Comparison of Porter’s Generic Strategies in Indonesia’s FMCG Companies: A Case Study

Hanoum Salsabila, Mutia Perwita Sari, Wendy Febrianty Mardhiyah, Raisha Dinita
Industrial Engineering Department, Faculty of Engineering
Universitas Indonesia
Kampus UI Depok, Depok 16424
hsalsabila@gmail.com, mutia.perwitasari24@gmail.com, wendyfbrnty@gmail.com, raishadinita@gmail.com

Abstract
The competition in the FMCG sector is quite fierce because consumers are sensitive to the prices. Market for FMCG companies in Indonesia is pretty stable. However, as consumers have access to the information needed, they become more selective in choosing the right products. Companies have to develop a strategy to make goods that stand out from their competitors. Porter’s generic competitive strategies are one of the most widely adapted frameworks for business strategy formulation. In this paper, the companies’ competitive strategy was evaluated using Porter’s generic strategies. Then financial performance of each company is assessed, to compare the result of the applicability of Porter’s generic strategies. Using Indofood and Mayora as a study case, results have shown that both of the companies have successfully implemented Porter’s generic strategies. However, Mayora implementation of Porter’s generic strategies have a better positive impact to the financial performance of the company compared to Indofood.

Keywords
Porter’s generic strategies, FMCG sector, financial performance, competitive advantage

1. Introduction
Fast-moving consumer goods (FMCG) or consumer packaged goods are products that are sold at low cost and relatively quick. These goods include beverages, toiletries, package foods, over-the-counter medicines, candies, and others. FMCG goods have a high turnover (have a short shelf life) because these goods are consumed and purchased continuously, at a low price, and in large quantities. The competition in this industry is quite fierce because consumers are sensitive to the prices.

Market for FMCG companies in Indonesia is pretty stable. However, as consumers have access to the information needed, they become more selective in choosing the right products. The availability of goods in the market and the prices are the most important aspects. Companies have to develop a strategy to make goods that stand out from their competitors.

Industrial performance can be defined as a set of financial and non-financial indicators that indicate the proportion of goals and results that have been met. Manufacturing performance is critical to a company's success, as superior performance leads to increased competitiveness. Companies in the manufacturing sector must identify and evaluate the parameters that improve their performance, particularly those related to operational performance (Nurcahyo et al. 2021)

A company can ouperform rivals only if it can establish a difference that it can preserve (Porter 2000). Strategy plays a significant role in business performance, so if an organization develops a good and clear strategy, the performance is likely to be better (Parnell 2010). Porter’s generic competitive strategies are one of the most widely adapted frameworks for business strategy formulation, so they are used in this research to analyze the performance of FMCG companies in Indonesia.

Cost leadership and differentiation are the two main types of strategic choices for achieving competitive advantage available to firms, whereas focus strategies are only suitable for small firms targeting niche market segments. Based on the past research at Unilever Nigeria PLC, shows that implemented product differentiation give significant results
on organizational performance. This means that the companies must pay more attention to products, especially in terms of design quality, innovation and unique features (Dirisu et al. 2013).

As the FMCG companies deal with domestic and international competition in addition to rapid changes in customer demand, the companies have realized to seek competitive advantage to grow financial and company performance. This research focused on the applicability of Porter's generic strategies and how it influences the performance of the FMCG companies, using PT Indofood Sukses Makmur Tbk and PT Mayora Indah Tbk as a study.

This paper contributes to the fields of (i) selective in choosing the right FMCG’s products, (ii) develop a strategy to make goods to compete with the competitors, (iii) implementing and comparing Porter’s generic strategies, (iv) anticipating better positive impact to the financial performance of the company.

