

# Cost Based Penetration Pricing Strategy for Beverages Industry

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**Abstract-** Food and beverage industries in the fast moving consumer goods sector is growing rapidly in Indonesia. Effective marketing strategies are required particularly for a new company in face of intense competition from rivals. Freshbrew Mels Beverages is a newcomer in the glass packaged tea beverage industry. The aim of this study is to identify current marketing at Freshbrew Mels Beverages, analyze internal and external factors affecting the company's marketing, and develop alternative marketing strategies. This research involved comprehensive interviews of company management and an evaluation of a competitor company. By using CAP-CSP (Company Allignment Profile Competitive Setting Profile) analysis and industry competition analysis, the research showed Freshbrew Mels Beverages' current marketing activities were inadequate in an industrial environment with competition of medium intensity. The subsequent formulation of alternative marketing strategies for Freshbrew Mels Beverages was based on a marketing mix (4P) developed using SWOT analysis and QSPM analysis, with the latter used to determine priority of the alternative strategies. This study provided Freshbrew Mels Beverages with seven alternative marketing strategies with the following priorities: 1) penetration pricing strategy; 2) product differentiation strategy; 3) event promotion strategy; 4) direct selling strategy; 5) product design strategy; 6) strategic distribution coverage; 7) non - store retailing strategy.

**Index Terms-** New Company, Marketing Mix, Strategy, Tea Beverages, and Penetration Pricing

## I. INTRODUCTION

The food and beverage industries in the fast moving consumer goods sector is growing rapidly in Indonesia. Beverages particularly instant tea drinks are notable because more and more people are consuming it on a daily basis, especially those with a high level of activity and mobility. AC Nielsen study showed 48% of total spending in Indonesia is for fast moving consumer goods, especially food and beverages (Industry Review - Bank 2015). Overall, non-alcoholic beverage consumption in Indonesia is still dominated by mineral water (84.1%). However, instant tea beverages is now at 8.9% followed by carbonated beverages (3.5%) and other soft drinks (3.5%) (Industry Review - Bank Mandiri 2013). This trend is driving more companies to enter the instant tea beverages industry. Based on statement from Head of Marketing ABC President Indonesia, Dwi Hatmadji, instant tea product growth can reach 30% to 40% per year (Yuswiyanto

2013). Triyono Prijosesilo as Head of Indonesian Soft Drink Association says that each year instant mineral water grow constantly but instant tea increase by 10% (Issetiabudi 2015). In 2010, RTD tea growth volume is 1554 million litre, it's bigger than RTD carbonates in which the growth volume is 634.8 million litre (Poeradisastira 2011).

In a dynamic market environment with a wide availability of substitute products, consumers are provided with many alternatives for their purchase decision. Certainly consumer hope that the product they consume will satisfy their need. Consumers will easily switch to other products if a particular item a company manufactures is not able to satisfy their needs. Consumer expectations are thoughts or beliefs of consumers about what they will receive. Consumer expectations may not be met due to misinterpret signals campaign carried out by the company (Pattiaapon 2011). If a product can meet consumer expectations or even exceed customer expectations and provide quality assurance on every occasion, consumers will be confident with his choice and consumers will have confidence in the product brand (Rizan, Saidani, and Sari 2012). This research was conducted at a new company called Freshbrew Mels Beverages. The company produces tea beverages in cup size packaging. At the time this research was conducted, Freshbrew's tea beverage was only marketed in Central Java and Lampung with the brand "Mary Teh".

Based on researcher observation, Freshbrew Mels Beverages is a small company consist of 4 employees and the rest is freelance workers. Researcher cannot get quantitative data for finance and sales but researcher have qualitative data from field observation and in depth interview with Director, General Manager, Administration Division Head, and Production Division Head. From January to May 2014 there is an increase in product shipment. Based on interview with General Manager of Freshbrew Mels Beverages, Mustain said "Mary Teh" distributed straight to distributor without marketing approach in advance. In aftermath, distributor start to reduce their demand because they still have stock that hasn't been sell. And so from June to December 2014 there is a declining in product shipment. The product that hasn't been sell until close to expire date must be taken from distributor. Freshbrew Mels Beverages need marketing strategy to help them sell "Mary Teh".

