

Competing in Niche Market: Is Innovation all we Need? Evidence from Local Coffee Shops

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Abstract

Literatures recorded that innovation is considered as major weapon in tackling competition especially in niche market where the market has already shaped with tight competition. However, is innovation all we need?. This study tries to reveal the significance of innovation in coffee shops industry and shaping a proposed model in order to assist the business in sustainability and resilience in niche market. This research focused in coffee shop industry as an emerging industry worldwide these recent years. This qualitative based research took 12 case studies of coffee shop businesses in Magelang, Central Java-Indonesia and result gained from this research discovers that innovation is not a main key in business sustainability and resilience in coffee shop industry. In fact, others elements take more essential role in order to maintain businesses sustainability and resilience. This research proposes a model of achieving sustainability and resilience. This model will show substantial elements and strategies and delivered it in steps/layers that may help coffee shops in competing in niche market. It shows that innovation is placed in the 1st layer and the most important layer is occupied by ecosystem.

Keywords: *innovation, entrepreneurship, coffee shop industry, niche market, sustainability, resilience.*

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I. INTRODUCTION

The presence of innovation in both Large Business and Small Business are essential. Infact, the need of innovation is emerging for both Large Organizations (LOs) and Small and Medium Enterprises (SMEs). Numerous literatures have claimed that both businesses' sustainability depend on innovation [1][2][3][4][5][6] especially to continuous innovation within firms. Literatures also explained that innovation mostly applied to be able to survive in the industry [3][7][8]. Other privileges of innovation cover creating competitive advantage, increasing brand image, sustaining and expanding business and more.

With those numerous advantages, it is surely necessity to pursue innovation in for LOs and SMEs .

On the other hand, as a top 4 coffee retail market in the world, Indonesia shows a high potential in coffee business growth. The research continued that Indonesia with its demographic advantage, was ranked as the world's fastest-growing consumer of packaged coffee, including instant coffee, ready-to-drink coffee and coffee in pods or capsules in 2011- 2016. Consequently, the emerge number of local coffee shops is unavoidable. Jonny Forsyth, associate director at Mintel Food & Drink mentioned that "Asia's emerging markets

have led global coffee growth in years past and will continue with Indonesia leading this charge" [9][10].

However, rapid growth of coffee consumption and coffee market in Indonesia carries two different effects. Firstly, increasing number of coffee shops in Indonesia as in increasing in income. Contrary to that, the second effect is creating tight competition among businesses, especially because most recent coffee shops come with same core strategic which is millennial friendly [10].

At the same time, Indonesia coffee franchise businesses are

having an incredible growth lately. Data recorded 6 coffee shop franchises leading this trend, they are: JanjiJiwa, Kopi Kenangan, Lain Hati, Fore, Kulo, Kudo. In fact, as startup businesses, they successfully open their branches nationwide in only 2 years with fund gained from venture capital from India, China and Japan [20]. This condition is slightly depressed for local coffee shops. They struggle to sustain and survive the market which has already included as niche. One core and easiest answer is to innovate. It is indeed correct as previous literatures have state the same thing [3][7,8][11-13]. However, question then arises: is innovation is all they need to survive and being resilience?

Following to that, this study tries to expand and in-depth the understanding about coffee shops' sustainability and resilience by looking at another elements that support innovation and perhaps play bigger role than innovation itself. Hence, the aim of this research is (1) to find out the significance of innovation in coffee shops business, (2) to reveal essential elements that influence coffee shops' sustainability and resilience, and (3) to list

strategic steps in order to achieve sustainability and resilience in the business. In the end, extended model of business sustainability and resilience will be delivered as the last aims of this article.

II. LITERATURE REVIEW

A. Why Should We Innovate?

Since Schumpeter in 1934 [14] introduced the concept and importance of innovation in entrepreneurship practice, awareness of innovation has increased and has placed as the major need in a business. Literatures explained that innovation mostly applied to be able to survive in the industry [3][7,8]. Other privileges of innovation as mentioned above cover creating competitive advantage, increasing brand image, sustaining and expanding its business and more. From those advantages can be stated that innovation is a must for each business.