1.1 Objectives

The objective of this research is to analyze the application of Porter’s generic strategy in the FMCG Company in Indonesia. This research selected two FMCG Companies in Indonesia as the case study to analyze the application of Porter’s generic strategy, those companies are PT Indofood Sukses Makmur Tbk and PT Mayora Indah Tbk. This research will understand and analyze the applicability of Porter's generic strategies and explores how the generic strategies will give impacts on the financial performance of the company. This research will use several financial performance indicators as the aspects of comparative evaluation between the companies. The financial performance indicators that will be the comparative aspects are Return on Assets (ROA), Return on Equity, Profit Margin, and Operating Margin.

Based on the situation and the objective of this research, the problem can be formulated into the two following questions, (a) How is the applicability of Porter’s generic strategies in FMCG Company in Indonesia? (b) How is the impact of the application of Porter’s generic strategies on the financial performance of the company?

2. Literature Review

2.1 Porter’s generic strategies

Michael Porter's generic strategy theory gives businesses the ability to remain competitive and thrive in a competitive environment. Strategy is a crucial component of every successful company plan. The industry discovers its industry niche and learns about its consumers by employing an effective competitive strategy. Porter defines strategy as the ability of a company to acquire a competitive advantage through three main strategy: cost leadership, differentiation, and focus. This is referred to as a generic approach by Porter. The first strategy, according to Porter, is cost leadership. If a company succeeds in lowering costs and, as a result, can set the lowest price, the company will be able to maintain a larger market share than its competitors. The second generic strategy, differentiation, allows the company to charge a higher price because the offered product competes with other competitors on the basis of higher quality, or the customer's perception of higher quality. The third strategy is focus strategy, which is divided into two categories. A company with a cost focus seeks a cost advantage in the targeted market segment, whereas a company with a differentiation focus seeks to create a differentiated focus for a specific market segment. Both approaches are based on identifying differences between the company's regular customer base and identified market segments that would otherwise fall outside the scope of the company's business. Customers with varying needs will be represented in the identified segments, and delivery must differ significantly from that of other industry segments (Porter 1985).

The effectiveness of a specific generic strategy may be affected by the industry structure. According to Porter, the industrial structure is relatively stable but subject to change as the industry evolves. Structural change alters the overall and relative strength of competitive strength, which can have an impact on industry profitability either positively or negatively. Industry trends that affect industry structure are the most important for strategy. The generic strategy is not limited to private-sector business analysis and it can also be applied to state-owned enterprises with a customer base (Brett 2018).

2.2 Competitive Advantage

Competitive advantage is a factor that influences the product or service that is offered by the company to meet the customer’s needs better than the competitor. This term can also be defined as any activities that the company does very well compared to the competitor. Anything that the company does better than the other competitor or even anything that the competitor can not do. Companies can have competitive advantages through the innovation, including the company’s activities, product, or service. Once the company achieves the competitive advantage, it will sustain through continuous improvement (Porter 1990).

A company needs to make an effort to sustain a competitive advantage. Competitors can affect the competitive advantage of the company. The existence of a new competitor can ruin the competitive advantage of the company. It
can bother the market position of the company. A company can gain a competitive advantage by smartly positioning itself in the market. The internal aspect of the company, such as resources and capability can also help the company to achieve a competitive advantage (Barney 1991 cited in Wang & Gao 2021). A company must strive and need to do something to control and achieve sustained competitive advantage. A company must be aware and constantly adapting to the changes of industry trends and the internal condition of the company, such as internal capabilities, competencies, and resources. A company needs to effectively formulate, implement, and regularly evaluate the strategies that are related to those factors (David 2011).

According to Porter, there are four aspects that affect how the company can achieve competitive success, factor conditions; demand conditions; related and supporting industries; the last is firm strategy, structure, and rivalry. Factor conditions are based on the nation’s position including production, labor, land, natural resources, capital, and infrastructure, which is necessary for the company to compete in a given industry (Porter 1990). Demand conditions, the market demand will influence the competitive advantage of the company. It will help the company to build a competitive advantage. If there is large market demand, the company will invest to get economies of scale which contributes towards building a competitive edge (Kharub & Sharma 2017). Related and supporting industries also will influence the competitive advantage of the company. Related industries are the external factors, such as suppliers that the company can manage the activity in the value chain when competing. This will contribute to the four dimensions of competitive priority, which are cost, flexibility, quality, and delivery. Firm, strategy, structure, and rivalry generate how the company was created, organized, structured, and managed, as well as the nature of domestic competitors (Nair 2006, cited in Kharub & Sharma 2017). The existence of a strong competitor is an impressive stimulus to the creation of competitive advantage (Porter 1990).

