

BUSINESS DEVELOPMENT STRATEGY FOR SPECIALTY COFFEE

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ABSTRACT

Specialty coffee is a coffee of premium quality that has been made through various stages of post-harvest processing and strictly controlled to produce distinctive taste of origins. PT Sinar Mayang Lestari is one of the companies that currently produce and develop specialty coffee type, Arabica Java Preanger. The objectives of the study are to examine competitive advantages and develop an alternative strategy that need to be done by PT Sinar Mayang Lestari for their business development. The research methods used are value chain analysis and VRIO framework to explore competitive advantage owned by the company. The result shows the company currently has a temporary competitive advantage of the technological resources and reputation. By using SWOT-AHP technique, the alternative strategies that can be done by company are as follows: 1) increasing the production of natural and honey coffee type; 2) building coffee center in plantation site for sharing knowledge and innovation media to the farmers; 3) improving the competency of human resource in plantation, post harvest, and promoting area; 4) building management system gradually 5) forwarding integration by building roast and ground coffee business; and 6) maximizing the ability of the land and human resources through research and development.

Keywords: competitive advantage, specialty coffee, SWOT-AHP, value chain, VRIO

ABSTRAK

Kopi special merupakan kopi dengan kualitas premium yang sudah melalui berbagai tahapan pengolahan pascapanen yang diawasi dengan ketat sehingga menghasilkan cita rasa yang khas sesuai dengan daerah asalnya. PT Sinar Mayang Lestari adalah salah satu perusahaan yang saat ini memproduksi dan mengembangkan kopi spesial jenis Arabika Java Preanger. Tujuan dari penelitian ini adalah menganalisis keunggulan bersaing yang dimiliki dan mengembangkan alternative strategi yang perlu dilakukan oleh PT Sinar Mayang Lestari untuk pengembangan usahanya. Penelitian ini menggunakan analisis rantai nilai dan kerangka VRIO untuk mengidentifikasi keunggulan bersaing yang dimiliki perusahaan. Di samping itu, menggunakan analisis SWOT-AHP untuk menentukan alternatif strategi. Hasilnya menunjukkan bahwa perusahaan saat ini memiliki keunggulan bersaing sementara terhadap sumber daya teknologi dan reputasi. Alternatif strategi yang diperoleh menunjukkan perusahaan kedepannya dapat melakukan langkah-langkah sebagai berikut: 1) memperbanyak produksi kopi jenis natural dan honey; 2) membangun coffee center di lokasi perkebunan untuk sharing knowledge dan inovasi kepada petani; 3) meningkatkan kompetensi SDM di bidang perkebunan, pascapanen, dan promosi; 4) membangun sistem manajemen secara bertahap; 5) integrasikan depan dengan membangun usaha kopi roasting dan bubuk; dan 6) memaksimalkan kemampuan lahan dan SDM yang dimiliki melalui riset dan pengembangan.

Kata kunci: keunggulan bersaing, kopi spesial, rantai nilai, SWOT-AHP, VRIO

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INTRODUCTION

Indonesia is currently in the third place as a coffee producing country in the world. The total amount of Indonesian coffee production in 2013 reached 273.000 tons. A total of 70% is used for export and 30% is domestically consumed. Indonesia has the advantage on the number of specialty coffee owned. Specialty coffee is a coffee of a premium quality that has been made through various stages of post-harvest processing and strictly controlled to produce distinctive taste of origins. In addition to increasing demand, the market price for this type of coffee is also relatively higher than others.

Gayo, Lintang, and Mandailing coffee are specialty coffees that have been widely recognized by international community. Besides, Indonesia still has some other types of specialty coffee that need to be developed such as Arabica coffee Java Preanger. The distinction of this type of coffee is on the taste which has sweet and flower's fragrant. One of the companies that produce and develop Arabica coffee Java Preanger nowadays is PT Sinar Mayang Lestari.

PT SinarMayang Lestari which was founded on 12 November 2012 has the goal to introduce Arabica coffee of the Java Preanger type to local and international markets. This goal is also supported with the intention to produce high quality coffee beans that can be accepted by the market.

PT SinarMayang Lestari has integrated business units ranging from plantation to café. Export becomes the main business run by most companies today because it gives higher value. Currently, the plantation area owned by PT Sinar Mayang Lestari is approximately 70 hectares with a number of plant stems up to 230.0000. The number of annual production is expected to continue to increase as shown in Figure 1. Green bean produced by the company mostly comes from the cherries supplied by farmers and agents. This can be seen in Table 1.