B. Innovation Cycle

Viki et al in their book Corporate Startup [5] stated that innovation practice within firms comes with a cycle that contain of 3 (three) main steps which are build, measure and learn. The cycle starts with the eagerness of business to create or realize new idea. Next step includes measuring process which is a process where team conducts a research to measure how market react with the new idea and how to improve it. This step is usually done by an in-depth research market. Last cycle is learning process, it relates to how company answer the research market conducted before. Below is the cycle:

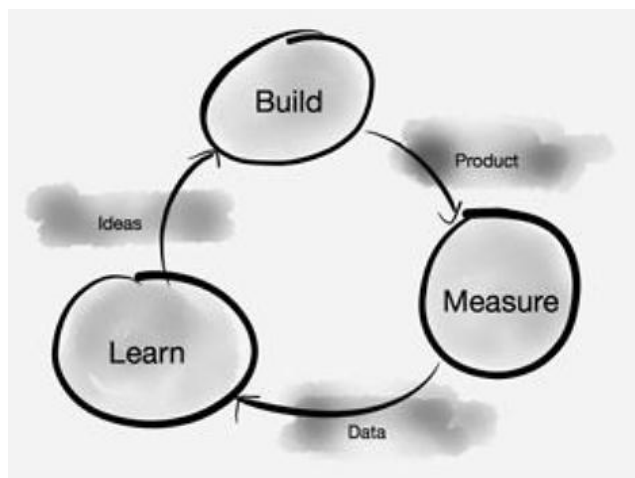


Figure 4. Innovation Cycle [5]

The cycle then will be enrich when a company penetrates to next level of innovation when a harder decision need to be chosen in order to either continue its new idea or change its strategy entirely. Here is the development cycle of innovation based on the same book:

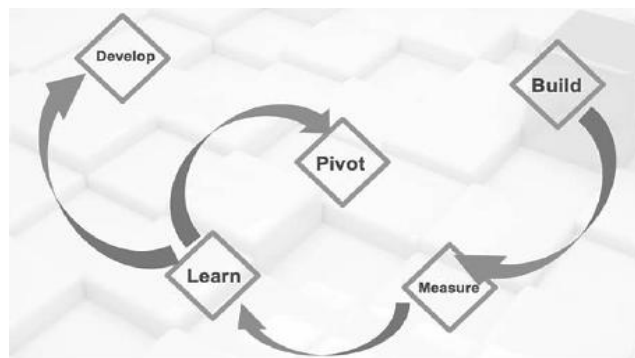


Figure 5. Development Cycle of Innovation [5]

C. Sustainability and Resilience

Resilience has become a topical discussion these recent years mostly due to the global changing driven by globalization and disruptive technology that complex the way people do business. literatures reported that resilience has a strong relation to collective action, adaptation,

opportunity, risks, vulnerability and innovation [15-18]. In the same time, resilience is substantial because it relates to business growth and sustainability. Business that survive and grow are considered to be resilient of rapid changing in business environment. Hence, the research about business resilience emerges to be able to discover strategic and effective way in pursuing growth and sustainability. One of the model proposed about it is showing the connection between business resilience and Business Model Innovation (BMI) as illustrated in figure below:

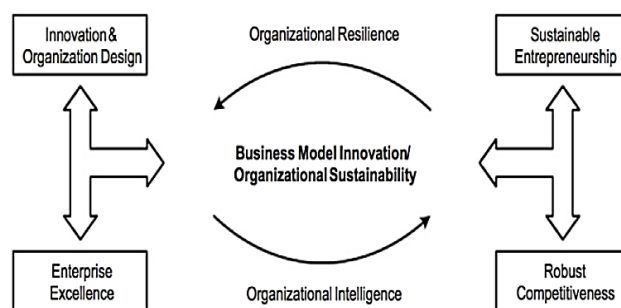


Figure 2. organizational resilience and BMI [15]

III. RESEARCH METHOD

Unfortunately, there is no complete data for total number of coffee shops in Magelang, either cannot be found in local statistic center nor independent institution. So far, data gathered from government website is incomplete and out of date. Data then collected from google map by typing “coffee shops in Magelang” as keywords. Data showed that there are 87 coffee shops in Magelang, but after scanning it one by one, only 75 businesses are included as coffee shops, the other 17 businesses are included as café and restaurant even though they serve coffee as well.

