

## Analysis of Differentiation and Innovation Strategy Development to Enhance Business Competitive Advantage

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### **Abstract**

*Batik businesses in Indonesia show quite tight competition, including batik businesses in Kediri. This condition creates business opportunities in increasing competitive advantage in the same product but has more value that can increase competitive advantage in business. Rumah Batik Lochatara Business is committed to continuing to raise the cultural values and natural wealth in Kediri through its unique motifs. This study aims to analyze differentiation and innovation strategies to increase competitive advantage in business at Rumah Batik Lochatara Kediri. The method used is qualitative descriptive analysis using Porter's value chain model to identify competitive advantages. Data collection techniques using observation techniques, interviews and related documentation. The results of the study show that the differentiation strategy of Lochatara batik can be seen from two dimensions of differentiation, namely personnel and image. And from the marketing innovation side. These two strategies are obtained from competitive advantages. Differentiation strategy by optimizing HR competencies and strengthening the image towards the international market. Product innovation is increasingly diverse, as well as the expansion of marketing and improvement of marketing technology used.*

*Keywords:* Differentiation strategy, innovation strategy, competitive advantage

### **A. Background**

The development of Micro, Small, and Medium Enterprises (MSMEs) in the current era is experiencing very high growth and development. MSMEs as the backbone of the people's economy in a country, this was proven in 2017 when MSMEs contributed 60.34% to Indonesia's GDP. The existence of micro, small, and medium enterprises (MSMEs) in Indonesia plays a strategic role in enhancing the country's economy, helping to reduce unemployment, and being able to withstand the economic crisis that hit Indonesia's economy when many large companies faced bankruptcy. (Fahrika & Zulkifli, 2020)

Competitive strategy is the pursuit of a favorable competitive position within an industry, as it fundamentally determines where competition occurs, and competitive advantage is the company's ability, derived from its characteristics and resources, to achieve higher performance compared to other companies in the same industry or market. Competitive advantage can be obtained through the utilization of the resources owned by the company and how the company is able to formulate and implement marketing strategies. (Porter in Arianty, et al:2016).

The competitive advantage achieved by a company must be maintained to turn that competitive advantage into a sustainable competitive advantage (Sunyoto, 2015). Creating a competitive advantage depends on the company's ability to maximize the use of its resources. One way is to focus on the skills that the resources truly possess by facilitating various needs to support the work, so that the resulting products will be focused on the value or benefits that the company truly aims for with the market share determined by the company. To achieve excellence in a business, cooperation between the company and its resources is needed, in order to create mutually beneficial ties and produce products that have unique benefits or value to outshine the competitors. This is because competitive advantage is an important position that a company can adopt as a step or method to outpace its competitors. (Danial, 2017)

As an effort to achieve competitive advantage, a competitive strategy is needed. Differentiation strategy is a strategy used to measure a company's ability to generate added value for a unique product or service that has additional value for consumers in the form of product quality, special features, and other services (Suryana, 2003), so that consumers have a good impression and ultimately are willing to spend more on a product that they

perceive as unique. (Kotler & Keller, 2016) state that product differentiation is a strategy employed by companies to distinguish their products from competitors' products in a way that makes them more desirable or special.

In addition, innovation strategy is equally important in supporting business competitive advantage. Innovation is a new idea that can improve and develop old ideas to be implemented into a business activity. Innovation is a knowledge process aimed at creating new knowledge for the development of commercial products and feasible solutions (Amir, 2014). It can be interpreted that innovation involves the creation of new ideas or the development of existing ideas, which are then implemented in a business to compete with similar products and create business opportunities.

Rumah Batik Lochatara Kediri is owned by a Joint Business Group (KUB) that received special training from the Government and private sector, giving it a high competitive advantage. Here is the competitor table for Batik Lochatara.

Table 1.1 Batik Data of Competitors of Rumah Batik Lochatara

No	Business Name	Address
1	Batik Salinyar	Gurah – Kediri
2	Batik Suminar	Pare – Kediri
3	Batik Jumput	Bandar Kidul – Kediri
4	Batik Wecono Asri	Dandangan – Kediri
5	Batik Aghitsna	Semen – Kediri

