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## Product Strategy to Achieve Competitive Advantage in Functional Food Product Industry in Indonesia

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### Abstract

This study is intended to identify factors that influence competitive advantage of functional food products in Indonesia. Subsequently, a research model is built using two approaches: qualitative and quantitative. Statistical analysis using Structural Equation Model shows that geographic distribution, consumer trend and comparative price influence customer value for specialty product; whereas customer satisfaction is influenced by informational messages and personal contact. All of those factors influence buying behavior. In conclusion, product strategy is important to achieve competitive advantage in functional food product industry.

*Keywords: product strategy, functional food*

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### I. BACKGROUND

Indonesia's regulation on food is declared on food act no. 7/1996 about the collective responsibility of government and society in achieving food endurance. The implementation of this act is translated into efforts to develop food endurance system based on variety of source, institution, and local culture, in order to guarantee the availability of food and nutrient with good quality and affordable price regarding farmers/fishermen income (Dahrul Syah, 2012).

Functional food or food intended for health is considered as the newest source of food and is developed as an alternative source of food. This is important because nowadays, the traditional source of food dries up. Functional food is every kind of food that by nature or through human-intervention contains one or more compound physiologically beneficial for human health. This kind of food also contains active components useful for human body besides its nutrient.

Nowadays, a modern agriculture gives priority to natural resources without any synthetic chemical ingredients and production of environmental friendly foods. Agriculture is a cultivation process that maintains harmonization in ecology, all sorts of varieties, climate, and environment. In addition of producing healthy food, agriculture should also be beneficial for farmers because its price tag is higher than ordinary product. This condition becomes the new face of agriculture industry that is beneficial for environment and for economic potential in the future (Hasnelly, 2011).

Food endurance is reflected in the fulfillment of household requirement for food in terms of its type and quality, as well as it can be consumed safely, evenly spread and affordable. The implementation of functional food agriculture would enhance total production nationally; therefore, it could become a solution for food crisis in Indonesia. Functional food agriculture has a big potential to accelerate the achievement of national objectives, nevertheless it has been rather neglected by the government so that its contribution is still not evident (Hasnelly, 2010).

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Products with high value should be supported by cost efficiency and effectiveness. In other words, cost spent should be used appropriately and ultimately creates value. As the consequences, firms should eliminate activities that are not adding values (Kotler & Armstrong, 2004).

This study is intended to formulate management strategy for functional food in agriculture industry from product strategy's point of view to achieve sustainable superior performance and competitive advantage. Important parameters of management strategy in innovation process of a functional product are resources, product, capacity, and customers. Focus will be placed on the impact of product strategy to the value of functional food and customer satisfaction, and ultimately on customer behavior. Respondents are firms in functional food industry, disregarding their market types, product varieties, and categories.

In short, this study will investigate phenomena and empirical evidences of functional product industries and use them to describe the influence of product strategy partially and simultaneously. Empirical study on product strategy to achieve competitive advantage within functional food context is considered as a new approach. According to Morran and Meso (2008:105), industry strategy is a strategic asset that is simultaneously valuable, rare, hard to copy, and irreplaceable. Competitive advantage could only be sustained through strategic assets. Industrial strategy is valuable and related to firm's strategy, and eventually would create returns from the market.

## II. RESOURCES-BASED STRATEGY

Competencies on processing food with certain method will develop into firm's core competencies. Knowledge on 'know how', as well as information about market and target customers is limited for small and medium companies. Forsman (2000:5) states that firm's resources could be categorized into strategic resources and critical resources. For small scale of food processing industries, utilization of unique raw materials could be considered as strategic resources. This kind of materials generates different products compare to large-scale competitors. Therefore, to create strategic resources, it is very important to identify what kind of resources that could differentiate the product compare to its substitution. This could be achieved through many forms, such as unique recipes, different production method, business relation, self-produced raw materials, location, and flexible production activities.

Grant (in Forsman, 2000:7) argues that superiority in production cost is not easy for small-scale industries; therefore, differentiation is the best available choice. However, firms should be sure that customers understand the differentiation of the product. Differentiation is also needed when the firm tries to offer the product with premium price in order to cover the production cost. Firms could also choose its strategy in terms of level of superiority, both on cost or differentiation. Other alternative is to offer an ordinary product on relatively small geographic area, but this choice will depend on the management's knowledge on the market. Factors that should also be considered by the small-scale food processing industries are:

- (a) Quality of other product used to produce its products
- (b) Raw materials, such as chemical-free or higher nutrition
- (c) Production method, such as traditional or hand-made
- (d) Channel of distribution, such as shorter or direct
- (e) Knowledge on customers and products
- (f) Ways of selling
- (g) Attention on ecological aspects
- (h) Services, such as willing to fulfill special request or quick respond



Forsman (2000:8) states that sustainable competitive advantage of a firm is achieved through the uniqueness of the combination of internal resources relative to its competitors. Therefore, analyzing the relationship between resources, competitive advantage, and firms' success will give an opportunity to understand what kind of resources owned by certain firm and how they managed. This is very important especially for firms that place focus on non-financial factors to maximize their competitive advantage.