In formulating an effective marketing strategy, a company should be able to map its strengths and weaknesses and identify opportunities and threats that exist in the market. In addition, the company should also be able to recognize the intensity of competition faced by the industry so that market development objectives can be achieved effectively. A successful marketing

strategy can determine the right marketing efforts, identify segments or target marketing, and create business advantage (Srivastava and Sakunke 2011).

The aim of this study is to identify current marketing at Freshbrew Mels Beverages, analyze internal and external factors affecting Freshbrew Mels Beverages' marketing, and develop effective alternative marketing strategies.

## II. THEORETICAL FRAMEWORK

### A. Marketing Mix Strategy

One of the marketing strategies that can support the marketing of products to create customer satisfaction and increase sales is the use of marketing mix that includes product, price, promotion and place. Marketing mix is a blend of product, promotion, place, and price strategy designed to produce a mutually satisfactory exchanges with the intended market (Lamb, Hair, and McDaniel 2001). The use of marketing mix can yield in higher competitive advantage and yield better performance as perceived by consumer. Without a competitive advantage, the company will wither away (Ibidunni 2011).

According to Sofjan (2002), product is everything that are offered to the public to be bought or consumed in order to meet the needs and provide satisfaction to the customer. In marketing mix, product is the most important element to reach the intended target market. Price is the amount of money that consumers pay for product or replace proprietary products that can affect the level of sales and profitability. In determining the price is to consider factors that influence it, namely, the price of raw materials, production costs and the price of similar products sold by competitors. Promotion is a company's activities to communicate and introduce the product to the market. Activities that can be done in promotion is advertising in all forms of nonpersonal presentation and promotion of ideas, sales promotion with short-term incentives to encourage the desire to try or buy products and services, promotion event like a variety of programs designed to promote and protect the image of the resulting product, direct selling that perform direct marketing communications to get a response from the customer and a particular candidate. Place is company's activities to make the products affordable and available to consumers. The product does not make much sense for the customer if they are not available at the desired time and place.

In a study conducted by Danibrata (2009) and Suprpto (2014), in the early stages of entering the market, the company should be able to socialize its products to the public to raise the character of the products. Being able to socialize its product value, company can strengthen their bond with consumer. Shared value between company and consumer can increase company performance (Kucukkancabas, Akyol, and Ataman 2007). Study by Hu (2012) suggested that by focusing on marketing strategy can increase sales or enhance consumer re-purchasing rate.

### B. Cost Based Penetration Pricing Strategy

Blythe and Megicks (2010) says that pricing strategy was meant to set prices according to the characteristic of the target segment. For new product, the pricing strategy will be based on a penetration price policy looking to establish long-term growth and return through building the brand.

Penetration price strategy is designed to maximize sales, gain widespread market acceptance, and capture a large market share quickly by setting a relatively low initial price. Company cost in producing product are an important factor in setting prices. Based on production cost company can set temporary price reduction to stimulate sales or store traffic (Ferrell and Hartline 2014).

Research conducted by Harminingtyas (2013) and Hendri (2009) stated marketing activities such as promotions and price variations can influence consumer purchasing decisions. Varying prices can give different effect on consumers. Whereas flat pricing was considered to be fairer, company should vary their prices to meet consumer perception (Bujisic, Bilgihan, and Hutchinson 2013).

### C. Company Alignment Profile (CAP) – Competitive Setting Profile (CSP)

According to Rangkuti (2002), the process of formulating a marketing strategy begins with identifying marketing problems the company facing. Results of comparing the average value between CAP and CSP provide three possibilities:

A:  $CAP > CSP$ , ie a positive gap where companies have gone too far in anticipation of action to deal with the existing situation

B:  $CAP = CSP$ , the company is at the same point on industrial environmental conditions and is ready to face the existing conditions.

C:  $CAP < CSP$ , which is a negative gap which the company must take measures to anticipate the situations. In study conducted by Prantommy (2011), before formulate marketing strategy, researcher identify current marketing condition with Company Alignment Profile and Competitive Setting to determine.

