

# **Implementation of Porter's Strategy in Coffee Shop Using SWOT and Marketing Mix Analysis**

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## **Abstract**

The paper explores the generic strategy proposed by Porter by conducting a study in a coffee shop. The study was conducted based on secondary data obtain from articles, journals, research reports, and interview. Furthermore, the paper explores the strategy used in the research object. The study takes place in XYZ Coffee Shop in Jakarta, Indonesia. SWOT analysis is a tool for analysing strengths, weaknesses, opportunities, and threats that a company faces. Meanwhile, marketing mix is a set of actions a business takes to build and market its product or service to its customers. Based on the study, SWOT analysis and marketing mix of XYZ Coffee Shop is designed. The result is low-cost leadership strategy can be implemented by XYZ Coffee Shop to achieve their main goal, which is to sell its product with affordable price.

## **Keywords**

Strategic Management; SWOT Analysis; Marketing Mix; Low-cost Strategy; Coffee Shop

## **1. Introduction**

Coffee has been one of the top three beverages that people seek when they want to drink something hot or cold. Over the last 50 years, coffee has seen increase in consumer demand. The producers and consumers might seen the changing trend of coffee. Major transformation history of coffee culture divided into three different “waves”. These waves of coffee represent how accessible or appreciated coffee was at certain point in time.

This first “wave” happened from the late 1800’s to 1920. It was defined by a global increase in mass-produced consumable foods. Second wave of coffee signifies a shift in the expectations of consumers. Which means, in the 1990s the consumers start to demand for higher quality and better tasting. In the early to late 2000s, consumers in third wave began to value the intricacies of coffee’s many origins and flavors, similar to how a wine connoisseur values their favorite fermented grapes. During third wave, a lot of local coffee shop was opened and starts to offer their coffee using local beans to the customers.

As one of the world’s leading producers of coffee, Indonesia had previously exported most of the coffee beans that it produces. When the third wave hits Indonesia, the local beans gain popular and has been used by local coffee shop. The rise of specialty roasters and artisanal coffee shops at the emphasize local, single-sourced beans. This third wave led to total coffee consumption increased from 1990 to 2020. Startup companies, as an organization in the early phase, have different characteristics than mature organization (Nurchayo et al. 2018). The local coffee shop using sometimes using both or one of the two model businesses, Business-to-Business (B2B) and Business-to-Consumer (B2C).

All stakeholder in organization, from top management to front-line employees, must commit to the time and effort needed to obtain simple benefits during operations. (Nurchayo et al. 2020). The top priority for the development of a delivery strategy is the functional capability of production/operations (Nurchayo et al. 2018). Since there are a lot of independent coffee shops in big cities, such as Jakarta, Bandung, and Surabaya, it is important for the coffee shop to set up a good strategy to gain competitive advantage. In the context of coffee shops, a traditional Cost Leadership strategy could involve choosing a lower price point for products, minimizing service time or using location to create greater convenience for customers (Cleland. 2019). Therefore, this study will take XYZ Coffee Shop in Jakarta, Indonesia as an example to explore the competitive strategy.

# 1. Literature Review

## 1.1 Strategic Management

Strategic management can be defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives (David 2011). An organization or company needs to implement strategic management because the process can make effective and rational decisions resulting from the interaction of groups that make various types of strategic decisions. Strategic development activities can improve the company's ability to deal with various types of problems it faces.

Strategic management is essential because it helps organizations to make better decisions. The activity of formulating strategies helps improve the organization's ability to face various challenges, in which, employee involvement in formulating strategies makes them understand and appreciate productivity so that it will ultimately increase work motivation. In addition, helping an organization to become more sensitive to threats from internal and external making the operational processes of an organization more effective and efficient, helping companies to adapt to changes, making the organization more profitable than organizations that do not implement it. Figure 1 shows benefits to a firm that does strategic planning.

