

**IMPLEMENTATION OF PRODUCT AND SERVICE
DIFFERENTIATION STRATEGY FOR INCREASING SALES
AT JENANG MIRAH'S HOME INDUSTRY IN PONOROGO
REGENCY EAST JAVA INDONESIA**



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ABSTRACT

In Indonesia, recently there is a large number of home industries run by farmers or villagers who produce a wide variety of processed foods. Those home industries have a strategy to grow, develop and sustain their business. One of them is Jenang Mirah's home industry in Ponorogo regency, East Java which produces the famous foods from Ponorogo city called Jenang Mirah. Before jenang mirah's home industry just a small home industry which produce one kind of jenang and sell them in traditional market only. After they made new variations of Jenang, the sales of jenang Mirah's home industry increased and now it has customers both in domestic and international market. So, in here I would like to analyze how the implementation of differentiation strategy that jenang mirah's home industry uses for increasing sales and developing their business.

The research is aimed to analyze the Implementation of Differentiation Strategy in the Jenang Mirah home industry. The type of research is field research by using descriptive qualitative method. The data were obtained from interview with the owner or staffs, documentation, websites and observation.

The result of this research showed that the Jenang Mirah's Home industry can improve their sales or profit by differentiating their products including the products variants of taste, product forms and sizes and also differentiating their services by provide online and offline selling services.

Keyword : product differentiation, differentiation strategy, home industry, sales

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CHAPTER I

INTRODUCTION

A. Background

Recently the business environment has undergone a fundamental change. Industrial products are rapidly expanding in global market. The fundamental factors which affected the economic globalization are the improvements in the science and technology¹. Why some Businesses fail while others have succeeded? Many businesses have experienced great success over long periods of time due to their effective business strategies in developing their products or services and strategies in managing resources and enhancing their innovative capacity.

In Indonesia, there are a large number of home industries run by farmers or villagers who produce a wide variety of traditional foods. The Types of food products produced by home industries in Indonesia include such as snacks, cookies, fruit chips, jenang, dodol, tofu chips, krupuk, and so on. Those home industries have a strategy to grow, develop and sustain their businesses. Recently, some of these have developed into small industries even developed further into modern enterprises. The role of small businesses or home industries in the Indonesian economy is very important, especially in aspects such as employment opportunities, income distribution, economic development in the countryside and others. One of the areas in East Java, Indonesia which has abundant natural resources is Ponorogo Regency.

¹Sampurno. ManajemenStrategik. (Yogyakarta: Gajah Mada University Press, 2013), P. 1 .

Besides known as Reog art, Ponorogo is also famous as jenang production area and also it has a good other business prospects. Ponorogo Regency are borders with Madiun, Magetan, and Nganjuk districts to the North, Tulungagung and Trenggalek regencies in the East, Pacitan regency in the South, Wonogiri regency in the West². This condition makes Ponorogo district have a variety of business potential, especially in the field of culinary, souvenirs and traditional foods. Ponorogo regency has many industries, such as home industries, small industries, and even large industries. The total industries of Ponorogo showed in table below³:

Table 1.1 Total Industry of Ponorogo Regency 2009 – 2016

Years	Formal Industry		Non Formal Industry		Total	
	Units	Workers	Units	Workers	Units	Workers
2009	721	9,087	20,982	43,860	21,703	52,947
2010	735	9,184	21,054	43,975	21,789	53,159
2011	747	9,252	21,110	44,085	21,857	53,337
2012	757	9,254	21,115	44,093	21,872	53,347
2013	614	6,429	19,086	39,541	19,685	45,970
2014	617	6,452	19,089	39,432	19,705	45,867
2015	619	6,452	19,089	39,432	19,708	45,884
2016	639	6,194	19,089	39,432	19,758	45,086

Based on the table above showed that the total industries in Ponorogo regency decreased from 21,872 units in 2012 become 19,685 units in 2013. One of the factors causing the decreasing of the number of industries in Ponorogo is lack of skilled human resources in managing industrial businesses.

²www.ponorogokab.bps.go.id. (Accessed on January 14, 2019 at 09.00 am).