Source: Data diolah 2024

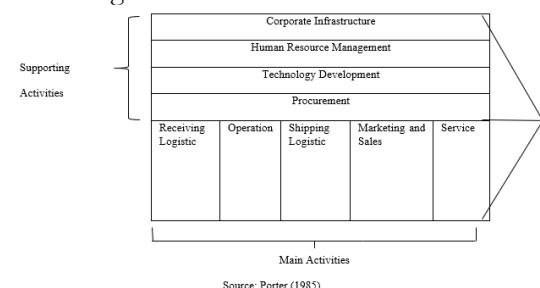
Based on the information from table 1.1, it is stated that the batik business competition in Kediri is quite fierce, and there are business opportunities to enhance competitive advantages on similar products, thereby creating unique value and business opportunities to improve competitive advantages in the business. Rumah Batik Lochatara is committed to continuously promoting the culture and natural wealth of Kediri through its unique motifs. As a batik that focuses on Kediri culture, Lochatara batik has its own unique motifs and appeal to consumers regarding the diversity of patterns. The motifs featured in both hand-drawn and

stamped batik include gumul, jaranan, Gunung Kelud, honey pineapple, tondowongso, adan-adan, and many more. However, along with the rapid development, it is necessary to make new breakthroughs in terms of differentiation and innovation strategies to enhance competitiveness.

### Competitive Advantage

Competitive Advantage, Porter (1990:3) states that Competitive Advantage is the heart of marketing performance in facing competition. Competitive advantage is defined as the company's strategic benefit to create a more effective competitive advantage in its market. Competitive advantage or competitive advantages are a set of factors that differentiate a company from its competitors (Adiputra, 2017). The research conducted by Nursya'bani Purnama and Hery Setiawan (2003) titled "Analysis of the Influence of Competitive Advantage Sources in Marketing on the Performance of Manufacturing Companies in Indonesia" states that competitive advantages show differences and uniqueness among competitors.

Competitive advantage according to Porter (1985) is the ability obtained by a company through its characteristics and resources to achieve higher performance compared to other companies in the same industry and market. In the book, Porter explains that the value chain is a series of activities carried out by a company to create value for customers, starting from product design, production, marketing, to customer support. This concept emphasizes that every activity in the value chain must create value, and companies must continuously strive to enhance the value created to achieve competitive advantage. Here is figure 2.1: Value Chain in Primary Activities according to Porter



Source: Porter (1985)

Based on the figure above, competitive advantage can be assessed by

utilizing sources of competitive advantage that consist of primary and support activities. The main activities consist of inbound logistics, operations, outbound logistics, marketing and sales, and service. Meanwhile, the activities that support the main activities consist of company infrastructure, human resource management, technology development, and procurement. With a selective decomposition system, the company can easily understand the key competitive advantages it possesses. This means that competitive advantage has two different but interconnected meanings. The first meaning indicates the presence of competitive advantage found in the company's ability to achieve the performance it has accomplished. Continuous attention to performance will provide a company with the opportunity to achieve a competitive position. Whereas the second meaning involves utilizing the resources and competencies possessed by the company in achieving superior advantages. Various sources of competitive advantage such as innovation, manufacturing, and marketing can leverage superiority or excellence.

Michael Porter (in Awwad, 2013) states that competitive advantage is the ability obtained through the characteristics and resources of a company to achieve higher performance compared to other companies in the same industry or market. Differentiation Strategy

It seems that there is no text provided for translation. Please provide the text you'd like me to translate, and I'll be happy to assist you! According to Lesser Robert Bittle (in Manap, 2016) states that strategy is a fundamental plan to achieve the company's goals. Meanwhile, differentiation itself is one of the indicators to achieve competitive advantage. According to Kotler (in Heriyanto & Paryanti, 2015), differentiation is a process that distinguishes an organization's or company's offerings by adding a series of elements that have added and significant value. The advantage of focused differentiation (Dewi & Seminari, 2017) comes from the company's ability to produce unique goods or services within its industry, which are generally valued by buyers across all dimensions. Therefore, a differentiation strategy is a method that can be applied to attract consumers' attention to the products offered to them, thus ensuring that

the company does not fall behind its competitors.

Differentiation strategy is divided into 5 dimensions, namely personnel differentiation, distribution channels, products, services, and image (Kotler & Keller, 2008). Several ways that companies can provide different value compared to their competitors can be categorized into 5 variables, namely personnel differentiation, service, product, distribution or channels, and image differentiation.

#### a. Personnel Differentiation

Personnel differentiation according to Kotler is where the company is able to employ more trained employees. Competitive advantage using personnel differentiation emphasizes the company's ability to manage professional human resources (Philip & Keller, 2008). The ability of employees in the marketing process will further strengthen the strategy, influence consumer interest, and improve service quality in their performance across various company activities. Kotler (in Heriyanto & Paryanti, 2015) shows six characteristics of personnel differentiation assessment in trained employees, among others:

- 1) Responsive (quick to respond): Correcting mistakes, solving problems, and promptly addressing consumer requests.
- 2) Competent (ability): Those who possess the necessary knowledge and skills
- 3) Dependable: Ready to work consistently and accurately in the field of service
- 4) Credibility: Can be trusted to carry out the entrusted responsibilities.
- 5) Politeness: Having a friendly, attentive attitude and being able to respect the opinions of others.
- 6) Communication: Able to communicate well and strive to understand the needs and desires of consumers.

