assessment. A contextual investigation approach permits the mix of assorted wellsprings of proof to construct a profound comprehension of the cases (Stake, 2008). (George and Bennett, 2005) enjoy recognized four benefits of contextual analyses in contrast with quantitative strategies. Their capability to accomplish high reasonable legitimacy, solid methodology for encouraging new speculations, handiness for intently inspecting the conjectured job causal systems in the setting of individual cases, and their ability for tending to causal intricacy. The utilization of contextual analyses enjoys some extra benefits also. The connectedness to regular daily existence and contextual investigations plenitude singular components and subtleties are significant for scientists according to two perspectives. To start with, contextual analysis is significant for creating various perspectives on the real world, including the mindfulness that human conduct can't be seen only as a demonstration that is driven by a standard or a hypothesis. Second, contextual investigations can add to the expert improvement of specialists, as contextual analyses can give solid, setting subordinate experience that builds their examination abilities (Flyvbjerg, 2006).

### **b. The choice of Porter's generic strategy (1988)**

As a multifaceted and extensive concept, strategy is the formation of a distinct and valuable position that comprises a diverse set of activities (Porter, 1996). A further conceptualization of strategy is constructed upon competitive advantage, as stated by Porter (1985, page 3): Competitive advantage grows fundamentally out of value a firm is able to create for its buyers that exceed the firm's cost of creating it. Value is what customers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price. As referred above, Porter's (1980) proposed the generic strategy framework initiated on the understanding that for firms to compete successfully in the long run, they must choose a suitable strategic position. He suggests three generic methods to gain or strengthen competitive advantage, which are cost leadership, differentiation, and focus. Cost leadership strategy considers the means by which a firm delivers products and services at a lower cost compared to competitors within their industry (Banker et al., 2014). It necessitates that firms create resourceful scales that assist cost reduction, for example, through tight operating costs, years of experience, cost-minimizing in marketing and advertising, salesforce, and research and development (R&D) (Porter, 2001). Porter (1985) termed the cost leadership strategy as selling standardized products and services with competitive pricing. A cost leadership strategy may generate greater profitability as advocated by Porter (1985), where a strategic position of low cost offers firm protection against its competitors, as its low costs mean that it can still earn profits even after its competitors have competed away their profits through rivalry. Hence, the key focus of the cost leadership strategy is on a firm's effectiveness, which is an approach to achieving sustainable competitive advantage by reducing and controlling costs (Baack & Boggs, 2008). Differentiation strategy signifies the development of distinct products or services (Porter, 1985). Its focus is on differentiating the product or service offered by a firm, or in other words, producing products or services

that are perceived as unique industrywide (Animesh, Viswanathan, & Agarwal, 2011). Firms may attain differentiation strategies in several ways, including design, dealer networks, features, brand image, technology, and customer service by which they can differentiate themselves from their competitors (Thompson, Strickland, Gamble, & Gamble, 2010). The firms that can differentiate successfully usually set higher prices than their competitors to support the high costs of being different or unique. A differentiation strategy generates profitability as suggested by Porter (1980), as it offers defense against competition; this is because of brand loyalty by customers that may lead toward lower price sensitivity, which consequently raises margins and evades the necessity of adopting a low-cost position. A focus strategy targets serving a specific segment or target market of the industry well through cost leadership or differentiation (Davidson, 2001; Hlavacka, Ljuba, Viera, & Robert, 2001; Porter, 1980). According to Thompson et al. (2010), a focus strategy is intended at safeguarding a competitive advantage gained through either cost leadership or differentiation, which can become increasingly attractive if more of the following positions are convened. (a) The niche target market is adequately large to be profitable and proposes potential for growth. (b) It is expensive or challenging for mass segment rivals to put capabilities in place to meet the specific needs of customers including the niche target market as well as meeting their usual customers' expectations. (c) The industry has several different niches and segments, thus through adopting a focus strategy, a firm can create a competitively appealing niche that is appropriate to its resources and capabilities. The use of this strategy can offer a firm a combination of actions that are linked with cost leadership as well as differentiation in a niche target market from which high profits can be generated (Porter, 1985).

