

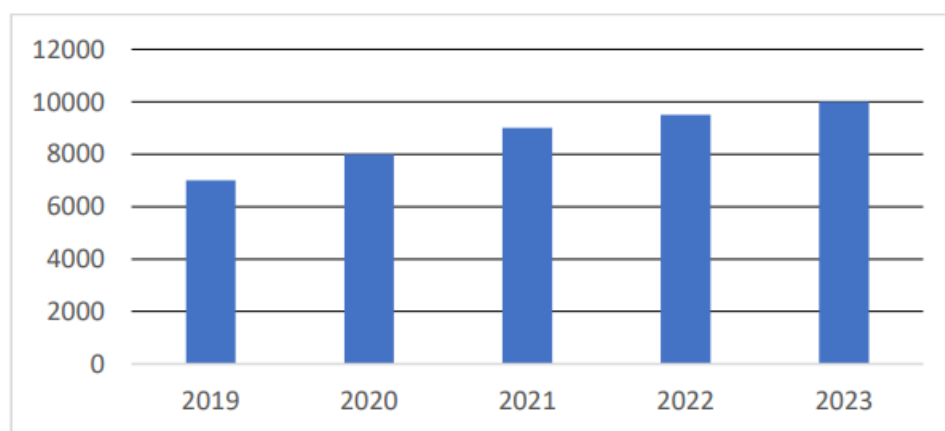
CHAPTER 1

INTRODUCTION

1.1 Research Background

Competitiveness is the main foundation for the success and sustainability of a business, especially amidst increasingly tight business competition. In the business world, competitiveness reflects a company's ability to create unique, attractive, and difficult-to-imitate added value by competitors, so that it can maintain its existence while expanding its market reach. Competitive companies have the potential to grow sustainably through optimal resource management, both tangible such as facilities and technology, and intangible such as competence, knowledge, and business networks. According to Sulistiyani et al. (2020), competitiveness is a strategic effort that must be made by business actors to continue to exist and be effective in carrying out their activities. The level of competitiveness not only determines the position of a business in the market but also affects productivity, independence, and regional and national economic contributions.

Figure 1. 1 Estimated Number of Coffee Shops in Indonesia by 2023



Source: Indonesian Coffee and Chocolate Entrepreneurs Association (APKCI)

2023

In the food and beverage (FnB) industry, especially the coffee shop sector, competitiveness is becoming increasingly relevant with the increasing market growth. Based on data from the Indonesian Coffee and Chocolate Entrepreneurs Association (2023), the coffee shop industry in Indonesia has experienced very rapid growth in recent years. From 2019 to 2023, the number of coffee shops has increased significantly to reach more than 10,000 units by the end of 2023. This trend is driving increased competition in the market, which makes many coffee shop businesses face major challenges in meeting increasingly complex consumer desires. This tight competition has an impact on business actors, society, and even the government, with the potential for a decline in the contribution of MSMEs to the economy if not managed properly. Therefore, MSMEs need to adopt effective, efficient, and innovative competitive strategies to manage resources optimally in order to increase competitiveness and achieve competitive advantage. Businesses that are unable to compete will be left behind by the market and will find it difficult to survive in the long term, while businesses that optimize their resources, especially unique and difficult-to-imitate intangible assets, can be drivers of competitiveness and business sustainability in the future.

Increasing the competitiveness of Micro, Small, and Medium Enterprises (MSMEs) is one of the main focuses in economic development efforts in various countries, including Indonesia. According to the ASEAN Investment Report 2022, Indonesia has the largest number of MSMEs in the ASEAN region, which is around 65 million MSMEs. In addition, based on data from the Ministry of Cooperatives and SMEs, MSMEs contribute 60.3% of Indonesia's Gross Domestic Product (GDP) and contribute 15% of the country's total exports. MSMEs play an important role in the Indonesian economy because of their significant and strategic contribution to the

country's economic growth. In addition to their role in economic growth, MSMEs also have a role as providers of employment and distribution of development results (Dian Harja et al., 2024). The provisions regarding MSMEs are regulated in Law No. 20 of 2008 which states that there are several criteria for MSMEs, namely micro businesses, small businesses and medium businesses which are classified based on assets and annual turnover (Nurafni Octavia et al., 2023).

