

Business Strategy Analysis of Kopi Kenangan Using Porter's Five Forces

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ABSTRACT

This research analyzes the business strategy of Kopi Kenangan using Porter's Five Forces framework to understand the competitive dynamics in Indonesia's grab-and-go coffee industry. Utilizing a desk research approach, secondary data from various sources were processed and qualitatively analyzed. The results show that Kopi Kenangan has leveraged brand differentiation, product diversification, and investment support to strengthen its market position. However, threats from new entrants, supplier power, and intense competition remain significant challenges. This study provides strategic insights for coffee industry players to survive and thrive in a competitive market.

Keywords: Strategy, Business, Porter, Kopi Kenangan

INTRODUCTION

Indonesia is one of the world's largest coffee producers, ranking fourth after Brazil, Vietnam, and Colombia. Indonesian coffee industry continues to grow due to high domestic consumption and increasing exports to global markets. According to data from Badan Pusat Statistik (BPS), domestic coffee consumption has grown by an average of 5–7% annually since 2010. This phenomenon is driven by changes in urban lifestyles, where coffee has become a part of daily life (Setyowati, 2019).

Furthermore, the emergence of modern coffee shops with a grab-and-go concept has significantly contributed to market growth. The coffee business in Indonesia now focuses not only on coffee bean production but also on downstream sectors such as coffee shops, processed coffee distribution, and coffee-based product innovation (Handoko & Riyanto, 2021).

Kopi Kenangan is a rapidly growing coffee shop chain with a grab-and-go concept. Founded in 2017 by Edward Tirtanata, James Prananto, and Cynthia Chaerunnisa, the company aims to bridge the gap between expensive coffee from international retailers and instant coffee sold at local kiosks. By the end of 2023, Kopi Kenangan operated more than 850 outlets across Indonesia (Kopi Kenangan, 2023).

Kopi Kenangan has experienced rapid and expansive growth. By the end of 2022, the company was opening an average of one new outlet daily and broke Museum Rekor Dunia Indonesia (MURI) by opening 26 outlets in 13 different cities in one week. The business has also received numerous awards, including being the only winner of the "Brand of The Year" award in the café chain category from Indonesia by The World Branding Awards in 2020 (Kopi Kenangan, 2023).

The company offers various coffee products, with one of its flagship products being "Kopi Kenangan Mantan", a palm sugar latte made with fresh milk and palm sugar, creating a distinctive taste that appeals to consumers.

Although Kopi Kenangan has become one of the most prominent and popular coffee brands, competition in Indonesia's coffee business is very high, particularly in the grab-and-go segment. In addition to Kopi Kenangan, several other brands such as Janji Jiwa (focused on quick-serve coffee with a minimalist and affordable concept) and Fore Coffee (emphasizing technological innovation with an app-based ordering experience) are also popular. These brands target the middle segment, seeking quality coffee at affordable prices. They continue to compete in innovation and expansion.

Additionally, several international coffee chains like Starbucks and The Coffee Bean & Tea Leaf remain relevant, albeit positioned as premium coffee brands in the upper market segment.

These external challenges can pose threats to Kopi Kenangan now and in the future. Internal factors also play a crucial role in determining the company's business performance. Thus, an analysis of Kopi Kenangan's business strategy using a strategic management perspective is intriguing.

This study aims to analyze the business strategy used by Kopi Kenangan through Porter's Five Forces Framework. This is a method of analyzing the competitive operating environment of a business. It refers to industrial organization (IO) economics to identify five forces that determine the intensity of competition and, consequently, the attractiveness (or lack thereof) of an industry in terms of profitability.

LITERATURE REVIEW

Business Strategy

Business strategy refers to a series of decisions and actions designed to achieve organizational goals by effectively utilizing existing resources in a competitive environment. According to Porter (1980), business strategy involves making decisions related to market positioning, core competencies, and responses to external pressures. This strategy includes efforts to create value through product differentiation, cost efficiency, or focusing on specific market segments.

Mintzberg et al. (1998) explained that strategy can be seen as a consistent pattern of decisions within an organization to achieve specific goals. Effective strategies are those that consider internal factors (strengths and weaknesses) and external factors (opportunities and threats).