As stated by Nurcahyo et al. (2019), several dimensions of manufacturing strategy to gain a competitive advantage have been developed, but the four most important factors are cost, quality, delivery and flexibility. All of the factors have to work in parallel with improvements in manufacturing capabilities to establish manufacturing strategies.

2.3 Financial Performance

Oroman et al. (2011) show that industry in the FMCG sector is one of the most intense "Competition Driven" industries, which is continually in a state of dynamic transition. the only factor that encouraged these firms to stay competitive and creative. Posavec et al. (2021) show that competitive and creativeness of a company can be seen by the level of efficiency and a success of financial performance. In its application. Porter’s strategy has a positive effect on the financial performance of the firms. Financial analysis is a process of determining important business and financial characteristics of a company from accounting data. It is characterized by a wide use of financial reports and various financial indicators - key figures. The task of financial analysis is to identify good features of the company that could be exploited and also to identify weaknesses of the company that could be corrected.

Rahman et al. (2020) on his research finding that the higher the level of efficiency, the better is firm profitability. These results are robust to alternative measures of firm profitability, specifically, return on assets (ROA), return on equity (ROE), gross profit margin (GPM) and net profit margin (NPM). Banker et al. (2014) Return on Asset shows the company’s ability to generate profits from the assets used. ROA is the earnings before extraordinary items divided by the average total assets, as the measure of a firm’s performance. ROE is known to be sensitive to differences in capital structure and was ruled out[13]. Firoz Suleman et al. (2019) The earnings before extraordinary items divided by the average total assets, as the measure of a firm’s performance. Argues that firms’ performance was operationalized through four key ratios, that is, ROA, ROE, total profit, and operating margin for the last five operating. This evaluation enables researchers to assess the strategic success of a firm to see how efficiently a firm has managed its assets and resources to generate earnings.

2.4 The Effect of Generic Strategies on FMCG Companies’ Performance

Several studies prove that there is a significant relationship between generic studies and firm’s financial performance. Suleman et al. (2019) show that pure online firms such as Amazon, eBay and Google have developed by the successful implementation of Porter’s generic strategies, which has provided them with competitive advantage. The firms have successful cost structures, profit from economies of scale, and have a solid customer base. Banker et al. (2014) find that adopting a differentiation strategy enables a firm to sustain a superior performance with a large sample of firms. Kinyuira (2014) also supports the findings and conclude from the data analysis and interpretation that there is a positive relationship between generic strategies and performance with cost leadership having the greatest effect. Akan et al. (2006) state that porter’s generic strategies are an option for any firm to pursue to achieve success
and longevity. Besides, participants in an industry can achieve a better performance as long as they are closely attached to the strategy and not trying to move toward a “stuck in the middle” position trying to satisfy all of the customers.

Furthermore, we investigate the influence of generic strategies on financial performance in manufacturing firms. There are various studies that highlighted the influence of generic strategies in manufacturing companies. Manufacturing firms in the UK (electrical and mechanical engineering sectors) pursuing an integrated strategy performed better than stuck-in-middle firms in terms of all performance measures except ROA. According to Nandakumar et al. (2011), the firms that apply cost-leadership and differentiation strategies have a better performance than the organizations using integrated strategy when the financial performance measures were the dependent variables. The authors suggest future research in other manufacturing sectors to discover the applicability of these findings. Dirisu et al. (2013) proposed that using regression analysis specified that product differentiation strategy has a positive and significant influence on organizational performance of manufacturing companies in Nigeria, using Unilever Nigeria Plc as a case study. However, this research doesn’t show the measure / indicator of the company’s financial performance (e.g., ROA, ROE) and focuses on one generic strategy. Miller (1992) suggests that buyers of consumer goods prefer high quality, an attractive brand image and a reasonable price. The combination of cost and quality is what makes the company hard to compete with. This research is using purely qualitative analysis and lacks financial indicators.