Table 1. 1 Criteria for MSMEs based on assets and annual turnover

Scale	Asset	Annual Turnover
Micro	\leq Rp50.000.000	\leq Rp300.000.000
Small	Rp50.000.000 – Rp500.000.000	Rp300.000.000 – Rp2.500.000.000
Medium	Rp500.000.000 – Rp10.000.000.000	Rp2.500.000.000 – Rp50.000.000.000

In the history of the Indonesian economy, Micro, Small and Medium Enterprises (MSMEs) are a business sector that can develop and be consistent. According to Tatik (2020), MSMEs contribute 99.99% of the business structure in Indonesia, consisting of 98.79% micro businesses, 1.11% small and medium businesses, 0.09% medium businesses, and large businesses only contribute 0.01% (Dian Harja et al., 2024). In addition, Micro, Small and Medium Enterprises (MSMEs) have become the main drivers of the national economy with a significant role in supporting the regional and national economy. For example, when the crisis occurred in Indonesia in 1997-1998, where there was a dollar exchange rate crisis which resulted in an economic recession in Indonesia, so that many large companies went bankrupt, but the MSME sector was able to survive the crisis and become a savior for economic growth, even MSME actors experienced an increase after the crisis that occurred in 1997-1998 (Suci, 2017). This

shows that MSMEs are a potential and productive sector that needs to be developed to support economic development both micro and macro in Indonesia, as well as encourage the growth of other business sectors. Various types of MSMEs are now growing in various regions of Indonesia, including in West Sumatra Province which recorded a high MSME growth rate.

Based on data from the Ministry of Cooperatives and MSMEs, in 2022 the number of Micro, Small and Medium Enterprises (MSMEs) in West Sumatra Province reached 296,052 businesses. This figure places West Sumatra as the province with the third largest MSME growth on the island of Sumatra, after North Sumatra and South Sumatra. With 19 districts/cities, West Sumatra has great potential in developing MSMEs that contribute significantly to the regional economy (Soleh et al., 2023). One of the areas that is the center of MSME development is Padang City, the capital city of West Sumatra province.

The development of MSMEs in Padang City has become a priority in regional economic development. MSMEs have proven to be able to improve the regional economy and become the main source of income for most Padang City residents. This can be seen that in 2020 the number of MSMEs in West Sumatra was 593,100 units consisting of 531,350 micro businesses (89.59%), 53,431 small businesses (9.01%), 7,900 medium businesses (1.33%) and 419 large businesses (0.07%) (Isran, 2021). Currently, MSMEs are the most popular and rapidly growing business sector in Padang City (Dinas Koperasi dan UMKM Kota Padang, 2022). Based on a report from the Cooperative and MSME Office of Padang City, the number of MSMEs in the city has continued to increase over the past three years. In 2020, there were 11,723 micro enterprises in Padang City. This number jumped to 38,299 business units in 2021, and

continued to grow until it reached 41,325 units in 2022. This rapid growth has triggered intensified competition among MSME players in Padang City (Dian Harja et al., 2024).

Along with the times, the coffee shop business has become one of the most popular and fast-growing businesses in recent years. Coffee shops are part of the food and beverage sector that offers a variety of coffee-based drinks, non-coffee drinks, and snacks. The main objective of a coffee shop is to serve high-quality coffee and create a cozy atmosphere for its customers. The business is considered profitable because it has high profit margins and relatively low inventory costs. Therefore, coffee shops have become an important component of the food and beverage (F&B) industry with great opportunities for growth (Hartono, 2018).

Based on the 2020 Population Census (SP2020) data, Padang City has the highest population among 18 cities/regencies in West Sumatra, with a population of 939,000 people. This makes Padang City has a larger number of coffee fans compared to other regions in West Sumatra, making it a potential market for coffee shop businesses.

Table 1. 2 List of Coffee Shop in Padang City

Brand of Coffee Shop	Location
<i>Rimbun Espresso & Brew Bar</i>	Jl. Kis Mangunsarkoro A10
<i>Kubik Coffee and Co-working Space</i>	Jl. Olo Ladang No. 12
<i>V-Coffee</i>	Jl. Batang Agam No. 3
<i>Café Merjer</i>	Jl. Ujung Gurun No. 88
<i>Parewa Coffee Shop & Roastery</i>	Jl. Dr. Moh. Hatta No. 11
<i>Kupi Batigo</i>	Jl. Ahmad Dahlan No. 19
<i>Suko Kopi</i>	Jl. Dr. Sutomo No 84
<i>Bacarito Kopi</i>	Jl. Nipah No. 3
<i>Lalito Coffee Bar & Roastery</i>	Jl. WR Monginsidi No. 2A
<i>Dua Pintu Coffee Roastery</i>	Jl. Dr. Moh Hatta No. 2
<i>PAVILON Coffee</i>	Jl. Hayam Wuruk No. 30A
<i>The Coffee Theory</i>	Jl. Tepi Pasang No. 81
<i>Kopi Rasa</i>	Jl. Raden Saleh No. 17B