Table 1. Total production of coffee green bean PT Sinar Mayang Lestari in 2013

Production (ton)	Cherry	Green bean
PT Sinar Mayang Lestari	12.400	1.080
Farmers	21.700	4.320
Agents	27.900	5.400
Total	62.000	10.800

Specification: Cherry is the fruit of the coffee plant that still exists in the tree or the freshly picked but not dried. Green beans are cherries that have been processed into seeds, also known as raw coffee beans

The company faces difficulty in terms of quality uniformity since the location of some farmers and agency partners are quite far from the mill. The defect number still ranges between 5% and 10%, whilst the maximum number of physical defects that can be tolerated by specialty coffee is 5%.

Consumer's demand for Indonesian coffee has led producers to pay attention about issues of food safety, quality and standards issues as well as environmentally friendly issues. ICO previously has issued a resolution 407 on the Coffee Quality Program. The purpose of this resolution is to create sustainable coffee production through the establishment of quality standards for exported coffee. World coffee trade system also incorporates the idea of sustainable coffee production to increase production in the form of certification by recognized certification agency such as Fairtrade, UTZ Certified, Organic Coffee, and Common Code for the Coffee Community (4C).

The advantages from exports will encourage other players to get into this business. Bandung district has some companies that also produce Arabica coffee with the type of 'Java Preanger'. Among these companies are the Golden Malabar and Malabar Indonesia. Golden Malabar is currently specializing in producing Java PreangerLuwak coffee. Meanwhile, Malabar Indonesia produces the same coffee as PT. SinarMayang Lestari that is Arabica specialty coffee type Java Preanger. The products produced by Malabar Indonesia have reached

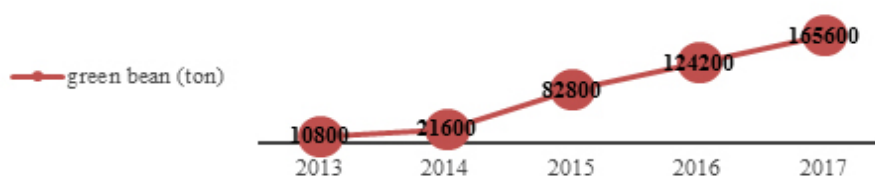


Figure1. Coffee green bean production of PT Sinar Mayang Lestari, 2013–2017

the stage of higher added value in the form of roasted and powdered products. The distinction of PT Sinar Mayang Lestari is that the company has entered the export market and has a cafe to market their products in the downstream. Nonetheless, market condition shows the company cannot only play in a low-cost strategy, but also needs to create a product that has a competitive advantage. The company also can no longer just focus on export business unit as its main activity.

Coffee producers need to use their intellectual ability to produce new products with added value and high price, and can compete in niche markets (Johnson, 2012). This also needs to be supported by supply chain and production patterns that intertwine with strong farmers and coffee processing industry (Alejandra et al. 2012). Investments on managerial practices, land, and technology development are also needed to produce better yields and replacement of old plants (Arifin, 2013). Thus, efficiency through cost reduction can be achieved to face the future coffee industry competition (Seranevijaikitkha et al. 2008). Strategies to achieve the above goals can be obtained by looking at the competitive advantage owned by PT Sinar Mayang Lestari through resource-based analysis.

Most of the biggest coffee producing countries in the world have fully captured their position. On the contrary, coffee companies in Indonesia still have low level of competition to be able to compete in global market. For coffee commodity itself, it needs to be distinguished between environmental service market approach as an alternative view of sustainable resource management and global buyer-driven initiatives which pay more attention to brand image aspects, security and sustainability of coffee supply in global market. Meanwhile the competitive advantage of coffee commodity can be known if the quality and consistency is guaranteed. (Ibrahim and Zailani, 2010; Arifin, 2013).

PT Sinar Mayang Lestari currently has no clear picture about the steps and strategies that will be done to achieve the goal. Requirements of standard quality imposed by the world coffee organizations demand the coffee company to be able to develop its competitive advantage. With value chain approach and the resource-based analysis, the researcher hopes that it can be used to formulate a strategy to create a sustainable competitive advantage.

From the description above, the purposes of this study are to analyze the competitive advantage possessed by PT Sinar Mayang Lestari, and to formulate alternative strategies for PT Sinar Mayang Lestari, so they can expand this business in the future.