### c. The effect of generic strategy in E-Commerce

There is an overall stream of system research that evaluates methodology and firm execution (Dess and Davis, 1984; Fahey and Christensen, 1986; Miller and Cardinal, 1994; Kim and Lim, 1988). Various investigations have zeroed in on monetary execution that is reflected by proportions, like profit from resources (ROAs) and return on value (ROE), all-out benefit, and working edge (e.g., Ross, Westerfield, and Bradford, 168 FIROZ SULEMAN ET AL. 2003; Yamin, Gunasekaran, and Mavondo, 1999). A few earlier examinations (e.g., Banker et al., 2014; Kinyuira, 2014) demonstrate the positive connection between nonexclusive procedures and a company's monetary presentation. Despite the meaning of Porter's conventional systems structure in the customary business climate, there is an absence of comprehension on its ease of use and relevance to the e-business climate. To additionally explore this inquiry, this article proposes a writing audit to momentarily clarify the vital attributes of unadulterated online firms and how they shift from customarily physical firms (Dess and Davis, 1984; Miller, 1988). The aftereffect of the writing survey will at that point hypothesize a way to deal with further assess the pertinence of Porter's conventional methodologies system to the current E-commerce business climate. The online business climate is portrayed through its elements, vulnerability, and intricacy along with serious worldwide competition which is to a great extent because of the accessibility of the Internet (Wu and Brynjolfsson, 2015). As indicated by Peng, Quan, and Zhang (2013), the Internet offers firms with intemperate geological inclusion and borderless connections, proposing that organizations should zero in on significant degrees of creation and development (Teece, 2012; Zhu et al., 2006). It additionally empowers firms to improve their adaptability, responsiveness and transforming their practices and relations at both inside and outside levels (Bak and Stair, 2011).

The E-commerce business setting further shows the need for executing most recent advances just as utilizing distinctive quality or profitability edges, along these lines reengineering practices to accomplish cost-adequacy and adaptability on the developing clients' requests (Dyer and Ericksen, 2010). In such dynamism, where online business models can be imitated and not be seen as suffering for since a long time ago run manageability (Porter, 2001), there is a need for supportable intensity through suitable vital situating which would give chiefs esteem added acquire (Banker et al., 2014). There are different internet business models that have arisen throughout the long term, that is, unadulterated online firms and snap and-mortar firms. E-commerce business organizations expect to just capacity in the online commercial center and use it as an option for serving regular business sectors (Koo, Koh, and Nam, 2004). Subsequently, unadulterated online firms don't have an actual presence for the business connection with its clients, whereby the shortfall of actual stores brings down the expenses of these organizations (Kim et al., 2004). Customer satisfaction with the company and its products will affect future customer behavior that has a significant impact on business performance (Nurcahyo, R., Dody, P.N., Yadrifil, Z.Z.Z., Habiburrahman, M., Wibowo, N. 2020). Interestingly, snap and mortar firms take part in the E-commerce business climate in an adjusting way and build up their activities in regular business sectors letting clients to buy from physical and additionally online stores (Koo et al., 2004). The two kinds of internet businesses have various ways to deal with creating and

carrying out their cutthroat methodologies, as they have disparate assets and inspirations and they contend on various key powers (Porter, 2001). The E-commerce business organizations slope to misuse the utilization of the Internet and online advances as their lone business channel, though snap-and-mortar firms control their present assets to expand benefit from e-business just as staying away from channel clashes (Ghemawat and Baird, 1998). There are a few examinations that considered the significance of nonexclusive methodologies in an e-business setting, while few researchers zeroed in on E-commerce business organizations to explore the connection between conventional techniques and execution.

### 3. Methods

This investigation gives the exploratory sort of examination, a subjective approach (Eisenhardt, 1989), and chose numerous contextual analysis techniques as the examination plan (Yin, 2003). Cases can be chosen toward the start of the examination study, for example in the planning stage, in light of the hypothetical system and anticipated outcomes. Yin clarifies that replication rationale is not the same as the examining rationale utilized in reviews. In inspecting rationale, various respondents are expected to "address" a bigger pool of respondents. This permits measurable speculation. Contextual analyses, utilizing replication rationale, permit logical speculation, in which a formerly evolved hypothesis is utilized as a layout with which to think about the experimental aftereffects of the contextual analysis. "In the event that at least two cases appear to help a similar hypothesis, replication might be asserted. The experimental outcomes might be considered at this point more powerful if at least two cases support a similar hypothesis however don't uphold a similarly conceivable adversary hypothesis (Yin, 1994).

As expressed by Yin (2009), there is no best amount of cases, while a number among 3 and 10 gives off an impression of being the best one. Thusly, the investigation depends on a subjective examination, it essentially centers around internet business organizations in Indonesia. With the end goal of this exploration, three key performing E-commerce companies are chosen dependent on the accompanying standards: (a) the E-commerce business organization firm is a simply huge online organization; (b) the internet business organization must have been set up and worked on the lookout for more than 10 years, and (c) the internet business organization must be famous as a critical part on the lookout.

