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### THE INFLUENCE OF INNOVATION STRATEGY ON THE COMPETITIVE ADVANTAGE OF THE COFFEE BEVERAGE IN BANDUNG CITY

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#### **ABSTRACT**

The purpose of this study is to determine the level of innovation strategies and the competitive advantage in the coffee beverage business in Bandung. The study also examines the effect of innovation strategy on competitive advantage. This is a quantitative research with non-probability sampling techniques, such as quota sampling. Likert scale of 1 to 5 is used with simple regression analysis to predict the values between variables. The results show that the innovation strategy has a positive effect on the competitive advantage.

**Keywords:** Competitive Advantage, Innovation Strategy, Coffee, Bandung.

#### **INTRODUCTION**

The Indonesian Ministry of Trade (2009) states that the creative industry is an industry that originates from the use of individual skills, creativity and talents in creating jobs to foster people's welfare.

In 2013-2019, the development of the creative industry was recorded to have contributed to the gross domestic product (GDP) in the past three years (The Creative Economy Agency, 2019). The creative industry is made as an industry that has competitiveness and increases the added value of its products in order to make a meaningful contribution to the country's economy. Small and micro businesses must make innovation as a fundamental ingredient of their organizational development because innovation can create business success (Dhewanto, et al., 2015, Saudi. 2018).

One of the cities in Indonesia that has the capacity to grow rapidly in its creative industries is Bandung. The development of this creative industry

comes from the role of various business sectors found in Bandung, one of which is Micro, Small and Medium Enterprises.

The development of coffee beverage business in Bandung is getting tighter. The similarity in appearance of similar products from competitors is a driving factor for innovation. According to Li et al in Alvia (2013:188), Competitive Advantage is a situation where companies can produce products that have more value than competing products.

Some studies suggest a relationship between innovation strategies and competitive advantage (Zhou & Dev, 2009; Weerawerdana et al, 2004). Research conducted by Lee & Hsieh (2010) states that business people who have the desire to compete, must prioritize the ability to think innovatively. In addition, Sawney et al (2006) also concluded that companies that innovate on a limited basis without being sustainable, will lose the opportunity to be able to compete.

Based on the background explanation above, with so many similar businesses, each coffee beverage business actor must be able to compete in the market, one of them by carrying out an innovation strategy. Therefore, further research needs to be done on the effect of innovation strategies on competitive advantage, especially in the creative industries of the coffee beverage business sector in the city of Bandung.

This study aims to determine the level of innovation strategies of coffee beverage businesses in Bandung, the level of competitive advantage and how much the influence of innovation strategy has on competitive advantage in the creative industry of the coffee beverage business sector in Bandung.

The definitions and characteristics of small, micro and medium enterprises in each country are different. Salavou et al (2004) states that "The role of SMEs has been recognized by policymakers in all countries". The definitions and characteristics of SMEs are seen from net worth and annual sales results based on Law no. 20 of 2008 as follows: First, micro businesses are businesses owned by individuals and/or individual business entities that have a net worth criterion of at most Rp. 50,000,000 excluding land and business premises. The maximum annual income from the micro business is Rp. 300,000,000.

Second, small businesses are stand-alone businesses carried out by individuals or business entities that are not subsidiaries that are controlled or become a direct or indirect part of a medium or large business. Criteria for small businesses having a net worth of more than Rp.50,000,000-Rp. 500,000,000 excluding land and buildings for businesses. Small businesses have annual sales results in the range of Rp.300,000,000-2,500,000,000.

Third, a medium business is a stand-alone business, which is carried out by individuals or business entities that are not subsidiaries that are controlled or become a direct or indirect part of small businesses or large businesses. Criteria for small businesses have a net worth of more than Rp. 500,000,000-

Rp. 10,000,000,000 excluding land and buildings for businesses. Have annual sales results greater than Rp.2,500,000,000-50,000,000,000. at most.

The definition of creative industries according to the Ministry of Trade of the Republic of Indonesia (2007) is "Industry originating from the use of individual creativity, skills and talents to create prosperity and employment through the creation and utilization of the individual's creativity".