#### b. Service Differentiation

This strategy is implemented by improving the quality of service, among other things:

- 1) Employee training in this case for better service quality, so that consumers feel more comfortable.

- 2) Consultation for customers. This consultation is conducted to find solutions for customers that meet their needs or desires.
- 3) Delivery
- 4) Installation
- 5) Ordering

#### c. Product Differentiation

Product differentiation emphasizes the quality of the product and the form of the product that has distinctive features and is different from others. The form and durability of a product can be classified into three categories: long-lasting products, short-lasting products, and service products. Each product has a different differentiation strategy.

#### d. Differentiation of Distribution or Channels

This strategy is implemented through the excellence of distribution design, coverage, expertise, and performance. Companies can achieve competitive advantage through their ability to design distribution channels, particularly concerning the reach, expertise, and performance of those channels (Kotler and Keller, 2007). Distribution channels are a pathway through which goods or products pass from producers to intermediaries, ultimately reaching consumers as the end users of the products. It can be concluded that the differentiation of distribution channels is an effort by the company to distinguish its advantages compared to competing companies through the design of distribution channels that encompass reach, expertise, and performance of those channels.

#### e. Image differentiation

Image differentiation is the right blend of imaging elements that creates a brand's image. Image differentiation is the public's perception of a company, where the company designs its identity to build its credibility in society. Image differentiation is obtained through a different marketing approach; an image that is important to customers is one that is perceived to have differences from the image of competitors. The image referred to is in the form of the product and company image. Customers perceive a difference in the products used (Ambarwati, et al. 2003). Image differentiation is the public's perception of the company,

where the company designs its identity to build its credibility in society.

#### **Innovation**

Innovation is a strategy that will produce something new from previous ideas. Innovation is a process that transforms opportunities into marketable ideas. Innovation can also be defined as a combination of vision to create a good idea and the perseverance and dedication to maintain the concept through implementation (Machfoedz & Machfoedz, 2004). Innovation as excellence means that the innovation can create advantages in new forms (Suryana, 2013).

Innovation consists of product innovation and also marketing innovation. Product innovation is an understanding of target purchases aimed at an understanding of superior value that occurs continuously. According to Kotler (in Vanessan Djadjjobo & Tawas, 2014), product innovation is a combination of various processes that mutually influence one factor with another. In conducting product innovation, companies must prioritize three factors: uniqueness, superiority, and cost of the product.

Based on the above description, if product innovation involves the creation of a completely new product that has significantly improved either in function or characteristics, then product innovation in competitive advantage is an effort to enhance the quality of the new product above its competitors.

#### **B. Research Method**

This research is a type of study that uses a qualitative method characterized by descriptive analysis. Qualitative methods are methods used to express descriptive data in the form of written or spoken words (Sugiyono, 2007). Qualitative research is a type of study that tends to use an inductive analysis. The qualitative research approach is a method used in the data collection process, aligning with what is present in the field and focusing on what is being studied. This method begins with the stages of collection, organization, explanation, and analysis of data.

#### **C. Research Results And Discussion**

Kotler (in Heriyanto & Paryanti, 2015) states that differentiation is a process that

distinguishes an organization's or company's offerings by adding a series of value-added and important features. Kotler (in Heriyanto & Paryanti, 2015) states that differentiation is a process that distinguishes an organization's or company's offerings by adding a series of value-added and important elements. Differentiation strategy includes 5 dimensions, namely product differentiation, personnel, service, distribution channels, and image. The focus of differentiation carried out by the researcher on Lochatara batik is related to personnel differentiation and also image differentiation. The formation of KUB (Kelompok Usaha Bersama) Lochatara is one form of differentiation strategy that sets it apart from other batik industries in Kediri. In order to improve the human resource capabilities of KUB members, periodic marketing management training is conducted. The trainings conducted include:

1. This packaging design training is in collaboration with the government. Currently, the Lochatara batik gallery not only offers sheets of batik fabric but also other products such as bags, wallets, hats, and masks made from batik fabric.
2. Managerial training, such as financial management training starting from financial transactions, the buying and

selling process, onboarding training via marketplace or conversational e-commerce. These trainings are certainly aimed at improving human resource (HR) competencies. Meanwhile, the image of Lochatara batik. Differentiation of image refers to how a company or organization is able to carve out a strong and positive image. The indicators of image differentiation can be seen from the aspects of events, achievements, atmosphere, or audio-visual media.