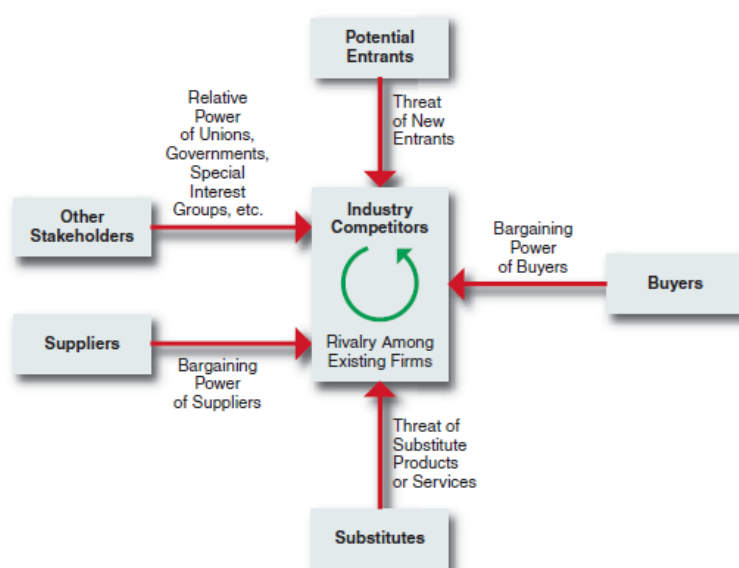
Hitt, Ireland, and Hoskisson (2011) stated that the strategic management process involves three main stages: strategy formulation, implementation, and evaluation. This process begins with an analysis of internal and external environments to identify opportunities, threats, strengths, and weaknesses affecting the organization.

Porter's Five Forces

According to Wheelen and Hunger (2012), Porter's Five Forces is a strategic analysis tool used to understand competitive forces within an industry and determine its attractiveness and profitability. These five forces help identify external opportunities and threats that influence a company's success.

1. Threat of New Entrants: New players in the industry bring additional capacity and a desire to gain market share. This threat depends on entry barriers such as economies of scale, product differentiation, significant capital requirements, access to distribution, and customer loyalty. High barriers reduce the threat of new competitors.
2. Bargaining Power of Supplier: Suppliers have power when they can raise prices or lower the quality of goods/services provided. Factors influencing supplier power include the number of suppliers, the differentiation of products offered, and the industry's reliance on

- specific suppliers.
3. **Bargaining Power of Buyer:** Buyers have the power to influence prices or product quality. Factors influencing buyer power include the number of buyers, buyers' knowledge about the product, and the availability of easily accessible substitutes.
 4. **Threat of Substitutes:** Substitute products are different but can fulfill the same need. This threat depends on the availability of substitutes, switching costs, and customer loyalty to existing products.
 5. **Industry Rivalry:** Competition among companies in an industry is determined by market structure, industry growth rate, product differentiation, and strategies employed by competitors. High competition can suppress profitability.



Source: Wheelen & Hunger (2012)

This analysis provides a framework for understanding complex competitive dynamics and helps companies develop more effective strategies to compete in the market.

RESEARCH METHOD

The method used in this study is a qualitative-descriptive method. According to Baker (1999), the facts found in qualitative research are not presented in numerical form but rather in the form of words. Qualitative research aims to deeply understand phenomena, meanings, and contexts.

The approach used in this study is desk research, where the researcher utilizes secondary data from various sources for analysis and interpretation. In the context of qualitative research, desk research focuses on collecting, organizing, and analyzing relevant data to answer research questions without involving primary data collection through interviews or observations (Ghauri & Grønhaug, 2010).

The stages of this research include the following (Ghauri & Grønhaug, 2010):

1. **Identifying the Research Topic and Objectives:** The researcher defines the topic to be studied, formulates research questions, and sets specific objectives. In this case, the topic is the business strategy of Kopi Kenangan.
2. **Collecting Secondary Data:** The researcher utilizes secondary data sources such as books, journal articles, and online news articles.
3. **Organizing and Categorizing Data:** Once collected, the researcher organizes the data based

- on themes or categories relevant to the research questions.
4. Analyzing Data: The researcher applies Porter's Five Forces framework to analyze the data.
 5. Interpreting and Concluding: The analyzed data is interpreted considering its context and relevance.

FINDINGS AND DISCUSSION

Kopi Kenangan is one of the most prominent players in Indonesia's coffee industry. By the end of 2023, Kopi Kenangan operated over 850 outlets nationwide, making it the fastest-growing brand in the grab-and-go coffee segment. Kopi Kenangan's business model focuses on the grab-and-go concept, enabling it to offer products at more affordable prices compared to Starbucks while maintaining quality (Kopi Kenangan, 2023).

The research results indicate that Kopi Kenangan has successfully diversified its menu, including non-coffee beverages and snacks, to broaden its consumer appeal. Supported by major investors such as Sequoia India, the company has sufficient capital for expansion and innovation. Additionally, Kopi Kenangan has expanded its market share to Southeast Asia, which shares similar characteristics with its domestic market.