Kopi Kita	Jl. Abdul Muis
Tara Kopi	Jl. Terendam III NO. 32
Sasana Kopi	Jl. Jend. A Yani No. 48
Kopi Pagi	Jl. Gang Nuri, Air Tawar
Kopi Paripurna	Jl. WR Mongunsidi No. 3
Kopi Dari Hati	Jl. KH Ahmad Dahlan No.29
Cerita Kopi	Jl. Batang Arau No. 52
Jiwani <i>Coffee</i>	Jl. Belakang Olo 1 No. 20
Chakovi <i>Coffee & Tea</i>	Jl. Veteran No. 11
Kopi Yor	Jl. Proklamasi No. 46
Situ Coffee	Jl. Mawar No.10, Flamboyan Baru
Menyala Coffee	Jl. Bandar Purus
Galagah Coffee	Jl. Jaksa Agung R.Soeprapto
Orion Coffee	Jl. Jaksa Agung R.Soeprapto No.9
Kopi OZ	Jl. Bakti I No.1, Alai Parak Kopi
Kubik Koffie	Jl. Olo Ladang No.12
Kopi Kulo	Jl. Kapuas No.12

Source: Field observation results by the author (2024)

Based on the data above, it shows that the growth of the coffee shop business in Padang City has made business competitiveness tighter with other coffee shop businesses, both local and national, which already have strong brands and extensive networks, and increasingly control the market. The growth of the coffee shop business was recorded by the Padang City Trade Office as 92 coffee shops operating in 2020 (Afifah et al., 2023). This number will continue to grow in 2022, as evidenced by the emergence of several new coffee shops but not yet included in the data collection of the Padang City Trade Office. This certainly makes a business must have the right strategy to ensure that they can maintain business continuity and be able to utilize their resources effectively and efficiently, as well as ensure that products and services meet the standards and requirements that will help in developing businesses to provide

consumer needs and desires to ensure in achieving competitive advantage (Hauser et al., 2020). Therefore, the theoretical conception used by a business to generate a competitive strategy starts from an understanding of the Resource Based View (RBV) theory.

According to Barney (1991), the Resource Based View (RBV) is a framework used to assist in the practice of strategic management, which aims to increase the capabilities and competencies of the company in order to gain a competitive advantage. RBV focuses on utilizing the company's internal resources, both physical (tangible assets) and non-physical (intangible assets), to obtain profits and maximize company value. RBV principles are closely related to the theory of competitive advantage, where to achieve sustainable competitive advantage, companies must develop the capabilities of their internal resources (Amaya et al., 2024). One of the analytical tools used in RBV theory is VRIO analysis.

VRIO analysis is a tool to analyze the internal resources of the company and the ability to determine whether the company can be a source of sustainable competitive advantage. According to Barney (1991), there are four indicators owned by the company, so that it can be a source of sustainable competitive advantage, namely valuable, rare, inimitable, and organized. Valuable can be understood that resources and capabilities should be considered valuable to the organization so that it is possible to exploit existing opportunities and neutralize incoming threats. Rare means that resources and capabilities must be unique. Resources that can only be managed by two or three organizations. Inimitable can be understood that resources and capabilities are difficult to imitate or even replace. Organized can be understood that the resources and capabilities themselves will not provide benefits to the organization, if the resources are not well organized to capture the value of these resources. By using VRIO analysis, a

company can find out the competitive advantages possessed by other companies in facing business competition in the present and future (Amaya et al., 2024).

The success or failure of a company is highly dependent on the management of its resources. The company's competitive advantage is supported by resources that are managed strategically, integrated, and interrelated. In the business world, competition is the main factor that determines the success or failure of the company. To face competition, companies need to implement careful business practices, such as innovation and a positive work culture (Joseph T Mahoney, 1992). In relation to the Resource Based View (RBV) theory, this concept emphasizes the importance of identifying the characteristics of a firm's internal resources that can be used to create competitive advantage. This theory suggests that in order for a company to survive in the midst of increasingly fierce competition, the company must take steps to strengthen its unique competencies and utilize a combination of resources that are difficult to imitate or replace, including tangible and intangible assets (Elya Dasuki, 2021).