Meanwhile, according to the UK DCMS Task Force 1988 "Creative Industries as those industries which have their origin in individual creativity, skills & talents and which have a potential for wealth and job creation through the generation and exploitation of intellectual and content".

Innovation is an activity that can make something impossible happen. Some researchers refer to the concept of Innovation Theory, who think that "Something that is impossible, unsolved, and unresolved will be possible, but accompanied by earnest effort" (Kazinguvu, 2016).

Furthermore, Fontana (2009) states innovation as follows: "Innovation is an economic and social success thanks to the introduction of new ways or new combinations of old ways in transforming inputs into outputs that create major changes in the relationship between value and prices offered to consumers and / or users, communities and the environment".

According to Gaynord (2002) states that innovation depends on four main elements, namely resources, infrastructure, culture, and process. Each element is equally important and interact with each other to form effectiveness and efficiency as the goal of innovation.

Innovation strategy refers to the existence of an innovation-oriented strategy; Formulation and achievement of innovation goals; Orientation towards creating competitive advantage; A development plan (Little, 2012). In addition, Kazinguvu (2016), states that the innovation strategy is as follows: "Strategic innovations are the creation of growth strategies, new technologies, new services, new ways of doing things or business models that change the game and generate significant new values for consumers, customers, and a SME".

Reniaty (2013) states that competitive advantage occurs when a company implements a value in creating strategies that are implemented unsustainably by competitors. Walker (2009) defines competitive advantage as follows: "Competitive advantage is the goal of strategic thinking and the primary focus of successful entrepreneurial action". The purpose of Walker (2009), competitive advantage is the goal to achieve the success of an entrepreneurial activity. The intended entrepreneurial activities are trading, producing, distributing and recycling processing ready-made goods into goods in new forms.

Innovation is one of the main tools to be able to achieve sustainable success. Failed innovations have an indication of a decline in the company's

competitiveness. Hana (2013), which states that innovation is the company's main source in determining whether or not a company can compete with other companies.

According to Dhewanto (2013), the business environment creates competition and encourages an organization or company to survive and try to get a market place. Strategy to survive in competition is to create excellence in products or services that are different from competitors. The hypotheses in this study are:

H1: The influence of the innovation strategy (X) on competitive advantage (Y) in the Creative Industry sector of the coffee beverage business in the city of Bandung.

Ho: There is no influence of the innovation strategy (X) on competitive advantage (Y) in the Creative Industry sector of the coffee beverage business in the city of Bandung.

Based on the description above, there is a link between innovation strategies and competitive advantage, this can be illustrated through the framework of thought in Figure 1.