From those 75 business, the first criteria of business research then stated, which are: local coffee shops, established more than 2 years based

on research by Cefis&Marsili [21] That mentioned 2 years or more than 24 months business operation is ideal to be stable business. From this first criteria, 30 business are able to be participated in structured interview. The structured interview conducted and resulted 32 variables to be examined and utilized in in-depth interview as the last step of data collection as main characteristic of descriptive qualitative research [31]. Below are the variables used in structured interview:

Table 1. Variables in structured interview

1.	Quantitative vs qualitative business performance criteria
2.	Subjective vs objective business performance criteria
3.	Current vs future-oriented business performance criteria
4.	Operating vs financial business performance criteria
5.	Potential growth of the business
6.	Major determinant of potential increasing business performance
7.	Growth strategy of the business
8.	Knowledge possessed about entrepreneurship activities
9.	Potential opportunity of the business in the future
10.	Potential threat of the business in the future
11.	Business process
12.	The length of doing business
13.	Variety coffee bean / drink offered
14.	Concept of the business
15.	Costumers traffic of the business
16.	Working / opening hours
17.	Target customers/market of the business
18.	Competitive advantage of the business
19.	Strategy taken in order to maintain the business
20.	Traffic of new customers
21.	Traffic of return customers
22.	The most popular drink vs the least popular drink
23.	The side dishes served
24.	Innovation strategy run by the business
25.	Challenge in innovation
26.	Important of innovation in the business
27.	Time needed to get Break Even Point (BEP)
28.	The power of a figure in the business
29.	CEO vs Head Bar

30.	Value gained by customers during their visit to certain coffee shop
31.	Trend influence/effect in running the business
32.	Readiness of the market of the concept of drinking coffee offered by the business

Based on structured interview, 12 coffee shops are included in open ended interview or in-depth interview.

Table 2. Respondent Identity

Business	Established	Opening Hours	Menu Provided
Respondent 1	2015	Daily 09:00 – 24:00	Single origin, modern fusion coffee drink, cake, snack
Respondent 2	2016	Daily 12:00 – 23:00	Single origin, cake, snack
Respondent 3	2015	Daily 10:00 – 23:00	Single origin, modern fusion coffee drink as seasonal menu, cake, cookies, snack
Respondent 4	2016	Daily 09:00 – 22:00	Single origin, modern fusion coffee drink as seasonal menu, cake, snack
Respondent 5	2015	Daily 10:00 – 23:00	Single origin, modern fusion coffee drink, snack
Respondent 6	2017	Daily 14:00 – 23:00	Single origin, brownies
Respondent 7	2017	Daily 12:00 – 23:00	Single origin, tea, snack
Respondent 8	2017	Daily 10:00 – 23:00	Single origin, snack
Respondent 9	2016	Daily 10:00 – 22:00	Single origin, Nusantara Coffee, Foreign coffee menu as seasonal menu, snack, cake
Respondent 10	2017	Daily 14:00 – 23:00	Single origin, tea, chocolate, snack
Respondent 11	2016	Daily 09:00 – 22:00	Nusantara coffee, single origin, snack
Respondent 12	2014	Daily 12:00 – 23:00	Single origin, donut

IV. RESULT AND DISCUSSION

In competing in niche market, business needs specific tools and elements to survive the characteristics of specific and specialized customers based on specific requirement of niche market [19]. This part will discuss more in-depth about those tools and elements:

A. Is innovation that important?

Compare to other businesses that consider innovation as a powerful item to survive in their industry, Coffee shop business shows on contrary. Innovation is indeed useful, however it is not as essential as we think, as mentioned by respondents:

We don't consider innovation as strategic tool in this business – respondent 1,3,7

We don't have any innovation strategy so far and We haven't thought about it seriously – respondents 2, 8, 10

We don't innovate in product, We have other approach such as: talking to customers, build community and share awareness about coffee – respondent 4

Not innovation, but more to specialty, awareness and educate – respondent 6,11

Perhaps it is more to service innovation such as: excellent service, post purchasing service etc – respondent 5,9

Is regular changing in menu consider as innovation? because We don't think so – respondent 12

This interview reveals that innovation is not placed as the most essential aspect in coffee

shops. This finding is contrary with most literatures used for this paper [1-5][7][11-14][21]