According to Barney (1991), company resources are classified into two categories, namely tangible assets and intangible assets. Tangible assets are resources that have a physical form, such as labor, capital, land, buildings, factories, equipment, and other inventory. In contrast, intangible assets are resources that are not physically tangible, such as corporate culture, competencies, knowledge, brand equity, reputation, and business network. Of the two types of resources, intangible assets play a greater role in helping companies achieve competitive advantage than tangible assets. This is due to the fact that tangible assets, such as land or equipment, can be obtained easily on the open market, whereas intangible assets, such as intellectual capital, take a long time and effort to develop (Rothaermel, 2017).

In the Resource Based View (RBV) theory, ownership of intangible assets is an important factor for business success and makes a greater contribution than tangible assets. These intangible resources support various organizational or corporate activities more effectively, such as intellectual capital that can create value for the company (Lestari, 2019). Stewart (1998), defines intellectual capital as a collection of intangible assets that can provide value to the company and society. It includes competencies, management knowledge, and business networks, which can be used to generate wealth by creating value for the company. The intellectual capital component also acts as a foundation for the company in implementing its business strategy. In addition, intangible assets are necessary for companies to develop sustainable competitive advantage. This sustainable competitive advantage can be achieved through the ownership of rare and valuable resources, as well as unique technical and managerial expertise (Elya Dasuki, 2021).

One of the most famous coffee shop businesses in Padang City is Kopi Kita. Kopi Kita is a coffee shop business that offers a variety of coffee and non-coffee beverage products with various other food menus. Kopi Kita strives to use good quality products so that the coffee produced has a delicious and delicious taste, the packaging or cup used by Kopi Kita has also used the current cup shape so that consumers feel satisfied and interested in coming and buying again. Currently, Kopi Kita has 4 outlets located in Padang City, the first in the Jati area located at Jl. Abdul Muis No.9b, Jati Baru, Padang Timur District, Padang City. The second in the Veteran area located at Jl. Veteran No.22b, Padang Pasir, Padang Barat District, Padang City. The third in the Ulak Karang area located at Jl. Jhoni Anwar No.9, Ulak Karang Utara, Padang Utara District, Padang City. The fourth in the Gunung Pangilun area located at Jl. Gajah Mada No.10 Kampung Lapai Baru, Kp. Olo, District. Nanggalo, Padang City. All Kopi Kita

locations are in the middle of the city center as well as strategic places and are easily accessible to every consumer, so that it is a distinct advantage for the consumers to come easily to Kopi Kita.

In recent months, Kopi Kita has expanded by opening two new branches in the Ulak Karang and Gunung Pangilun areas. This step shows that there has been an increase in the scale of its business and its competitiveness, and shows that Kopi Kita is able to manage tangible assets such as land, physical facilities, equipment, and raw materials effectively. The main driving force behind this expansion is the increasing consumer demand, which reflects that Kopi Kita is increasingly recognized and in demand by the local market. In addition, stable financial conditions also support Kopi Kita to expand its reach without facing significant financial obstacles. In terms of growth, this expansion proves that Kopi Kita has not only succeeded in maintaining its position in the market, but has also shown rapid development in expanding its market share and increasing its competitiveness in the local coffee industry. This indicates that Kopi Kita has strong potential to continue to grow and compete with other business players, both in terms of product quality and the attractiveness of its strategic location. By continuing to expand and utilize its resources, Kopi Kita is on the right track to further expand its business scale in the future.

In running a business, managing tangible assets alone is not enough to guarantee the sustainability of the business in the long term. Nowadays, many types of businesses are increasingly focusing on developing intangible assets as a primary strategy to achieve business success and sustainability. Focusing on intangible assets allows businesses to be more adaptive to change, while businesses that rely solely on tangible assets tend to stagnate. Intangible assets can encourage businesses to continue to grow and adapt to ever-changing market dynamics (Jonathan et al., 2018).