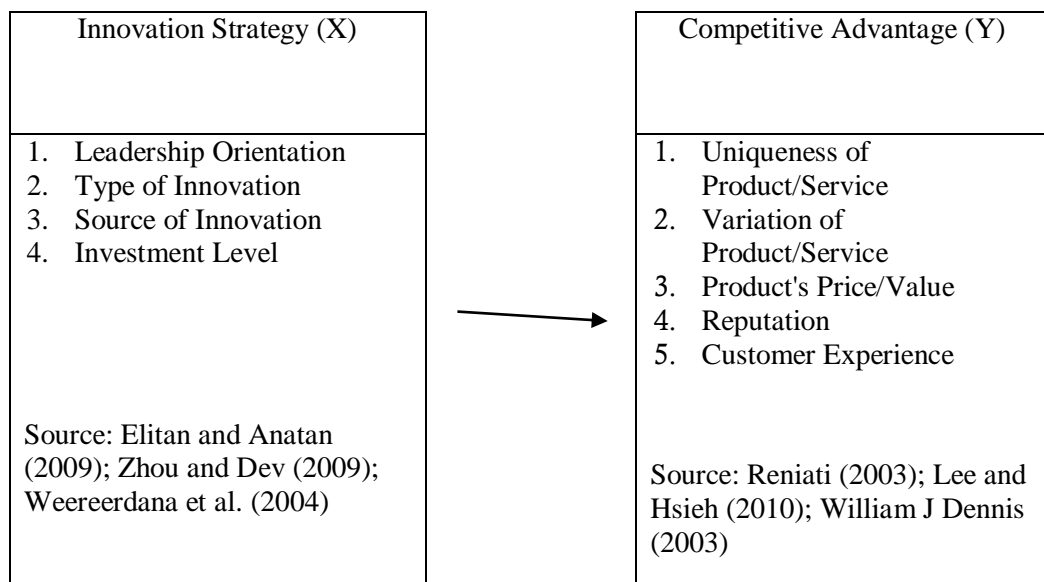


Figure 1. Research Model

## METHOD

The object of this research is the coffee beverage industry in Bandung city. This is a quantitative study with innovation strategy and competitive advantage as independent and dependent variables, respectively. The population involves the entire business of the coffee beverage sector in Bandung city. Also, the study uses non-probability sampling techniques such as sampling quota. It utilized a total of 16 questions and a sample of 80 respondents, including owners and employees of the coffee business.

This study was measured using a Likert scale of 1 to 5, where a score of 1 represents "Strongly Disagree (STS)," 2 "Disagree (TS)," 3 "Doubtful (R)," 4

Agree (S), and 5 Strongly Agree (SS). Data is collected by using three techniques, including observation, interviews, and questionnaires.

The innovation of the coffee business in Bandung is determined with reference to Zahra & Das in Ellitan and Anatan (2009) because aspects discussed were suitable for the conditions in the study area.

Leadership orientation shows the position of an entity in the market, including a first-to-the-market, second-to-the-market, or late-entrant. This represents a combination of manufacturing innovation, such as the process and product. The source of innovation explains whether the activity comes from internal, external, or both aspects.

The level of investment, both in finance, technology, and human resources, relates to the company's innovation activities. Also, competitive advantage represents an excellent defensive position from its competitors. In coffee business, competitive advantage is measured using five dimensions based on Reniati (2013). First, the uniqueness of the product/service is identified based on the product specification, design, colors/attributes, and the purchasing service. Second, product/service variations are determined based on the variety of product specifications, taste, and the service offered. Third, the price/value of the product is based on the pricing, discounts, the quality of product attributes, and customer satisfaction. Fourth, reputation is based on creating a trusted company brand reputation and a good relationship with customers and the government. Fifth, the customer experience is determined by several things, including the pleasant experience in shopping, the sense of comfort and pride in using the product purchased and the convenience of the business' location. Simple regression is used to analyze data, while a hypothesis is tested using a t-test.

## RESULTS AND DISCUSSION

Before a simple regression analysis testing, a validity and reliability test is performed for the analysis requirements.

Table 1. Validity Test on 80 Respondents of Innovation Strategies Variable (X)

	<b>Pearson Correlation</b>	<b>r<sub>table</sub> 5% N = 80</b>	<b>Sig. (2-tailed)</b>	
<b>Q1</b>	.706**	0.2199	0.000	Valid
<b>Q2</b>	.739**	0.2199	0.000	Valid
<b>Q3</b>	.786**	0.2199	0.000	Valid
<b>Q4</b>	.894**	0.2199	0.000	Valid
<b>Q5</b>	.795**	0.2199	0.000	Valid
<b>Q6</b>	.837**	0.2199	0.000	Valid
<b>Q7</b>	.881**	0.2199	0.000	Valid

<b>Q8</b>	.782**	0.2199	0.000	Valid
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Table 2. Validity Test on 80 Respondents of Competitive Advantage Variable (Y)

	<b>Pearson Correlation</b>	<b>r<sub>table</sub> 5% N = 80</b>	<b>Sig. (2-tailed)</b>	
<b>Q1</b>	.853**	0.2199	0.000	Valid
<b>Q2</b>	.726**	0.2199	0.000	Valid
<b>Q3</b>	.823**	0.2199	0.000	Valid
<b>Q4</b>	.896**	0.2199	0.000	Valid
<b>Q5</b>	.780**	0.2199	0.000	Valid
<b>Q6</b>	.889**	0.2199	0.000	Valid
<b>Q7</b>	.902**	0.2199	0.000	Valid
<b>Q8</b>	.694**	0.2199	0.000	Valid

Based on Tables 1 and 2, all instruments for the variable of innovation strategy and competitive advantage tested on 80 respondents were declared valid. This is because the Pearson Correlation value exceeds the r table value of  $> 0.2199$ . Therefore, each of these instruments can be used in the research.