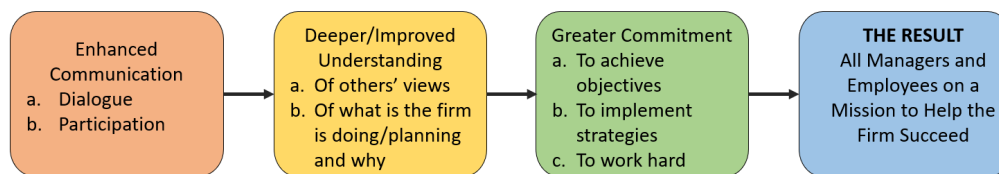


Figure 1. Benefit to a firm that does strategic planning (David, 2013)

## 1.2 SWOT Analysis

SWOT is an abbreviation for Strengths, Weaknesses, Opportunities, and Threats. SWOT analysis is an overall evaluation of the strengths, weaknesses, opportunities and threats that the company has (Kotler and Armstrong, 2008). Internal factors in SWOT analysis consist of strengths and weaknesses. Strength is the quality that enables us to achieve the company's mission. Weaknesses exacerbates the influence on the success and growth of the company. External factors consist of opportunities and threats. Opportunities arise when a company can take advantage of the conditions to plan and execute strategies that allow it to be more profitable. Threats are uncontrollable and often arise when conditions in the external environment jeopardize the reliability and profitability of a company's business.

The SWOT Matrix is a framework that helps managers develop and assess four types of strategies: SO (strengths-opportunities) Strategies, WO (weaknesses-opportunities) Strategies, ST (strengths-threats) Strategies, and WT (weaknesses-threats) Strategies. Figure 2 shows SWOT Matrix framework.

	<b>STRENGTHS</b> Positive characteristics and advantages of the issue, situation, or technique	<b>WEAKNESSES</b> Negative characteristics and disadvantages of the issue, situation, or technique
<b>OPPORTUNITIES</b> Factors, situations that can benefit, enhance, or improve the issue, situation, or technique	<b>SO Strategies</b> (Strengths-Opportunities) Using strengths to take advantage of opportunities	<b>WO Strategies</b> (Weaknesses-Opportunities) Overcoming weaknesses by taking advantage of opportunities
<b>THREATS</b> Factors, situations that can hinder the issue, situation, or technique	<b>ST Strategies</b> (Strengths-Threats) Using strengths to avoid threats	<b>WT Strategies</b> (Weaknesses-Threats) Minimize weaknesses and avoid threats

Figure 2. SWOT matrix framework

### 1.3 Marketing Mix

According to Philip Kotler (1997), marketing mix is the set of controllable variables that the firm can use to influence the buyer's response". The controllable variables in marketing mix refer to the 4 'P's, that includes product, price, place, and promotion. Product is the most important element in marketing. All marketing activities start with the product. Products are not just physical entities. It captures all tangible and intangible aspects such as service, personality, organization and ideas. Price is the monetary value that the customer has to pay to acquire or own the product. Price is an important revenue-generating component for companies. Promotion is the biggest responsibility of a marketer to promote and market products to reach consumers. Promotional strategies can be chosen according to the intended target market. Last, the place is related to how the product is distributed until it reaches the customer. The principle of the place element is to make the product as easy as possible for customers to find. Typically, companies use the 4Ps to identify consumer wants and satisfaction. This strategy is also often used to see the company's position compared to competitors. Figure 3 shows marketing mix framework.



Figure 3. SWOT matrix framework (Kotler 1997)

### 1.4 Porter's Strategy

Strategy means performing different activities to those performed by rivals or performing the same activities differently (Porter 1996). According to Porter's Generic Strategies model, there are three basic strategic options available to organizations for gaining competitive advantage. These strategies are Cost Leadership, Differentiation, and Focus. Differentiation strategy focuses on creating unique products, offerings and services to customers. Focus strategy refers to a strategy in which the company chooses a narrower market or niche market. Meanwhile, cost leadership is one of the generic strategies that emphasizes efforts to produce standard products at very low per unit costs. This strategy is intended for consumers who are relatively easily influenced by prices or set prices as a decision maker to buy a certain product. The goal of this strategy is to offer a range of products or services at the lowest possible price compared to competing products with similar attributes. The target of both types of strategy is a large market. When pursuing a cost leadership strategy, a company must be careful not to resort to methods such as aggressive price cutting so that their profits are too low or even non-existent.