### 4. Data Collection

To operationalize serious methodologies, the definitions indicated by Porter (1980) and the apparatuses applied in previous examinations (e.g., Parnell, 2011; Pelham and Wilson, 1996; Spanos and Lioukas, 2001) were applied.

Table 1. Basic Data for 3 e-commerce companies in Indonesia

Rank	Company	Base	Age in industry	Employees	Funding	Revenue	References
1	Tokopedia	Jakarta	11 years	5000	\$2.8B	\$15M	owler.com
2	Bukalapak	Jakarta	10 years	2600	\$584M	\$8.3M	owler.com
3	Blibli	Jakarta	9 Years	200	N/A	\$100M	owler.com

To analyze the company's competitive strategies and their impact on performance, a brief overview of three selected cases, that is, Tokopedia, Bukalapak, and Blibli. is presented, which is then followed by a careful investigation of the e-commerce companies' strategies and financial performance.

Tokopedia was established on 6 February 2009 by William Tanuwijaya and Leontinus Alpha Edison. The organization oversees Tokopedia.com, which was openly dispatched on 17 August. The organizers, who were named in little urban areas in Indonesia, attempted to deal with the disparity issues within the country. Subsequently, the organization's mission is to democratize business through innovation. Beginning with an advertisement center business, Tokopedia has now developed into an innovative organization with the commercial center, fintech, installment, coordinations, satisfaction, and new retail organizations. The organization's name comes from joining Toko, Indonesian for "shop", with "reference book". In 2009, PT Tokopedia got introductory seed financing from PT Indonusa Dwitama of IDR 2.5 billion. rapidly, Tokopedia pulled in capital infusions from worldwide investments, including East Ventures (2010),

CyberAgent Ventures (2011), NetPrice (2012), and SoftBank Ventures Korea (2013). In October 2014, Tokopedia discovered a way to leave a mark on the globe because the main innovation organization in the geographic area urged US\$100 million from SoftBank Internet, Sequoia Capital, and Media Inc (SIMI). In April 2016, Tokopedia raised another \$147 million. In 2017, Tokopedia got a \$1.1 billion venture from Chinese web-based business monster Alibaba. Again in 2018, the organization got a \$1.1 billion subsidizing round drove by Chinese online business goliath Alibaba Group Holding and Japan's SoftBank Group putting its valuation to about \$7B. In November 2020, Tokopedia got subsidizing from US-based web firm Google and Singapore state store Temasek Holdings.

Bukalapak was established in 2010 by Achmad Zaky with two of his school companions from Bandung Institute of Technology, Fajrin Rasyid and Nugroho Herucahyono. Bukalapak permits clients to carefully sell their merchandise without lots of capital and make exchanges. Bukalapak's first significant achievement was when collapsing bikes began occupancy in 2010. Around then there have been numerous networks selling different varieties of bicycles and trekking extras, which assumed a critical part in expanding Bukalapak's clients. Bukalapak must accept SMEs everywhere in Indonesia and afterward International to use cutting-edge innovation to expand their market reach. The epithet "Pelapak" may be a typical term want to call the merchants in Bukalapak. Bukalapak is additionally notable for its endeavors to simply accept its pelapak networks everywhere in Indonesia and afterward International, which maintains the upsides of participation, harmony, trustworthiness, and hunger for information. In 2019, Bukalapak laid off many workers. The cutbacks were the aftereffect of a change in procedure and effectiveness upgrades. The organization is ending its shrewd retail and web of-things divisions prompting position cuts among engineers. The startup likewise shed some advertising jobs in light of overexpansion, yet center capacities like advanced showcasing stay unaffected.

Blibli.com is one of the web business sites in Indonesia. Blibli is the principal result of PT Global Digital Niaga, which is an auxiliary of Djarum focusing on the digital business, which was established in 2010. Blibli teams up with innovation specialist co-ops, coordination accomplices, banking, and exchanging accomplices with specific principles to create a back-end framework that will address the problems blibli clients. Blibli's workplace is settled in West Jakarta with foundation expenses, as an example, workers and organizations of just about Rp. 100 billion. Kusumo Martanto, President Director of Blibli, is likewise forcefully extending. He said that since August 2011, he has spent speculation assets of up to Rp 50 billion. The venture is employed for the development of the plan and site administrations. "Specifically making classes for brand new merchandise or items," he said.

## 5. Result and Discussion

### 5.1 Numerical Result

Tokopedia, Bukalapak and Blibli are still in the top 5. The local e-Commerce with the highest average monthly visitors this year is still the same as the previous years. Tokopedia consistently ranks first as e-commerce with the highest number of monthly web visits 86,100,300.