Hence, the review of the literature that uses Porter’s generic strategies lack adequate research in FMCG companies that assess all of the generic strategies’ framework and the impact of it on financial performance using a non-multinational company. This study aims to fill the research gap by assessing the competitive strategy of two biggest FMCG companies in Indonesia and investigating how their implementation of strategies affect their financial performance.

3. Methods
3.1 Research Method and Data Sample

The problem of this research is formulated into questions. According to Baxter and Jack (2008), case study approach is the appropriate qualitative design for a research with how and why questions. There are numerous advantages of using a case study approach (Zainal 2007). First, the analysis of the data is within the framework of its use in which the activity occurs. Second, the case studies enable quantitative and qualitative analyses of the data. Longitudinal case studies depend on qualitative data from another journal. Otherwise, many case studies totally depend on quantitative evidence. Third, the detailed qualitative analyses as a result from a case studies approach aid to explain the complexities of real life situations that might not be described by survey and experimental approach.

Then, we conduct a multiple case study as this study aims to compare Porter's generic strategies in two FMCG companies. A multiple case study will enable the researcher to investigate inside every setting and across settings (Bexter and Jack 2008). This research focuses on FMCG companies, and the companies are selected based upon a criteria: (a) the companies are the largest FMCG companies in Indonesia; (b) the company is originally from Indonesia and not a multinational company.

Case studies are indicative of biased views to affect the findings and conclusion (Zainal 2007). In order to minimize the bias in the qualitative case study approach, data with numerous sources were used. The supplementary research was done by considering the firms’ annual report and financial statement, reliable financial databases and articles.

To elaborate Porter’s generic strategies, the measured items are used based on Suleman (2019) and a few adjustments to follow the characteristics of the study case. Cost leadership strategy was measured by using three items – price leadership, production cost advantage and operation cost advantage. Differentiation strategy was measured by using two items – spending on design of products and quality of products. And to evaluate focus strategy, three items were used – cost reduction effort for the target market, price competitiveness in the target market, and unique technology for product / service differentiation. Table 1 shows key characteristics of the case studies.

The secondary data were used to gather information related to the firms’ strategy types. The data collected from firms’ annual report for the years 2015-2019, financial statements, reliable financial databases and articles. Then, the authors analyze items using high and low scales built upon secondary research and observation.

Firm performance measured by their financial performance using four key ratios, Return on Assets (ROA), Return on Equity (ROE), Profit Margin and Operating Margin from 2015 to 2019, taking into account the availability of data.
Table 1. Key characteristics of the case studies

<table>
<thead>
<tr>
<th></th>
<th>Geographical base</th>
<th>Net sales (Billion Rupiah)</th>
<th>Number of years in FMCG</th>
<th>Number of employees</th>
<th>References</th>
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<tbody>
<tr>
<td>Indofood</td>
<td>Jakarta</td>
<td>76.593</td>
<td>37</td>
<td>88704</td>
<td>Annual Report PT Indofood Tbk. (2019)</td>
</tr>
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4. Data Collection and Analysis

To analyze the firms' competitive strategies and their impact on performance, a brief overview of two selected cases, that is, PT. Mayora Indah Tbk and PT Indofood Sukses Makmur Tbk. is presented which is followed by observation of the company's generic strategies and financial performance.

PT. Mayora Indah Tbk was established in 1977 with its first factory located in Tangerang with the target market in Jakarta and the surrounding areas. After successfully serving the Indonesian market, Mayora conducted an Initial Public Offering and was listed as a public company in 1990 to target a wider market: the ASEAN consumers. Mayora further expanded its market share to other Asian countries. Currently, Mayora's products are spread across 5 continents. Mayora's products have even reached outer space when, in 2017, crew members brought Kopiko Candies aboard the International Space Station orbiting the Earth. As a Fast-Moving Consumer Goods Company, PT. Mayora Indah Tbk has proven to be a manufacturer of high quality food and beverage products, and has garnered a considerable number of awards.