This study is expected to provide an alternative strategy to increase competitiveness that can help the company in terms of business development. The scope of this study is limited to PT Sinar Mayang Lestari as a company which produces and processes the special Arabica coffee Java Preanger. The focus in this study is within the value chain and competitive advantage possessed by the resources used.

METHODS

This study used two types of data which were primary data and secondary data. Primary data were obtained from the questionnaires and interviews with the respondents concerned. Secondary data were collected from the information issued by the government and relevant agencies such as Badan Pusat Statistik (BPS), Direktorat Jenderal Perkebunan (Ditjenbun), International Coffee Organization (ICO), and Asosiasi Eksportir Kopi Indonesia (AEKI).

Sampling was done by using purposive sampling technique. The respondents who participated were those who understood the condition of PT Sinar Mayang Lestari and specialty coffee industry in Indonesia. Respondents coming from internal company sources were 6 persons, while the respondents from external company consisted of two experts in the specialty of coffee industry. The stages of data analysis were summarized in Table 2.

Table 2 Management strategy process

Stages	Frameworks	Results
Input stage	PESTEL, Five forces porter (lingkungan industri)	Atributtes for O (Opportunities) and T (Threats)
	Values chain, VRIO	Atributtes for S (Strengths) and W (Weakness)
Matching stage	SWOT-AHP Matrik SWOT	Alternative strategies SO, WO, ST, WT
Decision stage	AHP	Strategy priority

PESTEL Analysis

In general, PEST analysis is an analysis of the politics, economy, social, and technology that may affect the activity and performance of the company, while PESTEL models have incorporated environmental and legal aspects into external factors that are likely to impact the company (Rothaermel, 2012).

Five Forces Porter Analysis

Five advantages of strength that need to be identified by Porter are: threats from entry or new competitors, bargaining power of buyers, bargaining power of suppliers, threats of substitute products, and level of competition between the competitors (Porter, 2002).

Value Chain

Value chains are all actions that are considered providing added value and new advantages in every stage of production until the product reaches the consumer (Aimin and Shunxi, 2011). Based on the information from Ilyas et al. (2006), the value chain is divided into some main activities that involve physical creation, sale, and transfer of goods and services to consumers. It is also supported by other activities such as the provision of technology, employees, and the purchase of inputs that is coordinated with the main activity. Companies need to understand what to be included in overall chain of the system to create a sustainable competitive advantage (Achchuthan and Kajanathan, 2012).

VRIO Framework

According to Barney and Hesterly (2006) in Lin et al. (2012), five questions that must be answered in identifying a competitive advantage possessed by the company are 1) the question of the value (value): whether the resources owned by a company are currently able to take advantage of existing opportunities or address the

impending threat; 2) the question of scarcity (rarity): whether the resources they have are only owned by a small number of competitor companies; 3) the question of the ability to imitate (imitability): whether the company has a cost disadvantage if they do not have these resources; and 4) the question of the organization (organization): whether the policies or procedures adopted by the company can provide something such as value which is rare and difficult to replicate. Through this resource-based view, company can innovate and gain superiority in competing with other competitors (Jang, 2013).

SWOT-AHP

Oreski (2012) acknowledges that the AHP has been applied to solve various problems in 150 international journal publications from 1983 to 2003. Most of the AHP is used in the selection, evaluation and decision-making processes. In addition, the AHP is also widely used in the planning, development and cost-benefit analysis. The use of AHP, which is combined with SWOT analysis, continues to grow to this day. Oreski (2012) states using AHP can be associated with quantitative values of SWOT factors which have been analyzed earlier. In addition, by combining AHP and SWOT, the selection process will be more efficient in terms of strategy. The purpose of the use of AHP on the SWOT framework is to evaluate the factors of SWOT systematically and equate their intensity. Moreover, the benefits of AHP can be used as a systematic approach for decision making that is considered an added value in the SWOT analysis.

The stages that need to be done in the SWOT-AHP method include (Yeon and Kim in Oreski, 2012): 1) Conducting a SWOT analysis; 2) Comparing the pair-wise between the SWOT factors that exist in each group of SWOT; 3) Comparing the pair-wise among the four groups of SWOT; and 4) Formulating a strategy based on the results obtained.