The findings and analysis using Porter's Five Forces framework is detailed as follows:

1. Threat of New Entrants

The threat of new entrants in Indonesia's grab-and-go coffee industry is relatively high due to several factors: a). Low Barriers to Entry: Starting a coffee shop business does not require significant capital, especially for grab-and-go concepts that minimize large infrastructure needs. This creates opportunities for many small entrepreneurs to try their luck in this industry. b). Access to Technology: Technologies such as online ordering apps and digital payments are increasingly accessible, allowing new entrants to provide services similar to those of Kopi Kenangan.

However, entry barriers are not solely based on capital and also include: a). Brand Differentiation: Building a strong brand with high consumer loyalty requires significant investment in branding and marketing. Kopi Kenangan, for instance, has successfully built its reputation through iconic products like "Kopi Kenangan Mantan". b). Operational Scale: Kopi Kenangan's advantage in economies of scale, with over 850 outlets, provides cost efficiencies that are challenging for new entrants to match.

To mitigate these threats, Kopi Kenangan continues to invest in branding, product innovation, and strengthening customer connections through digital loyalty programs.

2. Supplier Power

Supplier power in this industry is significant, primarily because the quality of raw materials affects the final product. The analysis includes: a). Dependence on High-Quality Raw Materials: Kopi Kenangan relies on high-quality coffee beans from both local and international suppliers. This dependence increases risks if suppliers decide to raise prices or if supply chain disruptions occur. b). Direct Partnerships with Local Farmers: Kopi Kenangan has established direct relationships with local coffee farmers to ensure a stable supply at competitive prices. c). Supplier Diversification: By working with multiple suppliers, the company reduces risks of supply disruptions from a single source.

These approaches provide Kopi Kenangan with greater flexibility in managing raw material costs and ensuring operational stability.

3. Buyer Power

Consumers hold high bargaining power in this industry due to the abundance of alternatives available, ranging from local players like Janji Jiwa and Fore Coffee to international players like Starbucks. Factors influencing buyer power include: a). Abundant Choices: Consumers can easily switch to other brands if they find Kopi Kenangan's services or products unsatisfactory. b). Price and Innovation Sensitivity: Kopi Kenangan's target market, which includes the middle class, makes pricing a key factor. Additionally, consumers expect consistent menu innovations to avoid monotony.

Kopi Kenangan's strategies to retain buyers include: a). Competitive Pricing: Offering more affordable prices compared to Starbucks while maintaining product quality. b). Product Innovation: Launching new variants such as healthy beverages and snacks to attract diverse market segments. c). Promotions and Loyalty Programs: Utilizing its app to provide discounts, special offers, and loyalty programs to enhance customer retention.

4. Threat of Substitute Products

Substitute products in the coffee industry include tea, energy drinks, healthy juices, and even premium mineral water. This threat is influenced by: a). Healthy Lifestyle Trends: Health-conscious consumers tend to switch to low-sugar or caffeine-free products. b). Availability of Diverse Alternatives: Substitute products are easily accessible and often offered at competitive prices.

To address this threat, Kopi Kenangan has implemented product diversification strategies: a). Adding Non-Coffee Options: The menu now includes milk teas, smoothies, and fresh juices to attract consumers who do not prefer coffee. b). Healthy Snacks: Providing low-calorie snacks as complements to the main menu.

These strategies not only reduce dependence on coffee sales but also broaden the brand's appeal to new segments.

5. Competitive Rivalry

Competition in Indonesia's coffee industry is intense. Kopi Kenangan's main competitors include local players like Janji Jiwa and Fore Coffee, as well as international players like Starbucks and The Coffee Bean & Tea Leaf. Key factors in this competition are: a). Product Differentiation: Competitors strive to offer unique products, such as new flavors, innovative packaging, or app-based services. b). Expansion Speed: Many players are racing to open new outlets to increase market penetration, especially in major cities.

Kopi Kenangan maintains its competitive advantage through: a). Technology-Based Innovation: The Kopi Kenangan app facilitates easy ordering, attractive loyalty programs, and personalized customer experiences. b). Consistent Customer Experience: A focus on product quality and fast service at every outlet to maintain customer satisfaction. c). Operational Scale: Large-scale operations provide Kopi Kenangan with cost efficiencies, allowing it to offer competitive prices without compromising quality.

CONCLUSION

Overall, Kopi Kenangan's business strategy effectively addresses industry challenges by leveraging competitive advantages, innovation, and operational scale. This study suggests enhancing partnerships with suppliers and exploring international markets to ensure sustainable growth.

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