MARKETING STRATEGY OF INDONESIAN LOCAL COFFEE IN THE INTERNATIONAL MARKET: EMPIRICAL ANALYSIS AND STRATEGIC GUIDANCE

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Abstract

One of Indonesia's main export commodities is coffee. Coffee has a significant economic impact, especially in terms of job creation in plantations, processing, and distribution. Indonesia is one of the world's largest coffee producers, especially Arabica and Robusta coffee. Although the quality of Indonesian coffee is recognized internationally, it still struggles to expand its market share. The global coffee market is increasingly competitive, and many other coffee-producing countries are seeking to expand their market share. The purpose of this study is to investigate and analyze various marketing strategies that can improve the competitiveness of Indonesian coffee in the international market. This study aims to identify elements that influence the competitiveness of Indonesian coffee, develop effective marketing strategies, and analyze the problems faced by Indonesian coffee industry players when marketing coffee abroad. In addition, this study aims to offer solutions to these problems and strengthen the position of Indonesian coffee in the global market. As coffee consumption increases worldwide, especially in developed countries, there is a significant opportunity for Indonesian coffee to expand its market share. The parameters in the linear regression model are estimated using Ordinary Last Squares (OLS) analysis. However, this data was collected from 2012 to 2023 and uses annual data for the three countries with the highest export values.

Keywords: Coffee marketing, export, OLS, digital strategy.

Introduction

Coffee (Coffea sp.) is one of the most important traded commodities in the world (Gabriele & Vanzetti, 2008). Coffee is a major export commodity for many developing countries, including Indonesia, because it has a significant economic impact, creating jobs in the plantation, processing, and distribution sectors (Surbakti, 2014).

In recent decades, Indonesian coffee has experienced rapid development, both in terms of quality and consumer awareness of local coffee products. Indonesian coffee is known for its distinctive and diverse flavors, influenced by climate, soil, and unique processing methods in various coffee-producing regions. Some of the best coffee-producing regions in Indonesia include Aceh, Sumatra, Java, Bali, and Sulawesi. Coffee serves as a source of foreign exchange, employment, and income for coffee farmers and other economic actors. Coffee producers are involved in all aspects of coffee production, including cultivation, processing, and sales (Sihotang, 2013). In 2017, 81.96% of Indonesian coffee was Robusta, with an average land area of 1.04 million hectares. Most of the coffee is shipped to various countries around the world. The largest coffee importers from Indonesia are the United States with 16.24%, and Japan with 8.64% (Jamil, 2019).

Indonesian coffee is not only in demand in the domestic market but is also gaining increasing attention internationally. Although local Indonesian coffee has significant potential, the domestic coffee industry still faces various challenges in marketing it effectively abroad. Therefore, it is crucial for Indonesian coffee industry players to formulate appropriate marketing strategies to promote Indonesian coffee, both in terms of product development and brand positioning, as well as distribution to the global market and increasing its competitiveness in the international market.

The following is data on the development of coffee exports to the main destination countries, both ASEAN and European countries, from 2010 to 2023.

Figure 1. Development of Export Value from 2010 to 2023

The graph above illustrates the trend in the value of Indonesian coffee exports to three countries (the United States, Japan, and Germany) from 2010 to 2023. This trend demonstrates that export performance is significantly influenced by various factors, both internal and external. Fluctuations in export values demonstrate that international trade is dynamic and susceptible to changes in economic and political conditions. Therefore, this research is crucial for formulating marketing strategies that can sustainably enhance the competitiveness of Indonesian coffee in the global market.

Literature Review

Coffee as an Export Commodity and Indonesia's Economic Potential

Indonesia is one of the world's largest coffee producers, renowned for its superior quality and product diversity, particularly Arabica and Robusta coffee from various regions. The coffee industry contributes significantly to the national economy, both through exports and job creation (Surbakti, 2014). However, despite its international recognition, Indonesian coffee still faces challenges such as competition with other major producing countries and distribution and marketing constraints in expanding its global market share.