Table 3. VRIO framework

Summary of VRIO, competitive implications, and economic implications					
Valuable?	Rare?	Costly to imitate?	Organized properly?	Competitive implications	Economic implications
No	-	-	No	Disadvantage	Below normal
Yes	No	-	-	Parity	Normal
Yes	Yes	No	-	Temporary advantage	Above normal (at least for some amount of time)
Yes	Yes	Yes	Yes	Sustained advantage	Above normal

Source : adapted from Rothaermel (2013)

Penic and Željko Dobrović (2014) state that in the selection of priority indicators, AHP rules out the need to observe the causal relationship of each criterion. However, the techniques used in the AHP take into account the quantitative and qualitative aspects (Jalaliyoon et al. 2012). The flow of thought and the stages in this research can be seen in the framework in Figure 2.

RESULT

Five Forces Porter Analysis

Factors which can be high threats for the company come from the bargaining power of suppliers and the competition within the group of industries. This is because of the company's dependence on the supply from farmers and agency partners. Meanwhile, the industry group consisting of major exporting companies has the ability to determine the price at the farm level that will affect the amount of company's supply.

Newcomer factors and product substitution are assessed in the medium level because they can be overcome by the company with available resources. The threat from buyer's bargaining power factor is still relatively low, because there is no standard price which can be used as a reference.

PESTEL Analysis

Opportunities that can be exploited by the company come from economic, social, and environmental factors. Income growth will encourage the increase of coffee consumption. People's lifestyle is turning into a coffee lover, and penetration of specialty coffee shop has an impact on specialty coffee demand. Coffee specialty can use this opportunity by increasing the number of production through the existing land use.

Political factors appear as not giving a direct influence on the condition of the company. Meanwhile, the technology owned by the company has largely been adapted to current developments.

Value Chain Analysis

PT Sinar Mayang Lestari has a strong dependence on the factors from outside the company. It is seen from the provision of seeds and also coffee bean supply. Low productivity is caused by varieties used and the number of immature plantations. Furthermore, weather factors also affect the level of production of coffee plant. Thus, the company has difficulty in getting uniform qualities because the location of some farmers and agency partners are quite far from the location of the plant. The standard operation procedure which is given to maintain the quality is not all done by the farmers. This shows