³Source : Industry, Trade , Cooperative and Micro Industry Office of Ponorogo Regency.

In run a business management skills are very important, Management allows businesses to develop a clearer understanding of their own businesses and what is required for them to succeed. It helps businesses understand their core capabilities, identify and address weaknesses and mitigate risks. It can help businesses better design themselves so that they are focusing on the right things that are the most likely to deliver the best performance, productivity and profit both now and in the future.

In the book of Management Henri Fayol stated that management is about the process of planning, organizing, leading, coordinating and controlling the business or organization to achieve the goals and objectives of a business or organization⁴. In the Planning process businesses or organizations define the company's goals, set the most effective strategists to achieve the goals, and develop work plans to manage activities. A well-formulated strategy will enable the businesses increase growth, productivity and profit both now and the future. Michael Porter says that "the company without a strategy is willing to try anything". With a good strategy in place, on the other hand, the resources of the entire organization can be focused on the overall goal, superior profitability or above-average returns⁵.

There are two kinds of generic business strategies, differentiation strategy and cost leadership strategy. Differentiation strategy seeks higher value for customers than the value that the competitors create. A cost leadership strategy seeks to create the same value for customers by delivering-

⁴Stephen P. Robbins and Mary Coultr. Management, Tenth Edition. (Jakarta: PT Gelora Aksara Pratama, 2016). P.9.

⁵John R.Schermerhorn. Management Foundations And Applications. (New York: John Wiley & Sons, 2002), P. 228.

products or services at a lower cost than competitors, enabling the firm to offer lower prices to customers⁶. These two strategies are called generic strategies because they can be used by any organization; manufacturing or services, large or small, profit or non-profit and public or private. One of the foods industries in Ponorogo regency which produce the traditional food from Ponorogo is Jenang Mirah home industry that produce the famous Jenang called Jenang Mirah.

Jenang Mirah's Home Industry is one of the small food industries in Ponorogo city located in Josari village, Jetis district, Ponorogo regency. The main product in Jenang Mirah Industry is *Jenang Mirah*. Jenang Mirah made from glutinous rice, palm sugar and coconut milk without preservatives. It tastes good, chewy and has a good aroma. Jenang Mirah Industry is very famous in Ponorogo because it produces many kinds of Jenang that have a distinct and delicious taste more than its competitors⁷.

Mrs. Mirah set up this business from 1955. She produced jenang with her husband using traditional equipment's. The first Jenang that she produced is Jenang Ketan made from glutinous rice flour. She was peddling Jenang home to home, car to car, in trains and market to market on foot. In 1966 the demand of jenang increased, both from local market and others cities like Madiun, Malang, Surabaya, Pacitan, Trenggalek, etc. To improve her business in 2010, Mrs. Mirah found an idea to make new variation of jenang, she made Jenang Beras that made from rice flour, many customers like jenang beras.

⁶Frank T. Rothaermel. Strategic Management. (New York: McGraw-Hill, 2013). P. 142.

⁷Yuni Astutik. 2018. "Jenang Mirah Oleh-oleh Khas Ponorogo Yang Melegenda, " <https://travelingyuk.com>. (accessed on April 1, 2018 at 10.00 am).

And in 2011, she tried to produce two variation of jenang again that are Campur and Jenang Waluh. Jenang Campur is made from glutinous flour mixed with rice flour, and jenang waluh is made from pumpkin and glutinous rice flour⁸. Before Jenang mirah just a small home industry that sells their products in local area only, but now Jenang Mirah has both of domestic and international market. So, in this study, the writer will analyze the implementation of product and service differentiation strategies in Jenang Mirah's Home Industry in Ponorogo city, East Java, Indonesia.

B. Operational Variables Definition

The operational definition of a variable is the specific way in which it is measured in this study. An operational definition of variables provides the theoretical or conceptual meaning of variables under the study.

1. Implementation

Implementation is the act of putting a plan into action or starting to use something⁹.

2. Differentiation strategy

Differentiation strategy is the strategy to create higher values for customers than the values that the competitors create, by delivering products or services with unique features while keeping cost at the same or similar levels¹⁰.

3. Increase Sales

Increase Sales is to make the number of items sold larger¹¹.