For a MSME, the Resource Based View (RBV) theory can be used in business management because it is an alternative strategy that represents strategic management decisions to create capabilities and achieve sustainable competitive advantage. Therefore, this research focuses on strategies to increase the competitiveness of coffee shop MSMEs with the Kopi Kita brand through mastery of intangible assets, namely intellectual capital, such as competence, management knowledge, and business networks, analyzed with the Resource Based View (RBV) theory approach and VRIO (Valuable, Rare, Inimitable, Organized) analysis in an effort to achieve sustainable competitive advantage and find out what resources and capabilities are strengths and weaknesses for the business. Based on the background that has been explained, the researcher wants to raise research with the title **“Applying VRIO Analysis For Strategy Formulation To Increase Competitiveness Through Intangible Asset Mastery (Case Study on Kopi Kita in Padang City)”**.

1.2 Problem Formulation

Based on the background that has been explained, the researcher can explain the right problem formulation, namely:

1. How to use VRIO analysis to formulate competitive strategies that can be used as alternatives for Kopi Kita to win the competition?
2. What forms of competitive strategy related to intangible assets that can be used as the basis for Kopi Kita's competitiveness?

1.3 Research Objectives

From the formulation of the problem, the objectives of this study are as follows:

1. To know and examine how to use VRIO analysis to formulate a competitive strategy that can be used as an alternative for Kopi Kita to win the competition?
2. To know and examine what forms of competitive strategies related to intangible assets can be used as the basis for the competitiveness of Kopi Kita?

1.4 Research Benefits

Based on the research objectives above, this research is expected to provide several benefits, namely:

1.4.1 Theoretical Benefits

There are several theoretical benefits of this project, including:

1) For Academics

This research is expected to enrich academic insight related to the application of VRIO analysis in formulating strategies to increase the competitiveness of Kopi Kita business through the control of intangible assets. The findings produced can later be an important contribution to academic literature that helps academics understand more deeply the dynamics of the Coffee Shop industry.

2) For Future Researchers

This research is a research that has an impact on the application of VRIO analysis in formulating strategies to increase the competitiveness of Kopi Kita business through intangible assets mastery. The results of this research are expected to provide references for future researchers who conduct research, especially those related to the application of VRIO analysis in formulating strategies to increase competitiveness in coffee shop businesses through the control of intangible assets.

1.4.2 Practical Benefits

The practical benefits of this research are that it can be a reference and provide insight, as well as practical strategies for MSMEs in the food and beverage (FnB)

sector, especially for those who manage coffee shops. This will certainly help them understand how mastery of intangible assets, such as competence, management knowledge, and business networks, can increase the competitiveness of this coffee shop business sustainably.

1.5 Scope of Research

1.5.1 Conceptual Scope

This research conceptually focuses on the VRIO (Valuable, Rare, Inimitable, Organized) framework, which is a commonly used model for evaluating resources and capabilities to determine sources of sustainable competitive advantage. This analysis explores intangible assets, such as competence, knowledge management, and business networks, specifically in the coffee shop industry. By applying the VRIO framework, this research aims to find out and examine how these intangible assets can contribute to creating strategies for competitive advantage in the coffee shop business.

1.5.2 Practical Scope

Practically, this research examines the Kopi Kita coffee shop business in Padang City, West Sumatra, which is used as a case study. The rapid growth of coffee shops in the region and Kopi Kita's success in building a strong brand identity and market adaptability make it a representative model for understanding competitive strategy. The research involved direct observation dan interviews to Kopi Kita to gain insights into how to effectively utilize intangible assets to increase competitiveness in a dynamic market environment in the coffee shop industry in Padang City.

1.6 Writing Systematics

Overall, the writing systematics of this thesis consists of five chapters with the following details:

CHAPTER I INTRODUCTION

Chapter I introduction consists of an explanation of the background, problem formulation, research objectives, research benefits, research scope.

CHAPTER II LITERATURE REVIEW

Chapter II literature review discusses the concepts and theories related to the research topic that will be studied and becomes the basis for writing the research. In addition, it also discusses the framework of thought used in this research.

CHAPTER III RESEARCH METHOD

Chapter III research method discusses research design, research informants, data sources, data collection methods, and data analysis techniques.

CHAPTER IV RESEARCH RESULTS AND DISCUSSION

Chapter IV research results contain an overview of the results of the research based on the analysis methods used, as well as a discussion of the research findings.

CHAPTER V CONCLUSION

This chapter contains conclusions and limitations in the research, suggestions, research implications, and recommendations for further research in order to obtain better research results.