### D. Industry Competition Analysis

Industry competition analysis is conducted to determine the intensity of the industry competition. There are five factors that determine the intensity. The factors are the threat of a potential new players, the threat of substitute products, buyer power, supplier power, and competition between the existing companies. The values of intensity obtained are categorized into 3 groups: 1.00 to 2.32 value indicates the intensity of competition is low, the value of 2.33 to 3.67 indicates the intensity of competition is moderate, and a value above 3.67 indicates high competition intensity (Porter 1998). Research by Nurcahyono, Segoro, and Bakara (2013) says that by profiling the industry competition intensity can help determine the target for the strategy.

### E. SWOT and QSPM Analysis

Strength, Weakness, Opportunity, and Threat analysis (SWOT) is used to determine a company's internal factors as it relates to the company's strengths and weaknesses that are considered important and external factors that become opportunities and threats. This analysis based in maximizing strengths and opportunities, and simultaneously minimizing weaknesses and threats to formulate strategy (Rangkuti 2001).

David (2009) states, Quantitative Strategic Planning Matrix (QSPM) is a tool that allows strategists to evaluate alternative strategy objectively, based on key internal and external success factors that have been identified previously. The result of internal and external analysis and alternative strategies derived from the SWOT matrix are used as an input for QSPM. Using QSPM, a

“best strategy” will be obtained from various alternative strategies that are recommended.

Mukminatin and Harisudin (2012) conduct a research to formulate marketing strategy by using SWOT analysis and QSPM analysis. SWOT analysis is used to formulate alternative marketing strategy and QSPM is to determine the priorities of marketing strategy. Another research done by Fahmi, Baihaqi, and Kadir (2013) by using SWOT analysis to formulate marketing strategy in beverage company.

#### F. Framework of The Research

This study focused on the marketing of tea beverage in cup size packaging produced by Freshbrew Mels Beverages with the brand "Mary Teh". The research begins with identifying the current marketing. Identification of marketing done descriptively by describing Freshbrew Mels Beverages marketing based on segmentation, targeting, and positioning. After that, Company Alignment Profile (CAP) and Competitive Setting Profile (CSP) analysis used to see the gap between company current marketing and its business environment.

The next stage is to determine the competitive intensity in the industry of bottled tea beverages. Industry competition analysis obtained through interviews with the management of Freshbrew Mels Beverages and company's competitor. After that is to conduct a situation analysis (SWOT) by analyzing the internal factors (strengths and weaknesses) and external factors (opportunities and threats). Identification of internal factors obtained through interviews with the management of Freshbrew Mels Beverages which has an important role and has expertise in the field. Identification of external strategic factors is the company's industry environment through interviews with the management of Freshbrew Mels Beverages and company's competitor. Formulation of alternative marketing strategy is done by applying the elements of the marketing mix 4P (Price, Product, Place, and Promotion). QSPM matrix used to assign alternative strategy priority by assigning values relative attractiveness of some alternative strategies based on predetermined weight. The last stage is to do the preparation of managerial implications for management. Based on these descriptions, the conceptual framework of this research can be seen in Figure 1.



Figure 1. Framework of Research

### III. RESEARCH METHOD

The method used in this research was a descriptive method with a case study approach. The use of case studies was intended to provide more details about the object of research and the conditions that exist in the company.

This research was done at one of beverage company at Bogor from Desember 2014 – February 2015. The selection of this company as a research target was based on the consideration that the company was a newcomer in the instant tea beverage industry with no marketing strategy and could still be developed amid overall growth in the Indonesian beverage industry.

Data used in this study comprised primary data and secondary data. The primary data was obtained through direct observation in the company, interviews and questionnaires distributed to the management of Freshbrew Mels Beverages (1 Director, 1 General Manager, 1 Chief of Administration Division 1, and 1 Head of Production Division) and one competitor. Secondary data was obtained through the study of literature. The selection of respondents was done using purposive sampling technique based on the consideration that the respondent has the expertise and competence in the field studied.

In this study, there are three steps researcher conduct. First is the identification of segmentation, targeting, and positioning. Yusuf and Williams (2007) describes segmentation as categorizing each customer group based on different needs and wants. Targeting is the act of evaluating and selecting one or more segments to which the product to be sold (Tjiptono, Chandra, and Adriana 2008). Wijayanti (2012) describes positioning as activities to make a particular product the center of consumers' attention.