Table 3. Reliability Test on 80 Respondents of Innovation Strategies Variable (X)

<b>Item-Total Statistics</b>				
	<b>Scale Mean if Item Deleted</b>	<b>Scale Variance if Item Deleted</b>	<b>Corrected Item-Total Correlation</b>	<b>Cronbach's Alpha if Item Deleted</b>
<b>Q1</b>	29.00	11.468	0.625	0.918
<b>Q2</b>	29.14	11.690	0.677	0.916
<b>Q3</b>	29.10	10.522	0.703	0.914
<b>Q4</b>	28.95	10.124	0.851	0.900
<b>Q5</b>	28.99	10.569	0.718	0.912
<b>Q6</b>	29.00	10.608	0.779	0.907
<b>Q7</b>	29.15	10.230	0.833	0.902
<b>Q8</b>	29.16	11.150	0.717	0.912

Table 4. Reliability Test on 80 Respondents of Competitive Advantage Variable (Y)

Item-Total Statistics				
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item- Total Correlation	Cronbach's Alpha if Item Deleted
<b>Q1</b>	29.24	8.259	0.801	0.915
<b>Q2</b>	29.46	8.328	0.618	0.933
<b>Q3</b>	29.24	8.361	0.762	0.918
<b>Q4</b>	29.38	8.364	0.863	0.911
<b>Q5</b>	29.46	8.682	0.713	0.922
<b>Q6</b>	29.26	8.069	0.847	0.911
<b>Q7</b>	29.28	8.177	0.867	0.910
<b>Q8</b>	29.45	9.111	0.618	0.928

The results of Cronbach's Alpha table 3 and 4 are  $> 0.600$ , meaning that the indicators of these variables are consistent and included in the reliability category.

Table 5. Regression Test Analysis Results

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	24.163	3.168		7.627	0.000
	Innovation Strategy	0.282	0.095	0.319	2.977	0.004

Table 6. The Coefficient of Determination Results

Model Summary <sup>b</sup>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.319 <sup>a</sup>	0.102	0.091	3.146
Predictors: (Constant), Innovation Strategy				

Table 5 shows that the correlation values is 0.319. Based on the De Vaus correlation interpretation table, it is in the interval of 2.60-3.40, a range showing a enough relationship. Since the Pearson Correlation value is positive, the relationship between the two variables is in the same direction. This means that if the innovation strategy increases, the competitive advantage

also increases. The  $r$  count value on the relationship of innovation strategy with competitive advantage is  $0.319 > r$  table  $0.2199$  ( $N = 80$ ,  $\text{sig} = 5\%$ ). Therefore, there is a significant relationship between the two variables.

Simple regression analysis was carried out to predict the value of the competitive advantage influenced by the innovation strategy. Based on table 5, the constant (a) is  $24.163$  and the regression coefficient (b) is  $0.282$  with the following equation. The constants (a) are  $24.163$ , which means that in case the innovation strategy is ( $x = 0$ ), then the competitive advantage is only  $24.163$ . The regression coefficient is  $0.282$ , and therefore, every addition in innovation strategies with a positive coefficient value increases the competitive advantage by  $0.282$ . The output in table 5 shows that the significance level is  $0.004 < 0.05$ . This indicates that the regression model can be used to predict a competitive advantage.

Based on the output of table 6, the value of R Square is  $0.102$  or equal to  $10.2\%$ . This means that the innovation strategy (x) influences competitive advantage (Y) by  $10.2\%$ . The remaining  $89.8\%$  is influenced by other variables or factors excluded in the study.

The significance value (sig) of the innovation strategy variable is  $0.004$ . Because the value of Sig. is  $0.004 < \text{probability } 0.05$ ,  $H_1$  is accepted while  $H_0$  is rejected. This means that the innovation strategy (x) has a strong influence on competitive advantage (y).

The value of  $t$  count is  $2.977 > t$  table  $1.991$ , and therefore,  $H_1$  is accepted while  $H_0$  is rejected. Therefore, innovation strategy (x) has a significant influence on competitive advantage (y).