B. Kind of survival strategies in niche market

In modern business, strategies are needed to be able to remain in the industry. From competitive strategies proposed by Michael Porter [22] such as low-cost strategy, differentiation strategy, best-cost strategy and focus strategy to customized strategy based on industry and business we are on. In coffee shop business, each respondent also has their own survival strategies. These strategies as described below:

We have competitive advantages that we use as strategies to remain in market, like maintain our rating, service, branding and SOP – respondent 1

There are 3 essential things we try to keep in our business. The setting of our place, the crowded and the quality – respondent 2, 5

Large space, free wifi, setting and our friendship cycle are our main strategies – respondent 3, 8

Specialty, customer education, coffee awareness – all respondents

Such strategies as: comfortable, cheap, open till midnight, discount, regular changing in menu become our strategies to compete with other coffee shops – Respondents 4

Making this place as hang out place for youngsters, creating society and ecosystem for people to hang out, discuss and sharing – Respondent 10

There is no specific strategy, it's just because we have a lot of loyal customers since We are the first coffee shop in town – Respondent 11

As mentioned above, strategy can be basic and customized. Seeing these coffee shops have their own strategies, it can be concluded that this finding is in line with Michael Porter's claims about strategies as technique for analyzing industries and competitors and being used in their business practice [22]. This finding also supports previous literatures about customized survival strategy such as: market orientation, marketing mix, alliance, competitive advantage, and network management in business [23-25]

C. Hype is not Lasting

Being top 4 coffee consumers in the world makes coffee shop business in Indonesia grows significantly. As described above, these recent years, coffee shop franchise in Indonesia keep emerging and successfully compete with big and global brand like Starbucks, Costa, Coffee Bean and else. Brand such as JanjiJiwa, Kopi Kenangan, Lain Hati, Fore, Kulo, Kudo established just 3 years ago but successfully gained venture capital and expand to dozen cities in Indonesia. These coffee businesses deliver modern menu in fusion between coffee and other drinks such as chocolate, coconut water, pandanus, soya and else.

With this new competitors, it is interesting to measure how does it affect local coffee shop:

It perhaps affect us, but We don't experience quite much different – respondent 1, 5, 9, 10

I don't think so, We are still occupied by customers every day – respondent 11, 12

They absolutely have content, they are hype now but both can't help them lasting because in the end of the day, taste and quality of coffee still

more meaningful and most wanted by customers – all respondents

Content is strongly important now and those franchises know it very well. Yes, They have content and they are hype but like an empty peanut, they have only the shell and shell will be useless without what's inside – respondent 2,3,4

But We do need them, We need them to be able to stick to basic. Let them compete each other with their modern menu and let customers decide to which coffee shop will they return to – respondent 12

This findings is in line with previous research that claimed we need to ignore the hype and believe the fact. Other study also stated that hype strategy will just take you out of the business [26-27]

D. Figure to ecosystem

Above findings reveal how coffee shop industry has different approach compare to other industry. Interview conducted for this research discovered that sustainability and resilience of local coffee shops actually depend on other thing apart of innovation. Especially for niche market where coffee shops are currently competing right now, innovation is not enough to be able to survive and maintain their position. Hence, there must be other elements influence them:

Community becomes our main customers and it turned into society and shaped an ecosystem. On the top of that, what make them always come to our place is the presence of certain figure in our place – all respondents

In our place, CEO or founder of this business become main attraction people eager to come – respondent 2,4,5,12

Apart of founders, we have strong head bar with a lot of knowledge about coffee and large network that can attract customers to come – respondent 1,7,8,11

Our head bar always go around and chit-chat with customers. He takes part as a cue breaker especially to new customers. Aside from him, our waiters sometimes do the same but the impact creates by the head bar always bigger and deeper to customers – respondent 10

This study found out that each respondents has the same dream and strategy which is trying to create coffee ecosystem to support their coffee shop business. This ecosystem is formed from coffee shop, coffee brewer, coffee lovers, suppliers to community.