## 2. Research Methodology

This study methodology using primary data such as survey and interviews, and second data includes books, websites, case studies, and books. This study aims to identify and analyze SWOT also making recommendation based on marketing mix.

### 2.1 Data Analysis and Discussion

#### XYZ Coffee Shop

XYZ Coffee Shop was founded in 2016 with the first store open in Bogor, West Java. Getting positive response from consumers, XYZ Coffee Shop has been opened 91 outlets across Indonesia with mostly outlets in Sumatra and Java. XYZ Coffee Shop divided into two model business which is B2B and B2C. There are three models B2B, material selling, royalty fee implementation, and franchise model, while the B2C division running seven coffee shops independently. XYZ's B2B division was able to speed up opening of other outlets.

In B2B, XYZ Coffee Shop offered partnership with investment worth 125 million Rupiah and business partner will get to use of business brands, interior decoration, complete cooking utensils, initial raw materials, branding, systems, and training. To assure the partner's outlets running based on target, XYZ Coffee Shop implement full operation system with profit sharing 40% for management and 60% for partners. Partners juga prepare outlets and have to take the raw

materials from XYZ Coffee Shop center. Based on the calculating, the return on investment that partner needed is about six months, with approximately 70 cups sold per day. After reducing the raw material and operational cost, partners will get profit 40%-50% from gross profit.

XYZ Coffee Shop thinks the implementation of branding strategy and optimization of raw material management along with innovation on the menus are the effective strategies to gain the competitive advantage in F&B industry. The company claims the advantage of their products are the quality of beans and raw materials thus creating a taste that is not inferior to other coffee creations. Also, the coffee shop wanting to accommodate the coffee drinker to appreciate the local coffee beans. Because the company wants to consumer to embrace the various of coffee beans, the coffee they sell is priced at a very affordable price. Currently, XYZ Coffee Shop serves the current trend coffee with various toppings, such as ice cream, biscuits, cookies, chocolate, etc. Targeting middle class consumers, product price starts from Rp15.000,- to Rp25.000,- per cup.

**SWOT Analysis**

In this study, SWOT analysis is used to evaluate the coffee shop competitive position and to develop their strategic planning by elaborate 4 factors, namely strength, weakness, opportunity, and threat. Table 1 shows the SWOT analysis of XYZ Coffee Shop.

Table 1. SWOT analysis of XYZ Coffee Shop

Strength	Weakness	Opportunity	Threats
Affordable price	Lack of variety menu	The amount of coffee consumption that has changed and increased	Increasing local independent coffee shop
Coffee shop using local beans with great quality	Does not offer foods, like cakes or pastries	Loyal customers	Increase in substitutes products such as milk tea, bubble tea, and healthy beverages
No extra charge for parking	The place is not wide enough to accommodate a lot of people	Growing consumptions on coffee	Unexpected event, for example COVID-19
Comfortable space	Lack of skills of workers regarding online marketing		

The explanation are as follows:

1. Strength
 

Based on the results of interview and observation with the owners, it is known that XYZ Coffee Shop has affordable price in the market, within range Rp 15.000, - Rp 25.000,-. XYZ Coffee Shop uses the best quality of local beans that is sent every week by the bean producers so that the quality of the beans is maintained. In addition, the tight security around the neighborhood can be one of the strength factors because the coffee shop is relatively safe and it also does not charge parking fee to the customers. Lastly, XYZ Coffee Shop also has comfortable space for people to hangout or work.
2. Weakness
 

There are some drawbacks to this XYZ Coffee Shop. Among them are, the lack of variety in the menu for coffee or non-coffee drinks where customers are not given the opportunity to customize their drinks like in other coffee shops. XYZ Coffee Shop does not sell food menus, such as cakes, breads, various snacks, and heavy meals. This has become a problem and input from several customers who visits often. Another drawback is the space available at this coffee shop is limited. According to the owner’s information, currently XYZ Coffee Shop is only able to accommodate 20-30 customers, even though on weekends, especially customers who come, there can be more than 30 customers, so sometimes customers have to move to another coffee shop. As a result, there is no place for online drivers to wait and a drive thru if the customer just wants to take away their orders.