Analysis of CAP-CSP (Company Allignment Profile-Competitive Setting Profile) and industry competition analysis is used to identify a company's marketing gaps with its industrial environment and determine the intensity of the industry competition. Alternative strategy formulated by identified internal and external factors then use SWOT analysis to formulate marketing strategies that met the condition. Once these strategies are done, QSPM analysis is used to determine the priorities from the alternative marketing strategies.

### IV. RESULT AND DISCUSSION

#### A. Freshbrew Mels Beverages Marketing Identification

Freshbrew Mels Beverages with its product "Mary Teh" has broad consumer segmentation. Evaluating its demographics, "Mary Teh" segmentation is not limited by age, as the product is consumed by consumers across all ages. In a psychographic analysis, "Mary Teh" can form part of a tea drinking lifestyle in Indonesian society. This lifestyle is a main driver for Freshbrew Mels Beverages to market its product. In addition, Freshrew Mels Beverages is marketing "Mary Teh" as a ready to drink product to cater to a practical, fast paced lifestyle.

Freshbrew Mels Beverages' target customers are all consumers who like to drink tea and requires the product to be ready to drink. Factors to be considered in marketing "Mary Teh" to these target costumers are the price, packaging, and availability of goods.

To differentiate "Mary Teh" with competitors' products, Freshbrew Mels Beverages has produced "Mary Teh" as a

fragrant tea in cup size packaging. The company also uses natural ingredients with minimum preservatives. This is reflected, for example, with “Mary Teh” storage period which is shorter when compared to competitors' products.

Based on CAP and CSP analysis, CAP value is 2.33 which is lower than CSP value of 3.25. This negative gap implies marketing done by Freshbrew Mels Beverages is obsolete because of changes occurring in the business environment for tea beverages with glass packaging, where the number of competitors continue to multiply and technologies used in the production become more advanced. Freshbrew Mels Beverages must take action to overcome these challenges.

**B. Industry Competition Analysis**

An industrial competition analysis shows that tea beverages with glass packaging can be categorized as an industry with medium intensity competition with a score of 3.15. The Factor that has the highest impact on competition in the packaged tea beverage industry is the purchaser with a score of 3.29. the factor that has the lowest influence is competition among its peers with a score of 3.05. A summary of the industry competition analysis is provided in Table 1.

Table 1. Industry Competition Intensity

No	Variable	Total score	Competition Intensity	Rank
1	Threat of new entrants	3.11	Moderate	4
2	Threat of substitute products	3.17	Moderate	2
3	Bargaining power of suppliers	3.14	Moderate	3
4	Bargaining power of buyers	3.29	Moderate	1
5	Competition among existing companies	3.05	Moderate	5
Competition Intensity		3.15	Moderate	

The high impact of the purchaser is driven by the fact there are many purchasers of cup size tea packaging. The more purchasers there are, the greater impact they have on the intensity of industry competition.

**C. Alternative Strategies Formulation**

In identifying a company’s strengths and weaknesses, internal factors forming the company’s strengths and weaknesses based on the 4P (price, promotion, product and place) need to be considered in facing opportunities and threats in the business environment. Meanwhile, identifying the external environment was conducted to determine the opportunities and threats faced by Freshbrew Mels Beverages. External factors potentially impacting the company's marketing performance are the competitor, the consumer, government, and the broader social and cultural environment. Strengths that played important roles in the company’s marketing strategy are (in order of importance): 1) product quality (0.41); 2) affordable price (0.37); 3) secured stock of raw materials (0.22). Weaknesses in the company’s market strategy (in order of importance): 1) no staffing specifically assigned for marketing (0.31); 2) product promotion lacked intensity 0.26; 3) unattractive design of product packaging 0.24; 4) Reliance on third parties to deliver products (0.19). In addition to internal factors (strengths and weaknesses), weighting was also done for external factors (opportunities and threats).

In formulating alternative marketing strategies that Freshbrew Mels Beverages could implement, these factors will be combined in a SWOT matrix by combining the opportunities and threats that are likely to be faced with the strengths and weaknesses of the company (Figure 2). The company current conditions, which is still in an early growth phase, will not allow it to directly face more established competitors like “Teh Gelas” (Orang Tua Group) and Mountea (Garuda Food).