PT Indofood Sukses Makmur Tbk, which was incorporated as PT Panganjaya Intikusuma in 1990, The business activities of the company in accordance with the articles of association are engaged in manufacturing, trade, agribusiness and services. Business activities conducted by Indofood include, among others, the flour milling industry, which itself is integrated with the company’s subsidiary engaged in the field of consumer branded products; the agribusiness industry, which consists of oil palm plantations and related processing mills, as well as other types of plantations and processing operations; as well as distribution. PT Indofood Sukses Makmur Tbk has proven to be a manufacturer of high quality food and beverage products, and has garnered a considerable number of awards.

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

<table>
<thead>
<tr>
<th></th>
<th>Indofood</th>
<th>Mayora</th>
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<tr>
<td>Cost Leadership</td>
<td></td>
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<tr>
<td>Price Leadership</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Production Cost Advantage</td>
<td>Low</td>
<td>High</td>
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<tr>
<td>Operation Cost Advantage</td>
<td>Low</td>
<td>High</td>
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<tr>
<td>Differentiation</td>
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<tr>
<td>Spending On Design Of Products</td>
<td>Low</td>
<td>High</td>
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<tr>
<td>Quality Of Products</td>
<td>High</td>
<td>High</td>
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<tr>
<td>Cost Leadership Focus / Differentiation Focus</td>
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<tr>
<td>Cost Reduction Effort For The Target Market</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Price Competitiveness In The Target Market</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Unique Technology For Product/Service Differentiation</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Performance (average value 2012–2016)</td>
<td></td>
<td></td>
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<tr>
<td>Return on Asset (ROA)</td>
<td>5.56%</td>
<td>10.80%</td>
</tr>
<tr>
<td>Return on Equity (ROE)</td>
<td>10.72%</td>
<td>22.00%</td>
</tr>
<tr>
<td>Profit Margin</td>
<td>7.10%</td>
<td>7.86%</td>
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<tr>
<td>Operating margin</td>
<td>12.34%</td>
<td>12%</td>
</tr>
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</table>
4.1 Evaluation of the Companies’ Competitive Strategy

Table 2 shows strategic positioning using Porter’s generic strategies and financial performance of the case studies for PT Indofood Sukses Makmur Tbk and PT Mayora Indah Tbk. As stated above, cost leadership strategy was measured by using three items – price leadership, production cost advantage and operation cost advantage. Differentiation strategy was measured by using two items – spending on design of products and quality of products. And to evaluate focus strategy, three items were used – cost reduction effort for the target market, price competitiveness in the target market, and unique technology for product/service differentiation. Financial performance of the companies was measured by ROA, ROE, Profit Margin and Operating Margin.

4.1.1 Indofood

Indofood has implemented differentiation as its generic strategy to achieve competitive advantage. Based on the product, Indofood divides into 7 divisions namely Noodle Division, Dairy Division, Nutrition and Special Foods Division, Snack Foods Division, Food Seasonings Division, Bogasari Division, Agribusiness Division. Product differentiation carried out by PT Indofood Sukses Makmur Tbk. done to win the competition to dominate market share. Indofood products have different products from their competitors in terms of flavours. The noodle division continues product innovation by developing new flavors to meet consumer tastes and strengthening its product portfolio. In 2019, various new products were launched and reintroduced, including Indomie Hype Abis Mi Goreng Ayam Geprek, Indomie Hype Abis Mi Goreng Chitato Rasa Sapi Panggang, Sarimi Gelas Rasa Sosis and Indomie Premium Collection Series, while products with regional flavors, namely Indomie Mi Goreng Aceh was successfully relaunched nationwide (Indofood.com 2021). Indofood created the collections of instant noodle products as a premium choice, Indomie Real Meat. Indomie Real Meat is a breakthrough concept of Indomie using box packaging with retort technology in order to maintain product quality. With this high-tech packaging, Indomie Real Meat does not use preservatives to maintain product freshness. With retort technology, the freshness of toppings such as beef, potatoes, quail eggs, and spices is safe for consumption and is still sterile as long as the packaging is not damaged (Indofood.com 2021).