⁸Interview with Mr. Handoko. Manager of Jenang mirah. (Ponorogo : March 31, 2018 at 12.00).

⁹Dictionary.cambridge.org . (accesed on March 15, 2018).

¹⁰Frank T. Rothaermel.Strategic Management. (New York: Mcgraw-Hill, 2013). P. 142.

¹¹Dictionary.cambridge.org . (accesed on March 15, 2018).

4. Jenang Mirah's Home Industry

Jenang Mirah's Home Industry is one of home industries in Ponorogo regency License No. 63/134 / PP / III / 1989 that produce one of typical snacks from ponorogo are called Jenang Mirah. Jenang Mirah is made from glutinous rice flour or rice flour, palm sugar and coconut milk without preservatives. It is located in Josari village, Jetis district, Ponorogo regency, East Java, Indonesia¹².

C. Problem Statement

Based on the background of the study mentioned above, the problem statement that will be observed is:

“How are the Implementation of Product and Service Differentiation Strategies in Jenang Mirah's home industry for increasing sales?”

D. Objectives and Significance of the Research

The Objectives of this Study are:

1. To Know the Strategy of Differentiation Products and Services of Jenang Mirah.
2. To Analysis the Implementation of Product and Services Differentiation Strategy in Jenang Mirah Home Industry.

E. Literature Review

According to Frank T. Rothaermel, The Differentiation Strategy is the generic business strategy that seeks to create higher value for customers than the value that competitors create, by delivering products or services with-

¹²Interview with Mr. Handoko. Manager of Jenang mirah. (Ponorogo : March 31, 2018 at 12.00).

unique features while keeping the firm's cost structure at the same levels¹³. According to this book, the goal of differentiation strategy is to add unique features that will increase the perceived value of goods and services in the minds of the customers; so they are willing to pay them. The company that uses Differentiation Strategy can achieve a competitive advantage as long as its economic value created (Value – Cost) is greater than that of its competitors¹⁴. Although increased value creation is a defining feature of a differentiation strategy, managers must also control its cost.

If the cost rises too much as the firm creates more value, the value gap shrinks, negating any differentiation advantages. By choosing the differentiation strategy as the strategic position for a product, managers focus their attention on adding the value to the product through its unique features that respond to customer preferences, customer services during and after the sale, or an effective marketing campaign that communicates the value of the product's features to the target market. While this positioning involves increased costs for example higher quality inputs or innovative research development activities, customers will be willing to pay a premium price for the product or services that satisfy their needs and preferences¹⁵.

Moreover, in the book of Essential of Strategic Management written by Gamble, Thompson, Peteraf mention that Differentiation Strategy is a strategy that offers unique products or service attributes that a wide range of buyers find appealing and the products or services worth paying for.

¹³Frank T. Rothaermel. Strategic Management. (New York: Mcgraw-Hill, 2013), P. 142.

¹⁴Ibid. P. 143.

¹⁵Ibid. P. 144.

Differentiation strategies are attractive whenever buyers' needs and preferences are too diverse to be fully satisfied by a standardized product or service¹⁶. A company that attempting to succeed through products differentiation must study buyer's needs and behavior carefully to learn, "what the buyers are thinking about the product's value" and "what they are willing to pay for". Then the company must include these desirable features to clearly set itself apart from rivals lacking such product or service attributes.

And then, the book entitle *Management Foundations And Applications* written by *John R. Schermerhorn* mention that *Differentiation Strategy* is a strategy that offers products or services that are unique and different from the competitors¹⁷. The objective is to attract customers who become loyal to the organization's products and lose interests in those of competitors. This strategy requires organizational strengths in marketing, research and development, and technological leadership and creativity. It is highly dependent for its success on continuing customer perceptions of the product quality and uniqueness for its success on continuing customer perceptions of the product quality and uniqueness. The examples in the apparel industry is Polo the retailers of upscale classic fashion and accessories.

Moreover, the book of *Marketing Management* written by *Philip Kotler* mentioned differentiation as "the act of designing a set of meaningful differences to distinguish the company's offering from competitors' offerings. Because the differences are often more imaginary than real, the strategy-

¹⁶John E. Gamble, et.al.Strategic Management. (New York: Mcgraw-Hill, 2013) P. 100.