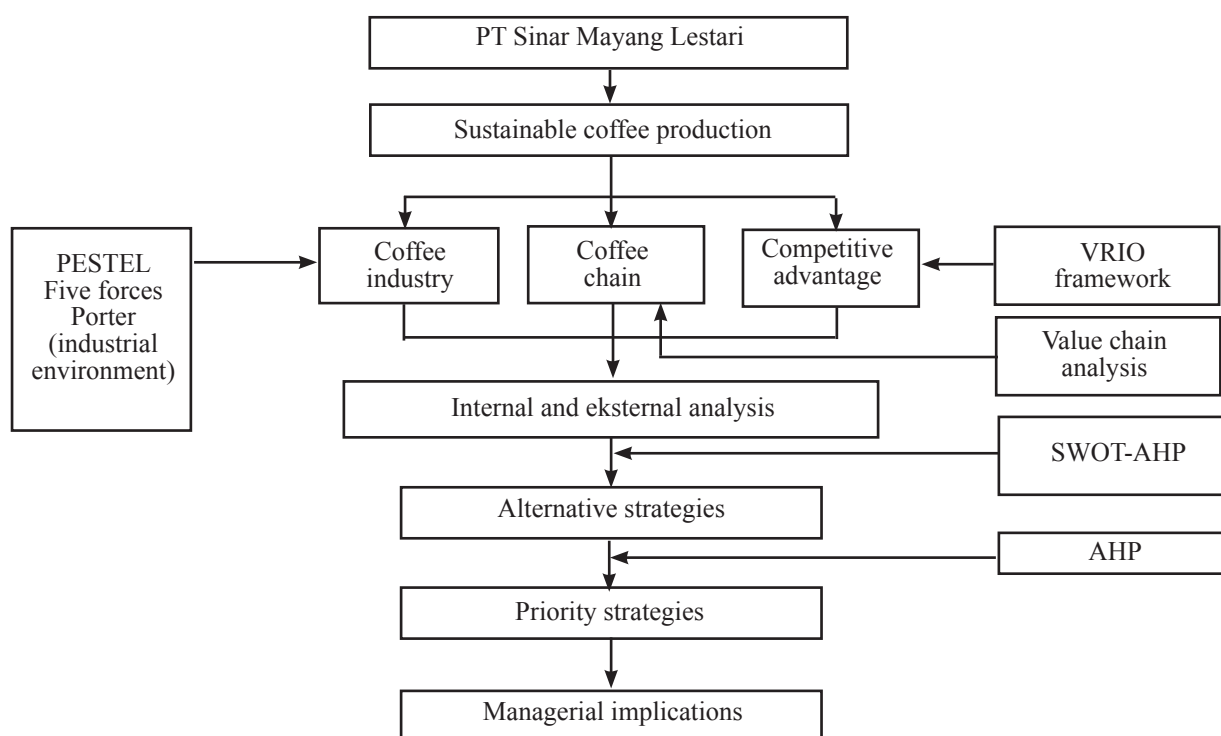


Figure 2. Conceptual thinking framework

the weakness of control system run by the company. Advantages owned by the company are solely on post-harvest management. This is proved by the awards which show that the company has won several coffee festivals as the best taste coffee. The value chain map of PT Sinar Mayang Lestari can be seen in Figure 3.

Value chain framework aims to look at the position of a company in the market viewed from the relationship with suppliers, buyers and competitors (ACIAR, 2012). Difficulties faced by the company come from domestic market that is still not familiar with the type of Arabica coffee Java Preanger. Marketing activities that are currently done are solely participating in coffee festivals and sending samples to prospective buyers (cafes and retailers). The company needs to consider the direction of product development derived from coffee beans. Powered by growth in the domestic market, the value added at this stage will give a great advantage. This is shown in Figure 4. The type of market management implemented by the company is based on trust and a sense of family. However, the control process on this management is not in a formal form and the cost to move to a new partner is small (Gereffi and Stark, 2011). This will bring an impact on the stability of production and quality produced by the company.

VRIO Analysis

PT Sinar Mayang Lestari currently has competitive advantages on technology resources and reputation. These advantages can be easily followed by the competitors because they are temporary. The technology owned makes the company capable to produce Arabica coffee Java Preanger with natural and honey variants. Arabica coffee Java Preanger with natural and honey variants have a higher value than coffee which is produced through the process of fully washed. This is reflected from the Arabica coffee Java Preanger prices which were sold in an auction held from 8–12 October 2014 in JIEXPO; the coffee was priced at \$30 per kg, while the normal price in the international market was \$5 per kg. Coffee with this processing method produces several flavors namely jackfruit, sweet orange, melon and lychee. This type has not been widely produced in a large amount. Meanwhile, the company has a weakness in the organization's resources. Other resources such as financial, physical, human resources and the ability of the company assessed have comparable capacity with other companies. The VRIO test result can be seen in Table 4.