<b>INTERNAL FACTORS</b>	<b>Strengths</b> 1. Product Quality 2. Affordable price 3. Secured stock of raw materials	<b>Weakness</b> 1. No staffing specifically assigned for marketing 2. Product promotion lacked intensity 3. Unattractive design of product packaging 4. Reliance on third parties to deliver products
<b>EXTERNAL FACTORS</b>	<b>Opportunities</b> 1. Lifestyle of Indonesian society that liked to drink tea 2. Government support in the market and product development 3. Consumers are open to various variants of tea 4. Consumers prefer products that are practical (fast) 5. Wide segmentation	<b>WO Strategy</b> - Product design strategy (W3, O4) -Non-Store Retailing Strategy (W1, W2, O2, O3) - Distribution coverage strategy (W4, O1, O2)
	<b>Threats</b> 1. Number of competitors 2. Competitor more vigorous in promotion 3. The difficulty of bureaucratic licensing for beverage product from government 4. The lack of consumer awareness of information related to product content 5. Consumers tend to pay attention to the low price compared to the quality of the product	<b>WT Strategy</b> - Direct selling Strategy (W2, T4) - Event promotion Strategy (W1, T1)
	<b>SO Strategy</b> - Product differentiation strategy (S1, S3, O1, O2, O3, O4)	<b>ST Strategy</b> - Penetration Pricing Strategy (S2, T2, T4, T5)

Figure 2. SWOT Matrix

Formulation of alternatives strategy for Freshbrew Mels Beverages based on aspects of the marketing mix ie price, product, promotion and place. In Kotler and Keller (2011) price is flexible, where a price to be stable within a certain time but in a short time the price may also be increased or decreased. The price determination may based on cost, value, or competition. Product is the most important element in the marketing mix because it can affect marketing strategy and determine the required promotional activities.

Promotion is a communication made by a company that aims to inform the public of the presence of a product. Company can use a variety of promotional tools namely advertisements through television, newspapers, radio, and the Internet; sales promotion through performances, demonstrations, or exhibits; direct selling by building positive interaction between companies and consumers; and event promotion to build the image using the key person of influence in the community.

Place/distribution is an activity of the company so that products can be obtained easily and readily available to consumers. Distribution strategy can be done by placing the

product on many retailers intensively or distribute products in a particular market area by selecting a few distributors only. Besides, distribution strategy can also be carried out exclusively by providing the distribution rights to one or two distributors only.

*D. Strategy Priorities*

In conducting the determination of strategy priorities, filling out the questionnaire conducted by the management of Freshbrew Mels Beverages then processed using the QSPM analysis. Of the seven alternative strategies, its priorities will be determined by the level of interest (Attractiveness Score) against any internal and external factors. Each grade level of interest would be multiplied by each strategic weight of each factor to get the total value of attractiveness. Alternative strategies with the total value of the highest attractiveness is an alternative that will be given priority in implementation. Table 2 shows the QSPM analysis result.

Table 2. QSPM Analysis

Alternative Strategies	TAS Score	Strategy priority
Product differentiation strategy	9.47	2
Penetration pricing strategy	10.54	1
Product design strategy	7.91	5
Non – store retailing strategy	5.81	7
Distribution coverage strategy	7.66	6
Direct selling strategy	8.20	4
Event promotion strategy	8.32	3

This study shows alternative marketing strategies for Freshbrew Mels Beverages based on SWOT and QSPM analysis. Recent study shows that Komaryatin (2008) formulated marketing strategy by using SAP and ETOP analysis with SWOT analysis. The objective of this study is to discuss marketing strategy that can be implemented for small company. The results of these analysis shows that for small company, price and promotion is the best strategy for growing and expand. Similar to this study is using SWOT analysis to formulate strategies.

In cup size tea beverage industry, price competition occurs very tight. Each beverage manufacturers compete to offer attractive prices for consumers. Among the beverages, they have very thin price differences. Hendri (2009) examined that marketing communication based on non-promotion activity have greater impact in consumer buying decision. Price and product can give more influence in consumer buying decision. With a penetration pricing strategy, Freshbrew Mels Beverages can overcome the competition in terms of price. The company can offer cheaper price compared to the price of other products within a specified period. Reduction in product price can be a stimulus for consumers to buy "Mary Teh". Start with cheaper prices, consumers will be interested to try "Mary Teh" and feel the flavor of "Mary Teh". Purchasing "Mary Teh" by consumers, followed by tasting the flavor provided by "Mary Teh" will begin to grow consumer confidence of the product. Study by Chang and Horng (2010) shows giving low price can successfully penetrate market to break through existing market trend. In industry that have dominant design, variety on the production

side is not substantial so it's more associated relatively to low prices (Corrocher and Guerzoni 2009).