¹⁷John R.Schermerhorn. Management Foundations and Applications. (New York: John Wiley & Sons, 2002) P. 230.

involves promoting a distinction in terms of quality, value, or some other factor. Differentiation then may be based upon certain characteristics of the product itself, such as exclusive patented features, trade names, peculiarities of the package or container, if any or singularly in quality, design, color, or style¹⁸.

Based on the various definitions mentioned above, I have chosen the differentiation strategy as the focused of the research because a successful differentiation strategy allows a business gets more benefits, such as¹⁹:

1. To get more profit, because the company has the opportunity to determine a premium price.
2. Increase unit sales, because a company may offer diverse products with unique features which are different from competitors that will attract buyers.
3. Get buyer loyalty to the brand or product, because some buyers are very interested in the different features created by a company.
4. Business competition decreases when a company succeeds in differentiating its products or services.
5. Buyers willingly to pay a more for differentiated products or services effectively.

¹⁸Philip Kotler, Marketing Management: Analysis, Planning, Implementation, and Control. (Prentice-Hall: New Jersey, 1997). P.282.

¹⁹Bambang Hariadi. Strategi Manajemen : strategi memenangkan perang bisnis. (Malang: Bayumedia, 2005).P.100.

F. Structure of the Study

This thesis is organized into five chapters:

Chapter 1 : Introduction

Introduction that explains the facts that underline in the background of the research. The contents are background of the problem, operational definition, problem statement, the objectives and significance of the research, literature review, research method and structure of the study.

Chapter 2 : Theoretical Basis

The chapter consists of a theoretical basis of the research.

Chapter 3 : Research Method

This chapter explains the procedure used in the process of the research in getting and analyzing data to answer problem statements.

Chapter 4 : Data Presentation and Discussion

The title of this chapter reflects the content of the research (not the research outcome and discussion). Each subchapter is the answer of proposed problem statements.

Chapter 5 : Closing

This chapter consists of conclusion and suggestion. This part presents research outcome precisely and directly related to research problems.

CHAPTER V

CLOSING

A. Conclusion

Based on the data analysis that has been carried out, it can be drawn the conclusion from this research that Jenang Mirah's home industry has two kinds of differentiation strategies, these are:

1. Product Differentiation Strategy

The first product of Jenang Mirah is jenang Ketan, the form of jenang ketan is rectangle (weight 500 grams), and then to improve sales of the business Jenang mirah's home Industry created new variants of Jenang in 2010 and 2011, these are jenang beras, jenang waluh, jenang campur. Jenang Mirah also provides jenang in two forms; rectangle and small cylinder different from the other jenang's producer in Ponorogo which produce jenang only made from glutinous rice flour in one size, rectangle or small cylinder.

2. Service Differentiation Strategy

Beside products differentiation strategy, Jenang Mirah's home industry also improve their services as differentiation strategy by provides online and offline selling services. It is different from the general of Jenang producers that mostly sells products in the outlet (offline).

From the sales statement of jenang mirah's home industry showed that after they made new variants of Jenang their sales increased 26% in 2010

become 42,502 units from 33,692 units in 2009 and then in 2011 increase again about 36% become 57,937 units.

B. Suggestion

After concluding this research, the writer suggests to some parties as follows:

1. For Jenang Mirah's Home Industry

Based on the results of observations and customer questionnaires about variations taste of jenang Mirah's products, where many customers prefer jenang with new variations, it is hoped that Jenang Mirah's home industry can maintain the quality of their products and services. So that it will improve customer loyalty. Besides, it is also expected that Jenang Mirah's home industry create many new variants of jenang products in the future to increase more sales and profits.

2. For Further Research

For further research, new researchers are expected to develop this research by looking for other variables of marketing strategies in addition to differentiation strategies because there are still many other business strategies that can affect the increase in sales.

3. For The State Islamic Institute (IAIN) Purwokerto

By this research it is expected to provide additional experience in the development of knowledge about business marketing strategies and can be an additional reference in the library

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