From the mean value of  $3.38$ , the innovation strategy is classified as "Enough," and therefore, it is not good. The first dimension of the innovation strategy is leadership orientation, which is categorized as "High" with a mean value of  $3.94$ . This shows that entrepreneurs may position each of the businesses that adopt first-to-the-market or second-to-the-market.

The second dimension is the type of innovation categorized as "High" and a mean value of  $3.88$ . This shows that entrepreneurs choose the type of innovation that can affect the company's competitive advantage. This is achieved by optimizing product and process innovation.

The third dimension is the source of innovation with a mean value of  $3.15$ , which is classified as "Enough." It is divided into three indicators, including the idea of innovation coming from employees, customers, and competitors / other companies. The indicator of innovation idea coming from the customer has the highest mean value. In contrast, employees and competitors are included in the "Enough" category. This means that most of the business innovations are based on customers.

The fourth dimension is the investment level with a mean value of  $3.106$ , which is categorized "Enough." It is divided into two indicators, including technology and human resource investments. Both indicators have mean value



classified into the "Enough" category. This means that in terms of issuing costs/budgets for equipment, training, and employee development, not all businesses are willing to invest.

The whole dimension of competitive advantage been tested, and the competitive advantage is classified as "High" with a mean value of 3.878. This that there is a highly competitive advantage level in the coffee beverage business sector.

The first dimension of the competitive advantage is product uniqueness, which is categorized as "Very High" with a mean value of 4.39. According to Reniati (2013), the uniqueness of products for SMEs is determined based on the taste, packaging, and services provided. The "Very High" category shows that different products are produced.

The second dimension is product/service variation, which is categorized as "High" with an average value of 3.89. This indicates that entrepreneurs add innovation to their products and services, affecting the company's competitive advantage. Reniati (2013) states that variations are based on the product, packaging sizes, and service differences.

The third dimension is the price/value of the product, which is categorized as "Enough" with a mean value of 3.19. According to Reniati (2013), the product values for SMEs are based on the prices sold and the discounted rate. The "enough" category indicates that not all businesses are willing to establish a selling price strategy and provide a discounted price.

The fourth dimension is the reputation, which is categorized as "High" with an average value of 3.89. This shows that entrepreneurs have implemented a strategy to increase the consumer confidence level. Reniati (2013) states that reputation is based on building trusted company brand recognition, as well as relationships with the community, government, and customers.

The fifth dimension is the customer experience, which is categorized as "Very High" with a mean value of 4.39. According to Reniati (2013), the customer experience in SMEs is based on pride, the convenience of purchasing, and business location. The "Very High" category indicates that the entrepreneurs of the coffee beverage sector in Bandung city strive to make the product enjoyable for consumers.

## **CONCLUSION**

This study concludes that the innovation strategy in coffee beverage business sector in Bandung is categorized as "Enough." It is measured through four dimensions, including leadership orientation, innovation type and source, and investment level.

The competitive advantage is classified as high and determined by five dimensions, including the uniqueness of the product/service, variety, prices, reputation, and customer experience.

There is a significant positive relationship between the two variables. The magnitude of the effect of the innovation strategy on competitive advantage is 10.2%. The remaining 89.8% is influenced by other variables or factors not explained in the research.

Several suggestions are made to provide positive and constructive input. For instance, an innovation strategy is the heart of entrepreneurship. However, it has not been prioritized in increasing competitive advantage. The results showed that the innovation strategy is still relatively enough. The company needs to use other sources of innovation, such as employees and competitors, not only customers. Also, business owners need to listen and give freedom to employees to offer their ideas.

In terms of investment levels, companies should allocate funds for investment needs. This can be in technology by replacing conventional tools such as stirrers and press cup machines, investment in using food bloggers, and human resource development by improving skills. Moreover, innovative employees should be provided with facilities for product trials and include them in various training.

Competitive advantage is in the high category. However, companies should add the size of packaging to offer a variety of choices for buyers such as small, medium, and large. Furthermore, each business should have a strategy of giving discounts to consumers as an alternative solution to increasing sales. Apart from building relationships with the government, coffee entrepreneurs need to register their businesses to gain more benefits.

Further studies should use other independent variables such as ERP system implementation, entrepreneurial orientation, management ability, purchasing decisions of total equity management or knowledge transfer, and company performance for more effectiveness.

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