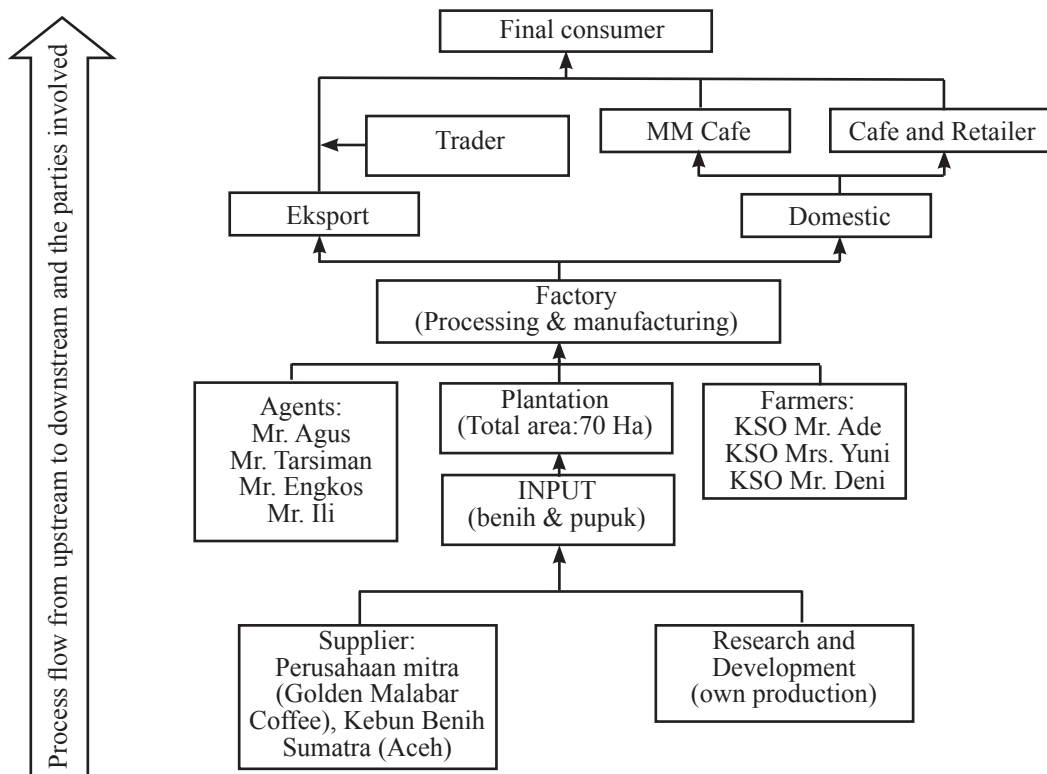


Figure 3. Map of PT Sinar Mayang Lestari value chain

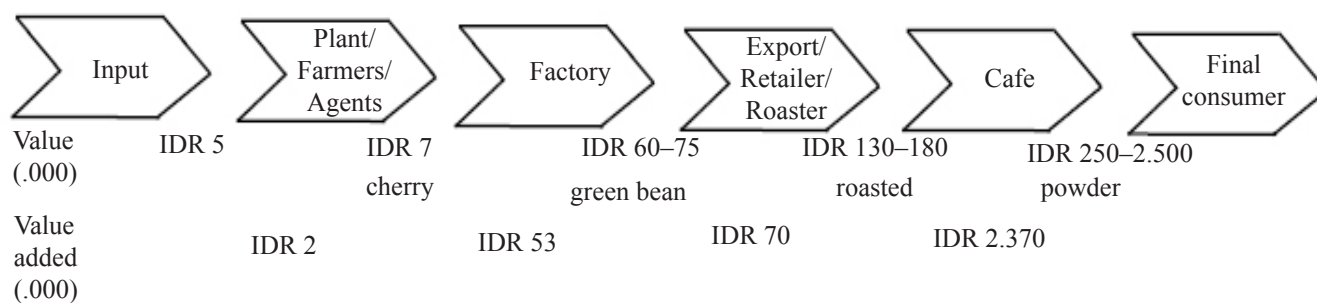


Figure 4. Value transfer in PT Sinar Mayang Lestari value chain

Table 4. Summary of VRIO test to resources at PT Sinar Mayang Lestari

Sources	Valuable?	Rare?	Costly to imitate?	Organized properly?	Implications
Finance	√	x	x	x	Parity
Physic	√	x	x	x	Parity
Technology	√	√	x	x	Temporary competitive advantage
Organization	x	x	x	x	Disadvantage
HR	√	x	x	x	Parity
Reputation	√	√	x	x	Temporary competitive advantage
Company ability	√	x	x	x	Parity

Identification of Eksternal Internal Strategic Factors and SWOT Matrix

External and internal strategic factors obtained from the analysis of the industry environment, PESTEL, VRIO, and value chain will be incorporated into the SWOT matrix to generate alternative strategies that could be done by the company. Alternative strategies are explained in Figure 5.

Alternative Strategies

The results from the interviews with the company and also the experts who have competency in specialty coffee industry have gained priority strategies as shown in Table 5. The results are obtained by using AHP. Sustainable competitive advantage can be implemented by utilizing available resources. That is the reason why a company must perform and develop a culture of innovation to have a sustainable competitive advantage (Sandberg and Abrahamsson, 2011; Hannah, 2013).

Strength owned by companies today can be exploited to execute alternative strategies. Reproducing coffee products in natural and honey variants (strategy 1) is one example of alternative strategy which can be done

to create product differentiation on the market. The advantage gained from these products is a strong flavor component. According to Wilson (2013), the quality of taste (sensory) in coffee may determine the price. Moreover, the company's reputation as a producer of high quality coffee will also have a major impact on prices at the time of the auction. Therefore, in addition to domestic market, these products also need to be introduced to foreign consumers who have become the first consumers of PT Sinar Mayang Lestari.