New products include Indomilk Good to Go, Indonesia's first multi-cereal milk, which is available in a choice of Chocolate-Avocado and Strawberry Banana flavors. The Dairy Division also launched Indoeskrim Max Swich, the first ice cream sandwich in Indonesia that offers vanilla and chocolate ice cream covered with melted chocolate and a sprinkling of peanut chunks on one side and crunchy biscuits on the other (Indofood.com 2021).

Indofood has implemented a focus strategy as its generic strategy. The strategy is used to build competitive advantage in a niche market segment with the ability to meet consumer needs well. PT Indofood concentrates on the production of instant food and various kitchen ingredients. Starting from instant noodles, pasta, kitchen oil, margarine, instant spices, snacks, milk, to bottled water.

4.1.2 Mayora

PT Mayora Indah Tbk. has implemented cost leadership as its generic strategy to achieve competitive advantage. Mayora products can be divided into 8 categories: biscuit, candy, wafer, chocolate, coffee, instant food, beverage and cereal. Mayura using the concept of prices that can be reached by consumers in all its products with good quality, considering that many products from Mayora are market leaders such as kopiko, mie gelas, astor, choki-choki, beng-beng, and roma (Mayora.com 2021).

In Indonesia, Mayora is not only known as a company that produces processed food and beverage, but is also known as a successful market leader in producing products that have become pioneers in their respective categories. The Company's innovative products include Kopiko candy as the pioneer of coffee candy, Astor as the pioneer of the wafer stick, beng beng as the pioneer of chocolate-coated caramel wafers, Choki-choki as the pioneer of chocolate pasta, Energen as the pioneer of cereal drinks, Torabika Duo Coffee and Duo Susu as the pioneers of the coffee mix, Kopiko Brown Coffee as the pioneer of coffee blending with palm sugar, Torabika Creamy Latte as the pioneer of coffee Latte with a separate sugar serving. PT Mayora can be concluded that the main strategy carried out by them is a differentiation strategy by emphasizing quality as well as continuous innovation. This is based on the consideration of the increasingly rapid development of the middle class and the increasing number of people who are aware of the importance of the quality of the goods they consume. The strategy applied by PT Mayora Indah led to the creation of the Mayora brand to dominate almost all world market shares and reach 90 countries in the world. As one of the Fast Moving Consumer Goods Companies, PT. Mayora Indah Tbk has proven itself as one of the producers of high-quality food and has received many awards, including the "Top Five Best Managed Companies in Indonesia" from Asia Money, "Top 100 Exporter Companies in Indonesia" from Swa magazine, "Top 100 public listed companies " from Investor Indonesia magazine, “ Best Manufacturer of Halal Products ”from Indonesian Ulema Council, Best Listed
Company from Berita Satu,“ Indonesia's Corporate Secretary Award, Top 5 Good Corporate Governance Issues in Consumer Goods Sector, from Warta Ekonomi (Mayora.co.id 2021).

In the midst of this pandemic, Mayora has made several product innovations by launching Energen Kurma which provides additional benefits of the benefits of dates into its Energen product, Roma Marie Gold, which is added with egg spreads to provide better nutritional content and Jae Jae Candy is made from real ginger that can help the body's immunity better (Mayora.com 2021).

PT. Mayora Indah Tbk. and subsidiaries produce and generally classify products into two categories, processed food and processed drinks. Mayora has implemented focus strategy as its generic strategy through distribution channels that are efficient and adapt to customer needs. This distribution channel is the source of its competitive advantage. Mayora gains a lot of market share and reaches the target market that is widely spread and serves various needs from several segments quickly and in control. This makes it easier for Mayora to reach its customers and reduces logistics and distribution costs (Mayora.co.id 2021).