Table 2. Strategic positioning and Financial performance of the case studies

		Tokopedia	Bukalapak	Blibli
<b>Competitive Strategies</b>				
Cost Leadership	Price Leadership	Medium	Medium	Medium
	Production and service cost advantage	High	Medium	Medium
	Operation Cost Advantage	High	Medium	Medium
Differentiation	Spending on design of products/services	High	High	Medium
	Quality of products/service	Medium	Medium	High
	Quality of customer service	Medium	Medium	Medium
	Breadth of products and services	Medium	Medium	Medium
Cost Leadership	Cost reduction effort for the segment	Medium	Medium	Low
Focus/differentiation focus	Price competitiveness in the segment	High	High	Low
	Innovative processes for the segment	High	Medium	Low
	Unique technology	Medium	Medium	Low
<i>Performance (Average value Jan – Dec 2020)</i>				
Monthly Web Visit		86.100.300	35.288.100	18.307.500
Increase Transaction Value		26%	18%	12%

IoS Ranking	#1	#2	#3
Playstore Rangkaing	#1	#2	#3

Source: iprice, Mirae Asset Sekuritas Indonesia Research

### 5.2. Graphical Result

Top 10 e-commerce sites in Indonesia as of 4th quarter 2020, by monthly traffic (in million clicks) shown in Figure 1

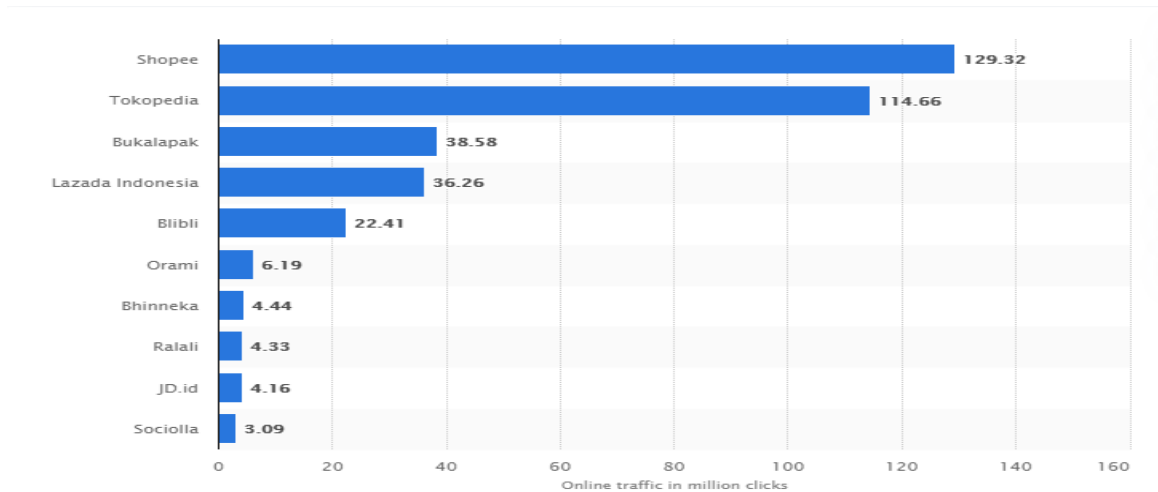


Figure 1. Top 10 e-commerce sites in Indonesia as of 4th quarter 2020, by monthly traffic (in million clicks), Statista 2021

Toko Online	Pengunjung Web Bulanan	Ranking AppStore	Ranking PlayStore	Twitter	Instagram	Facebook	Jumlah Karyawan
1  Shopee	129,320,800	#1	#1	541,700	7,100,000	19,908,390	9,066
2  Tokopedia	114,655,600	#2	#4	710,400	2,400,000	6,372,160	4,521
3  Bukalapak	38,583,100	#7	#7	199,600	1,363,070	2,514,260	2,446
4  Lazada	36,260,600	#3	#3	411,400	2,600,000	30,461,740	4,500
5  Blibli	22,413,100	#6	#5	514,800	1,389,780	8,539,020	2,106
6  Orami	6,186,200	#27	#22	5,960	530	352,140	205
7  Bhinneka	4,442,600	#20	#20	68,900	41,910	1,048,380	603