In this case, the innovation strategy focuses on marketing innovation. Innovation is a combination of vision to create a good idea and perseverance and dedication to maintaining the concept through implementation (Machfoedz & Machfoedz, 2004). Innovation as a competitive advantage means that the innovation can create advantages in new forms (Suryana, 2013). The steps taken to enhance marketing innovation on their own with a digital system and through e-commerce. In addition, there is also a new payment system in the form of QRIS issued by Bank Indonesia. Here is the Value Chain in Primary Activities according to Porter, developed by the researcher to enhance competitive advantage in the Lochatara Kediri batik business, as shown in figure 4.1:

<p><b>Company Infrastructure</b></p> <ol style="list-style-type: none"> <li>1. Create a vision and mission, organizational structure, and KUB (Joint Business Group) bylaws with the principles of cooperation and economic democracy.</li> <li>2. Creating a Development Roadmap for the Batik Cluster Fostered by Bank Indonesia</li> </ol>
<p><b>HR Management</b></p> <ol style="list-style-type: none"> <li>1. Recruiting new members openly without coercion.</li> <li>2. Providing regular training to members related to financial management, skill enhancement, and marketing management.</li> </ol>
<p><b>Technology Development</b></p> <ol style="list-style-type: none"> <li>1. Developing marketing technology through a digital marketing system,</li> <li>2. Developing a sales system through e-commerce</li> </ol>
<p><b>Procurement</b></p> <ol style="list-style-type: none"> <li>1. Procurement or purchasing of goods digitally through e-purchasing or e-procurement, both of which are procurement processes conducted online.</li> <li>2. E-purchasing focuses on direct purchases through e-catalogs, while e-procurement encompasses various stages of procurement, including auctions.</li> </ol>

Inbound Logistics:	Operation	Outbound Logistics	Marketing and Sales	Service
Procurement Related to the Supply of Finished Goods in the Form of Batik Fabric.	<p>1. Terminated batik products in the form of fabric and ready-to-wear products</p> <p>2. Transforming batik fabric into ready-to-wear batik</p>	<p>Classic Handwritten Batik, Contemporary or Modern Classic Tie-Dye, Eco-Print Batik, Combination Batik Confection: Clothing, Bags, Wallets</p>	<p>1. The main marketing and sales of Batik Lochatara are located in a gallery on Jalan Kenanga 07/02, Desa Jajar, Kecamatan Wates, Kabupaten Kediri.</p> <p>2. Using a business account on Instagram that provides a link to the WhatsApp number and the gallery location link</p>	<p>1. Serving delivery of goods to consumers</p> <p>2. The condition of the outlet is clean, tidy, and comfortable.</p> <p>3. The employees' attitude is friendly, dressed appropriately, and communicative with customers.</p>

Based on figure 4.1, it shows a series of significant differences in terms of human resources. The members are truly given regular and periodic training, which enhances their creative abilities and leads to the emergence of remarkable new innovations. The training conducted is an effort to enhance the managerial capabilities of human resources in terms of managing finances well, maintaining product quality, developing broader marketing that is easily accessible to consumers, which will ultimately improve competitive advantage in business.

#### D. Conclusion

Based on the explanations that the author has presented in the discussion and results, it can be concluded as follows:

1. The differentiation strategy highlighted by batik Lochatara focuses on differentiating human resource personnel and product image. Through various types of training conducted periodically, it can create the competence of Human Resources, especially KUB (Kelompok Usaha Bersama) members, to become more reliable and professional. Increased competencies or capabilities of human resources will enhance business competitive advantage.

2. Continuous innovation will lead to competitive advantage. Marketing innovation by expanding the marketing network with new systems, new payment tools, and new management governance.
3. The differentiation and innovation strategies that have been applied to Batik Lochatara have impacted the enhancement of competitive advantage in the business, thereby increasing sales and boosting revenue for the KUB (Kelompok Usaha Bersama) Batik Lochatara.

Here are the suggestions provided by the author:

1. For the management of Batik Lochatara, in this case, KUB (Kelompok Usaha Bersama), continue to maintain and develop the differentiation strategy they have to further improve product quality. In addition, improve human resource management capabilities by implementing the training that has been provided, so that it can enhance competitive advantage in the business.
2. The researcher hopes there will be further studies with a broader and deeper scope, especially in relation to competitive advantage.
3. The existence of this research is expected not only to serve as a theoretical reference

but also to be beneficial and contribute to everyday life.

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