Second priority is product differentiation strategy. Implementation of this strategy can be carried out by the company by making a variety of products that have improvised characteristic and more value in the eyes of consumers. Examples of product differentiation that can be done by the company is to highlight the value of spices or fruits that characterizes Indonesia. By combining new flavors into the tea, the company will provide a new experience for consumers. Determination of new flavors certainly cannot be marketed as such. To realize it, the company can collaborate with universities which have departments related to food and beverages in determining the composition and nutritional value in the right amount for the content of the product.

The third priority for Freshbrew Mels Beverages is event promotion. This strategy emphasizes the promotion of products to embed more value for "Mary Teh" in the minds of consumers. As the new product in the tea beverage industry, "Mary Teh" has not been widely known and still sound unfamiliar to consumers. By implementing a strategy of promotion events, companies can take advantage of opportunities for cooperation provided by the government to promote their products. This cooperation opportunities can be participated in the event which is done by the government while promoting "Mary Teh". In the event promotion activities, key individuals appointed by the company can instill values and benefits contained in the "Mary Teh" into the minds of consumers. Hopefully it can influence the perception of consumers and help raise the brand value of "Mary Teh".

The fourth strategy prioritized for Freshbrew Mels Beverages is direct selling. One of the drawbacks that are owned by the company is less intense in the promotion. To overcome these weaknesses the company can sell directly to consumers. By doing direct selling, consumers will feel more needed and considered by the producers and will build up a new image for the company. It would also strengthen the relations that occur between the brand and the consumer. Consumers will be more confident of the quality offered by "Mary Teh".

The fifth priority is product design strategy. Updating the package would lead to better appeal for consumers eye. In terms of size, "Mary Teh" can offer a greater quantity to attract customers. Besides changes in packaging design will lead his own appeal for "Mary Teh" easily recognized by consumers. Uniqueness contained in packaging will create curiosity for consumers so that consumers will try to buy the product.

Distribution coverage strategy and non - store retailing strategy are two strategies that have the least priority for Freshbrew Mels Beverages. Distribution coverage strategy rely on how effective distribution range of products can be distributed to reach a wider market. In this strategy the company must establish cooperation with retails or stores that are in the area of marketing objectives. Food and beverage product is a product that has a very fast turnover rate, therefor the company's ability to choose distribution channel should be good and thorough. Retails and stores as the market destination should have good credibility in the eyes of consumers and whether it can maintain the confidence of consumers and of producers.

The last strategy is non - store retailing strategy. Developments in technology and the Internet provide access to communications and information to promote "Mary Teh". Companies can utilize social media to promote their products. In addition, the company can open an online shop in the market network for "Mary Teh". The rise of internet users will be easier for company to introduce "Mary Teh".

## V. CONCLUSION

Freshbrew Mels Beverages with "Mary Teh" has a broad market segmentation, targeting all people who like to drink tea and requires a quick tea beverages. As a newcomer, Freshbrew Mels Beverages position as a manufacturer of cup size tea beverages with the composition of products using 100% original tea leaves and 100% pure sugar by promoting quality and food safety.

CSP and CAP analysis shows that the marketing activities undertaken by Freshbrew Mels Beverages already lags behind the changes that occur in the business environment. Company must immediately take action to adapt to its business environment. Industry competition analysis showed that cup size tea beverage industry, has moderate competition intensity with a score of 3.15.

With the situation company face there are several strategies that can be implement based on SWOT matrix. The strategies are product differentiation strategy, penetration pricing strategy, product design strategy, non-store retailing strategy, distribution coverage strategy, direct selling strategy, and event promotion strategy. According to the priorities, as a new company with limited resources the best strategy can be implement is penetration pricing strategy. Company can give promotional price based on cost of production (cost base pricing) in certain period. The new price that company give can help affect consumer decision for buying the product.

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