4.2 Financial Performance

According to the literature Firoz Suleman et al. (2019) the generic strategies positively affect the financial performance of the firms. The average ROA is one of the financial performance indicators to investigate the extent to which the capital investment upon implementing the firm's competitive strategies is returned. Posavec et al. (2021) shows than It is very important to analyze different categories, which allows for using cost effectiveness and profitability indicators (ROI, ROE). Profitability indicators are usually calculated in the same way as the return on property equity (ROE) and return on assets (ROA) indicators. Both indicators are calculated from the data of the profit and loss account and the balance sheet. When calculating the return on equity (ROE), the net profit (NP) is related to the company’s equity (capital and reserves).

Comparison of the performance appraisal of Mayora companies shows that the company has successfully implemented a porter strategy, one of which is implementing a cost leadership strategy because it has a higher ROA value compared to Indofood. The major increase in effectiveness and efficiency has resulted in an increase in ROA. The increase in ROA is influenced by several factors, namely the cost leadership factor seen based on comparison of prices for similar products, product cost advantages seen from the average cost increase, and operational cost advantages seen by the increase in annual operational costs from 2017-2019. It accounts for the success of the company's cost leadership strategy.

The adoption of a differentiation strategy in Mayora can increase the total profit, it was caused by the company's success in adopting a differentiation strategy. The implementation of the differentiation strategy is influenced by several factors such as the cost of product design and product quality. In addition to ROA, company performance assessment can be seen by the ROE value. The results showed that the Mayora cost leadership strategy had a positive effect on the company's financial performance, and can be seen from the higher level of profit margins compared to Indofood. The implementation of the major diffraction strategy has a positive effect on the company's financial performance. In addition to having success in the cost leadership strategy and differentiation, Mayora has also succeeded in implementing the Cost leadership focus / differentiation focus strategy by considering several factors.

5. Results and Discussion

Based on the objectives, this study investigates Porter’s generic strategy in Indofood and Mayora as the major FMCG company in Indonesia. There are 3 Porter’s generic strategies that are used in Indofood and Mayora, which are cost leadership, differentiation, and focus strategy. Based on Porter (1980), cost leadership strategies are resulting in cost minimisation in the companies’ value chain, such as service, advertising, research and development, cost reduction from experience, tight cost, and overhead control (Bayraktar, Hancerliogullari, Cetinguc & Calisir 2016). The concern of the company is to have a low cost and price compared to the competitors. FMCG companies are more attractive to the customer if they can compete at the price of the products relative to the competitor. By reducing the cost of manufacturing, such as production and operating cost, companies can cut the price of the product. Cost leadership strategy can help the company gain more customers by increasing the market share of the companies (Nayyar 1993, cited in Bayraktar, Hancerliogullari, Cetinguc & Calisir 2016).

When companies already achieve the competitive advantage through the cost-leadership strategy, they have to maintain it to make the competitive advantage sustain by frequently evaluating their position in the market. Companies that use the competitive strategy usually have a similar product to the competitor, which requires the companies to increase the price competition (Porter 2001, cited in Firoz et al. 2019). FMCG companies usually have similar products with the competitor. It is important for the FMCG companies to apply the cost-leadership as the
The applicability of differentiation strategy also will give the impact to the companies’ performance. This strategy requires the firm to make unique products and differentiate their product from the competitor (Banker, Mashruwala & Tripathy 2014, cited in Bayraktar, Hancerliogullari, Cetinguc & Calisir 2016). Companies can do the differentiation along the value chain of the company, including research and development projects, price, design of the product, brand image, technology, service, distribution, dealer network, and other aspects (Lin & Chang 2015, cited in Bayraktar, Hancerliogullari, Cetinguc & Calisir 2016). Companies can achieve the benefit of the differentiation strategy when the high price of the products exceed the cost that is needed to make a unique product (Booth et al. 2011 cited in Firoz et al. 2019). To achieve the competitive advantage, companies must develop a unique product that cannot be easily imitated by the competitors.