Figure 2. e-commerce map competition in Q4 2020

### 5.3 Proposed Improvements

The force of the internet advancements has worked with mass customization and given firms approaches to offer novel items and remarkable help. In any case, a differentiator online firm can be in danger when there is expanded expense differential between the minimal effort and the differentiator internet business organizations; this is because of the way that an ease online player can without much of a stretch propel clients to switch brands, so clients might forfeit the extra highlights that the differentiator internet business organizations offer for a tremendous expense saving. Moreover, there is a danger of rivalry whereby other E-commerce business organizations mimic items and administrations, which thus would limit the apparent contrasts. Like expense authority and separation procedures, a center methodology is probably going to be sought after by an e-business to look for upper hand through separation or cost administration in a distinct market fragment. E-commerce business organizations that seek after a center technique can target market fragments cautiously and offer customized items and administrations to clients by utilizing the Internet-based innovations (Sumer and Bayraktar, 2012). Internet business organizations can acquire upper hand by executing a center technique through sending assets across the worth chain to acquire greatest returns. This would recommend that online firms should guide their showcasing exercises to specific clients and give enhanced the center items or administrations (Bakos, 1998). Besides, a center methodology empowers an internet business organization to limit the reaction time to clients' solicitations and improve clients' administration based on customized corporations by utilizing on the web data advances (Kim et al., 2004). Technological development nowadays tends to seamlessly grow, including in digital payment technology. This has brought structural changes in the banking industry, which emerged the industry to change into new digital banking services. (Yulianti, et al. 2019). This perspective should also be considered by the e-commerce companies in order to enlarge and gain the customer development and customer satisfaction in the end. Customer satisfaction is regarded as a response occurring at a particular time and towards a specific focus (Fainusa, et al. 2019)

### 5.4 Validation

Our examination shows that a separation technique will in general be sought after by E-commerce companies dependent on modified items and additional benefits, which are viewed as selective and profoundly esteemed by clients. E-commerce companies can achieve separation benefits when the cost charges surpass the extra costs that are experienced in being one of a kind (Booth et al., 2011). A differentiator online firm should look for techniques for separating itself from different contenders the same to guard cost charges at a level higher than the expense experienced by separating. The Internet and online advances empower the differentiator E-commerce business organizations to coordinate with clients through mass customization, which improves the way that E-commerce companies respond constantly to the clients' requests. It ought to be noticed that mass customization has gotten progressively famous with the development of adaptable assembling frameworks (Mourtzis, 2016). The Internet has extensively improved the cycle of mass customization as it brings clients near the firm and worked with the immediate correspondence between them (Pine, 1993; Goldman, Nagel and Preiss (1995); Anderson, 1997). In this way, mass customization empowers E-commerce companies to improve their item contributions, support their standing for quality, maintain their image picture, and decline costs simultaneously (Mourtzis, 2016).

## 6. Conclusion

If you refer to data from iPrice, Tokopedia is currently the most popular marketplace in Indonesia with the highest download rate on the Play Store (see table). The marketplace that occupies the second most popular position in Indonesia is Bukalapak, followed by Blibli. In fact, the three big brands also experienced an increase in transactions almost simultaneously. Like Bukalapak, the e-commerce company founded by Achmad Zaky has reported an increase

in transactions of up to 18 percent recently. The potential for increased sales can actually be seen from the increasing number of merchants joining Tokopedia, consumers in Indonesia are not loyal consumers of one brand. When they saw there was no discount, they moved right away. And it has been tested several times. These are the keywords of Tokopedia's success that make it a successful fee structure company, profit from economies of scale, and have a solid customer base. The companies under study consider innovation, production efficiency, and customer orientation as the basis of their competitive advantage. This article proposes that a cost leadership strategy is able to generate greater performance for e-commerce companies. However, since the internet offers e-commerce companies the possibility of cutting costs down as well as prices, a differentiation strategy can be more worthwhile and sustainable for e-commerce companies.

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## Biographies

**Davis Belmiro** is currently pursuing a Master's degree at Universitas Indonesia, Started in September 2020. He completed his undergraduate study program at the Industrial Engineering Universitas Indonesia from 2016-2020. Apart from studying, he is also a stock trader and an entrepreneur who runs several businesses in service industry.

**Gandi Bintang** is currently attending a Master Degree program in Industrial Engineering at Universitas Indonesia started in September 2020. Due to the conditions of the Covid-19 pandemic, this total program lecture was conducted online. He completed his undergraduate study program from the Industrial Engineering Universitas Sumatera Utara, Medan from 1999-2005. In addition to actively studying for Master Degree, he is also still actively working in a paper and flexible packaging factory in the Supply Chain Management section. Apart from studying and working, he also runs a small culinary business from home.

**Sandi Bakti** is born in Medan, Indonesia, 1985. He is currently pursuing a Master's degree at Universitas Indonesia started in September 2020. He completed his undergraduate study program at the Industrial Engineering Universitas Mercu Buana from 2010-2012. He is also an oil palm farmer on home livestock industry and a technical expert for Village Own Enterprise on disadvantage area in Indonesia