### III. MARKET BASED STRATEGY

Best (2009:33) discusses market based strategy in his book as follows: "*Market based business has strong market orientation all that functions and employees of the organization reflect. While the marketing personnel have the primary responsibility for creating marketing excellence, in a market based business all members of the organization are market oriented. All members are sensitive to customers' needs, are aware of competitors moves, and work well across the organizations structure and market based business with a strong market orientation are more profitable*".

Kotler and Armstrong (2000:8) state that marketing is a process where the firms create value for their customers to get something in returns such as sales, profit, and equity. Kim and Mauborgne (2000:90) claim that firms should create new market space with no competitors and make competition becomes irrelevant through value innovation. This value will be attained when the firms combine innovation with price utility. In other words, the firms reach differentiation and low cost simultaneously and at the same time creating value for their customers. This kind of strategy, called blue ocean strategy, basically tries to get away from tight competition through planning and implementing new ideas and building a harmonized and integrated system.

### IV. RESEARCH METHODOLOGY

Research methods used in this study are description and verification approach. Data gathering used descriptive survey method by distributing questionnaire based on cluster to 198 respondents. Criteria for respondents are customers that consume functional food product. Data is the analyzed to verify research hypothesis using Lisrel 8.7 based on Structural Equation Modeling principles.

Research hypothesis are as follows:

Hypothesis 1: Product strategy positively influences customer value

\* Hypothesis 2: Product strategy positively influences customer satisfaction

Hypothesis 3: customer value and satisfaction positively influence customer loyalty

To test the hypothesis, several tests are conducted, such as normality, data outlier, and multicollinearity and singularity. From these tests, it is revealed that several items are not significant, for example, law protection and activity support from customer value dimension. The final test is goodness-of-fit to investigate the structural model. The result is shown below:

From the above table, it is revealed that the structural model is fit so that it can be used for further analysis. The structural equation of the research model is:

$$y_1 = 0.047 * x, R = 1.00 \quad (t = 6.42)$$

$$y_2 = 0.024 * x, R = 0.012 \quad (t = 1.24)$$

$$z = 0.066 * y_1 + 0.96 * y_2, R = 0.94 \quad (t_1 = 0.25; t_2 = 8.34)$$

z: Loyalty; y1: customer value; y2: customer satisfaction; x: product strategy

Table 1 Goodness of fit Test

Indicators	Value	Cut off value	Conclusion
Chi-kuadrat	107.06	Small	Fit
P-value	0.000	< 0.05	Fit
RMSEA	0.000	< 0.08	Fit
$\chi^2/df$	98.37	> 2.00	Fit
GFI	0.900	0.80 – 0.90	Fit
AGFI	0.800	0.70 – 0.80	Fit
NFI	0.880	0.80 – 0.90	Fit
CFI	1.000	> 0.90	Fit

It can be concluded that Product strategy positively influences customer value, (Hypothesis 1 accepted); Product strategy does not significantly influences customer satisfaction (Hypothesis 2 rejected); and customer loyalty is only influenced significantly by customer satisfaction (Hypothesis 3 partly accepted).

#### V. RESULT AND DISCUSSION

From statistical data analysis, it can be concluded that not all of the hypothesis are accepted.

Hypothesis 1	Product strategy positively influences customer value	Accepted
Hypothesis 2	Product strategy positively influences customer satisfaction	Rejected
Hypothesis 3	Customer value and satisfaction positively influence customer loyalty	Partly accepted Loyalty is only influenced significantly by customer satisfaction

Product strategy would influence customer value; but would not bring satisfaction to customer. Moreover, customer loyalty could be achieved through delivering satisfaction to customer. It is predicted that customer value would influence customer satisfaction, and this relationship could become further agenda for research.

Loyal customers are very important for functional product because they could attract other customers to buy the product, and finally contribute to enhance market share. Geographical distribution is the most important factor that influences customer value. Consequently, the firms should guarantee that the products are continually available in certain location and certain time. Moreover, customer satisfaction is mostly determined by information about the product. Customers would be more satisfied when they become more understand about the value and the function of the product. In terms of loyalty, this factor is mostly determined by whether there is repurchase activities or not.

## v. CONCLUSION

Product strategy would significantly influences customer value. Customer value is mainly determined by geographical distribution. Loyal customers could be achieved through delivering satisfaction to customers. More information about the functional products could make the effort of satisfying customers easier. The implementation of product strategy on functional product industry could create products' competitive advantage.

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