Based on the analysis of this study, the applicability of differentiation strategies are through the design and the quality of the products offered by the companies. The research and development department of the FMCG companies need to make an extra effort to develop a new product and make an impressive product innovation for the companies.

FMCG companies also used the focus strategy as their competitive strategy to compete with the competitors. Focus strategy is similar to the cost-leadership and differentiation. This strategy is focusing on how the FMCG company can gain the competitive advantage in well defined market segments (Firoz et al. 2019). Unlike the other strategies, focus strategy is directed to a narrow competitive scope within the FMCG industry (Porter, 1985). Companies achieve the competitive advantage from this strategy by deploying resources across the value chain of the companies to gain the maximum results. The application of the focus strategy in FMCG companies is able to minimize the response time to the customer product request and can also help to improve the quality of the customer service (Kim et al, 2004 cited in Firoz et al. 2019).

To sum up, competitive advantage is a critical factor for the company that contributes to achieve a good companies’ financial performance. Companies need to improve and continually evaluate the generic strategy as a sustainable competitive advantage, throughout the value chain of the company, so they can maintain the position of the company in the market and fulfill the customer needs.

6. Conclusion

This study investigates the applicability of Porter’s generic strategy including cost-leadership strategy, differentiation strategy, and focus strategy. Two FMCG companies in Indonesia were selected to be an object of this study. Indofood and Mayora were selected to be the objects of this study. This study compared the applicability of Porter’s generic strategy and see how the impact of the application of Porter’s generic strategy to the financial performance of the company. The findings of this study showed that Indofood and Mayora as the FMCG company in Indonesia has successfully implemented Porter's generic strategy. Indofood and Mayora are the two major FMCG companies in Indonesia. Both of these companies have gained the competitive advantage which can be seen from the financial performance, including ROA, ROE, profit margin and operating margin.

Both of the companies have various types of products with the various prices that they offer to the customer. Indofood and Mayora always do innovation and try to develop their product so they can maintain their position in the market. It is also important for the FMCG company to regularly evaluate and try to improve the generic strategy along the value chain of the company, so they can gain a sustainable competitive advantage. According to the financial calculation, Mayora has the higher value in ROA, ROE, and profit margin, while Indofood has the higher value in the operating margin. Mayora implementation of Porter’s generic strategies have a better positive impact to the financial performance of the company compared to Indofood.

However, the investigation of this study is based on the limited secondary data that the data and information were collected from the online source and the annual report of the companies. To get a better and more comprehensive analysis, future study should conduct more broad research, including the primary data and the more information directly from the companies, so that the data obtained can be more accurate.

References


Biography

Hanoum Salsabila is a graduate student in Industrial Engineering at University of Indonesia, Depok, Indonesia. She earned her Bachelor of Engineering in Industrial Engineering from Parahyangan Catholic University, Bandung, Indonesia. She was a teaching assistant in Human Factors and Ergonomics. Her research interests include supply chain management, ergonomics, and strategic management.
**Mutia Perwita Sari** is a graduate student of Industrial Engineering Universitas Indonesia, Depok, Indonesia. She earned her Bachelor of Engineering in Industrial Engineering at Ahmad Dahlan University, Yogyakarta, Indonesia. Her research interest including Lean, especially for lean services and strategic management.

**Raisha Dinita** is an undergraduate student of Industrial Engineering Universitas Indonesia. She actively participated as a Laboratory Assistant at Ergonomic Centre, Universitas Indonesia. She is having an interest in Ergonomics and Human Factor, especially for cognitive ergonomics, and also in supply chain management.

**Wendy Febrianty Mardhiyah** is a graduate student of Industrial Engineering at University of Indonesia. She received a bachelor’s degree in Post-harvest Engineering from Bandung Institute of Technology. She is interested in industrial management, quality management and strategic management.