Differentiation is aimed to face competition (Voropajeva 2012). This could then be followed by a 3-run strategy, which is to build a center in the coffee plantation site for sharing knowledge and innovation areas to farmers. This strategy is supported by a research done by Dowdall (2012) on the coffee plantations in the highlands of Guatemala. The results show that the knowledge of market conditions is needed to take advantage of existing opportunities and learn about coffee quality desired by consumers. Strategy 1 and 3 can be used as a priority because it has the purpose of maintaining the supply and quality of seeds produced. Through this strategy, the company can provide assurance to consumers at home and abroad every time there is a demand.

	<p style="text-align: center;">Strengths (S)</p> <ol style="list-style-type: none"> 1. The ability of strong capital which can cover the operational costs and gain sales margin in the second year. 2. The location of the factory which is located in the plantation area. 3. Coffee processing technology that can produce different coffee products. 4. Reputation as a company that produces high quality coffee. 5. The human resources who have a high work ethic and a strong family bond that exists among fellow workers. 	<p style="text-align: center;">Weaknesses (W)</p> <ol style="list-style-type: none"> 1. The plantation owned by the company has been unable to meet the required amount of coffee beans for export 2. The human resources have lacking ability about downstream. 3. Managerial system is not well organized. 4. Control of each division and the existing partners in the company is still weak.
<p style="text-align: center;">Opportunities (O)</p> <ol style="list-style-type: none"> 1. Increased consumption of specialty coffee at home and abroad due to a shift in lifestyle into coffee lovers 2. Growth of coffee shop in several major cities in Indonesia. 3. Potential vast land that could be used to grow Arabica coffee. 	<p style="text-align: center;">S-O Strategy</p> <ul style="list-style-type: none"> • Increasing the production of coffee type natural and honey. (S1,S2,S3,O1,O2,O3) • Forwarding integration by building roast and ground coffee business. (S1,S2,S3,S4,S5,O1,O2,O3) 	<p style="text-align: center;">W-O Strategy</p> <ul style="list-style-type: none"> • Building management system gradually (W1,W3,W4,O3) • Improving the competency of human resource in plantation, post harvest, and promoting area. (W2,W3,W4,O1,O2,O3)
<p style="text-align: center;">Threats (T)</p> <ol style="list-style-type: none"> 1. Dependence of the farmers and agency partners to meet the needs of coffee beans 2. The Company's major exporters that can affect the price. 3. Unbalanced Weather conditions (long summer and heavy rainfall). 	<p style="text-align: center;">S-T Strategy</p> <p>Building coffee center in plantation site for sharing knowledge and innovation media to the farmers. (S1,S2,S5,T2,T3).</p>	<p style="text-align: center;">W-T Strategy</p> <p>Maximizing the ability of the land and human resources through research and development. (W1,T1)</p>

Figure 5. SWOT Matrix

The company ability on value chain management also needs to be improved to increase the competence of human resources and build management systems gradually (strategy 4 and 5). Lack of control in the company can be caused by errors in the management of each stage of the process, which starts from the sale to the payment system to farmers and agents (Gathura, 2013). The value in each level of factors, subfactors and alternative strategies resulted from the SWOT-AHP can be seen in Figure 6.

Managerial Implications

Natural and honey type of Arabica coffee Java Preanger can be reproduced by adding a drying area and applying a standard operational procedure to process natural and honey type. Furthermore, the allocation of workers needs to be done to control processing stage. Coffee center in plantation site for sharing knowledge and innovations to farmers can be started with training about the planting stage. In addition, the company can also invite stakeholders such as governments, traders/exporters to pay a visit to the coffee center location to hold a discussion with farmers.

HR competencies in the field of plantation, post-harvest, and promotion can be enhanced by training related to the development of coffee industry nowadays. Company could send competent human resources to obtain certification (especially for graders, roaster and barista).

Furthermore, management system must gradually begin to have a written record or in softcopy (report of work) for each activity undertaken by the company. Clear job desk to each party in managerial system also needs to be done.

Forward integration to build coffee roasting and the powder begins by preparing human resources that have the ability in the field of roasting and grinding coffee beans. This will be followed by purchasing machinery for roasting and milling, as well as finding new customers to market the product. The company can do research agreement and cooperate with coffee and cocoa research center Indonesia to maximize land capability and human resources.