### 3. Opportunities

The increase of the third wave of coffee has been expose the great quality of local beans. XYZ Coffee Shop is one of the coffee shops that uses local beans for their coffee menus. Consumers also more interested in how local bean taste and has been visiting local coffee shop to try it. As the results, there is growing consumptions on coffee in Jakarta and more people intended to do activities on coffee shop nearby. This is the opportunities that XYZ Coffee Shop should take to grow more their business.

### 4. Threats

Some threats are also felt by XYZ Coffee Shop. Among them is the growth rate of coffee shops in Jakarta continues to increase so that it indirectly threatens the existence of XYZ Coffee Shop. Even today, there is already another coffee shop located right next to the XYZ Coffee Shop. In addition, it is not only coffee products that have increased but also several coffee substitute products such as milk tea, bubble tea, and other healthy foods that also attracted the attention of customers. Some customers who have started a healthy lifestyle tend to switch their drinks from coffee to various other drinks that are healthy and low in calories. This is also caused by various unexpected events such as COVID-19.

## Marketing Mix Analysis

Marketing mix analysis in this study aims at making the XYZ Coffee Shop marketing positioning concrete. The term of marketing mix refers to Kotler's theory is classified into four 'P's, namely product, price, placement, and promotion. Table 2 shows marketing mix analysis of XYZ Coffee Shop.

Table 2. Marketing mix analysis of XYZ Coffee Shop

Elements	Description
Product	Coffee menu using local beans and has non-coffee menu
Price	Lower price than the other coffee shops (Rp 15.000,- Rp 25.000,- per cup)
Place	Easy to access Information about the products, business can be found on websites and social media.
Promotion	Social media

It is important to know the tangible and intangible aspects of XYZ Coffee Shop. There are four essential elements that are found on this coffee shop, such as products, price, place, and promotion. First, the product elements, the coffee shop has been using local beans to create various coffee drinks. Among the other coffee shops, XYZ Coffee Shop price is the lowest. Affordable price is one of the reason consumers attracted to hangout or work from coffee shop. Next element is place, that affects whether the consumers want to come to buy coffee shop menus. Consumers are likely to visit to the coffee shop if the place is easier to find and they can search the menu and price on social media or website.

Social media has become the important media to promote products. Beforehand, people come to a place based on direct recommendation from friends or family. Nowadays, people will search the coffee shop on social media before visiting the coffee shop.

## 3. Result and Discussion

As a result, rather than compete to offer something at the lowest cost, businesses can also attain a share of the broad market by offering a product or service with unique benefits, thus distinguishing themselves as an alternative to competitors. This is known as a differentiation strategy. Differentiation strategy is an approach that companies take by offering their customers something different and unique, unlike the items that competitors may offer in the market. This aims to implement a differentiating strategy to increase your competitive advantage. In this study, XYZ Coffee Shop have to offer higher quality product, with more valuable brand image and additional services. Differentiation strategies in the coffee industry could potentially include a higher standard of beverage, a higher level of social responsibility or a unique cafe experience or better service.

The differentiation strategy implemented to XYZ Coffee Shop is not suitable because XYZ Coffee Shop aims to sell its product with affordable price. So, the proper strategy that should be applied is low-cost leadership strategy. Low-cost leadership strategy is an approach to sold similar cost items or offerings at a lower price than its competitors. The lower price will attract more customers and allow the profit increase by the number of products sold.

## 4. Conclusion

Based on this study, we can conclude that SWOT analysis helps XYZ Coffee Shop to overcome challenges by identifying four elements in it. Marketing mix analysis is used as a strategy to formulate a product offering to customers. By using SWOT analysis and marketing mix analysis, we can determine the strategies that must be taken to achieve the goals, where the low-cost leadership strategy can be applied to XYZ Coffee Shop to achieve their main goal, which is to sell its product with affordable price.

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