E. Creating a market or following a market

The in-depth interview for this study discovered an appealing thing about customers behavior in coffee shop and idealism of founder. It seems like there is unwritten norm grow among coffee shop about the classification of coffee drinkers such as coffee addict and early drinker. For this, coffee shops place their business as server to coffee addict not the early drinker. Coffee addict here is defined as people who love single origin, manual brew, high consistency and extraction of coffee, consider drinking coffee as their life style and early drinker is classified as people who drink coffee because they keep up with the current trend. For this case, coffee addict has a higher class than early drinker. Hence, most coffee shops state their business as place for coffee addict.

As a business in niche market, these local coffee shops face a certain challenge between creating a

market or following the market. Their choice as stated by below:

We used to be very idealism and only serve single origin and house blend coffee. It's good in any way because we maintained our idealism and trying to create our own market but it didn't sell well – respondents 3,6,9,10,11

Our target is not coffee addict from the beginning. This place is more to be a hangout place, because we know for sure if we did so, our market will be very narrow – respondent 1

We are alarmed that Magelang doesn't have a lot coffee addict. Customers' knowledge about coffee is less than bigger city. So, focus to coffee addict is narrowing our market. We try to bridge both coffee addict and early drinker by putting modern fusion coffee as seasonal menu. In one way, we are trying to create our own market but in some point we need to follow the market as well – respondents 4,6,7,8

To enlarge our market, we combine the concept of coffee shop and café – respondent 5

Therefore, in order to achieve their sustainability and resilience, local coffee shops have their own strategy:

Serve modern fusion menu – respondent 1,3,4,5

Combining the concept of coffee shop and café – respondent 5

Creating an ecosystem in town – all respondents

This strategy is in line with previous literatures that mentioned business ecosystem coevolve to create product and service in achieving value creation within the business by performing open strategy, dominating strategy and opportunistic

strategy [29,30]

F. Proposed Model to business sustainability and resilience

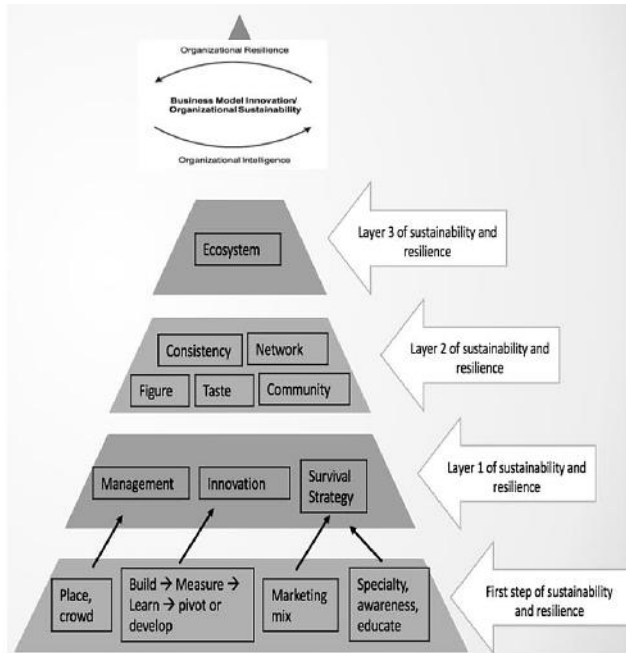


Figure 5. Proposed Model

Last finding for this research reveals that there is a need for proposed model in constructing sustainability and resilience for local coffee shops. The proposed model below. Figure 6 explains about steps and layers in order to achieve sustainability and resilience in coffee shop business. it starts with practical steps need to be taken which cover: place, crowd, innovation cycle as: build → measure → learn → pivot or develop, marketing mix, specialty, awareness and educate. These steps then include in first layer in achieving goals of business which are: management, innovation and survival strategy. Then, the most essential points and become the second layer are figure, consistency, coffee taste/quality, network/relation, community to finally create ecosystem as the most important layer. These elements are included as major elements needed

by coffee shop business to acquire sustainability and resilience.

V. CONCLUSION

In fact, coffee shops need to sustain in the market and being resilience among the tight competition in niche market. in order to do so, there are elements that are essential to be implemented in the business. This study tries to classify the important and more important element to coffee shop business in reaching sustainability and resilience. This study is also occupied with strategic tools in implementing those elements. Lastly, this

research provides proposed model in achieving sustainability and resilience in coffee shop business.

The limitation of this study is the usage of 1 city in Indonesia. For the future study, it is expected to expand the scope by adding more location or city as sample.

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