Table 5. Weight of major strategic priority in the hierarchy

Alternative strategies	Weight
Increasing the production of coffee type natural and honey	0,217
Forwarding integration by building roast and ground coffee business	0,117
Building coffee center in plantation site for sharing knowledge and innovation media to the farmers	0,216
Building management system gradually	0,119
Improving the competency of human resource in plantation, post harvest, and promoting area	0,171
Maximizing the ability of the land and human resources through research and development	0,101

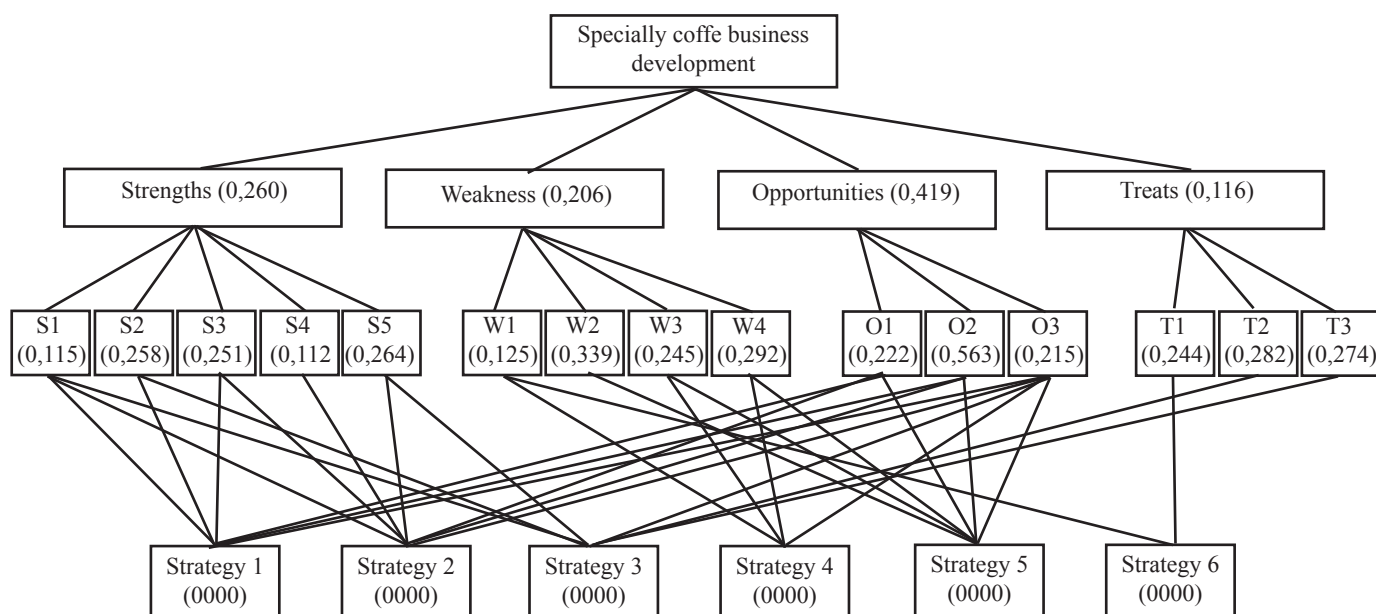


Figure 6. SWOT-AHP to factors, subfactors and alternative strategies

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The conclusion drawn from this research is PT SinarMayang Lestari currently has a temporary competitive advantage of the technological resources and reputation. Priority strategies that can be done by the company are multiplying the production of natural and honey variant of Arabica coffee Java Preanger and building coffee center in plantation site for sharing knowledge and innovation areas to farmers. This is because the process of planting and post-harvest processing contributes to 50% of the aspects which affect the quality of the coffee. The rest comes from the ability to process the coffee beans in the form of roasted and powdered products. Based on the research, it must be noted that the distance from the market to washing area, frequency of training conducted, and the effort of each actor to improve the quality are some necessary and influencing factors on coffee quality. In

terms of the level of behavior, the main actors who are directly involved in improving the quality, awareness of the required quality trends, knowledge and abilities are important aspects that impact the quality of coffee produced (Megerssa et al. 2012). If farmers know how to plant and process a product, the efficiency in terms of time and cost incurred by the company can be created.

Another strategy that can be done in parallel is to increase the competencies of human resources in the field of plantation, post-harvest, and promotion; gradually build management systems; do forward integration to build coffee roasting and powders; and maximize the ability of land and human resources through research and development.

Recommendations

The company will require substantial funds for coffee development centers and production facilities; therefore, the company needs to consider the funding

from third parties. For further research, it is necessary to make formulation of marketing strategies that can be undertaken by the company.

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