Development of the International Coffee Market

In recent years, the global coffee market has experienced significant growth. According to a report from the International Coffee Organization (ICO), coffee consumption is increasing rapidly, especially in developed countries such as the United States, European countries, and Japan, as well as in several Asian countries such as China and South Korea. This trend creates significant opportunities for coffee-producing countries like Indonesia to expand their coffee exports to international markets. However, the coffee market is also increasingly competitive, with a growing number of new coffee-producing countries attempting to enter the global market (Sitanini et al., 2020). Therefore, effective and innovative marketing strategies are needed to address these challenges.

The Theory of Comparative Advantage in International Trade

In the theory of comparative advantage, there are 6 assumptions used by David Ricardo, these six assumptions are:

a. There are only two countries and two commodities.
b. There is free trade
c. Domestic labor factors have perfect mobility
d. Constant production costs
e. There are no transportation costs
f. There is no technological change

Heckscher-Ohlino International Trade Theory

The Heckscher-Ohlin theory was proposed by Eli Heckscher and Bertil Ohlin (1920) that commodities exported by a country are commodities that have abundant production factors intensively in that country. Production factors in a country are said to be abundant if the ratio of production factor A to other production factors is greater than that of trading partner countries (Bond et al., 2011; Zhang, 2016). International trade theory suggests that international trade occurs due to differences in commodity prices caused by several factors, for example due to differences in technology and differences in demand.

Theory Exports Led to Growth

Draft Exports Led to Growth states that a country's economic growth will increase if its trade policies are more oriented towards increasing and promoting its export commodities rather than substituting imported commodities. Economists have put forward several reasons supporting this theory. Exports Led to Growth that is:

a. An increase in export volume indicates an increase in output produced by the country, which will have an impact on increasing real output.
b. Increasing exports of a product indicates a product production process that increases productivity and workforce capabilities.
c. Increasing exports can increase the country's foreign exchange reserves.

Research Methods

Data Types and Sources

This study uses secondary panel data from 2010 to 2023 and cross-section data from three export destination countries: the United States, Germany, and Japan. Data were collected from BPS, FAO, ICO, ITC, and the Ministry of Trade.

Analysis Method

The OLS regression method is used to determine the influence of macroeconomic variables on coffee export volume.

$$Yit = \beta 0 + \beta 1X_1it + \beta 2NTit + \beta 3X_2it + \varepsilon it$$

Information:

Yit : Coffee export volume
X_1 : Export Value (US$)
NT : Exchange rate (Rp/US$)
X_2 : GDP of destination country
E : error term

Results and Discussion

General Description of Coffee Exports

Indonesian coffee export data from 2010 to 2023 shows a trend of upward growth, although fluctuations occur in certain years. The United States is the primary destination, with exports continuing to grow. Meanwhile, Japan and Germany are showing stable trends and offer opportunities for market expansion.

Figure 2. Development of Export Value from 2010 to 2023

The graph shows that coffee exports to the United States have increased significantly compared to Japan and Germany. This reflects consumer preference for Indonesian coffee in that market. Therefore, marketing strategies need to focus on maintaining a large market share, such as the United States, while simultaneously expanding into mid-market markets like Japan and Germany.

OLS Analysis Results

The OLS regression model is used to identify the relationships between the rupiah exchange rate against the United States dollar, the Gross Domestic Product (GDP) of the destination country, and the value of Indonesian coffee exports in US dollars relative to the volume of Indonesian coffee exports to the main destination countries.

The regression results show:

1. Exchange rate: has a significant negative impact on export volume. The weakening of the rupiah against the US dollar increases the competitiveness of Indonesian coffee prices in the international market.

Destination country GDP: shows a significant positive influence. The higher a country's GDP, the higher the demand for Indonesian coffee.

- Coffee export value (in US$): directly proportional to export volume. This indicates that the increase in export value caused by competitive coffee prices is also accompanied by an increase in shipment volume to the destination country. shows balanced growth between prices and the number of products exported.

2. Recommended Coffee Marketing Strategies
   Based on the results of market analysis and observation, the marketing strategy for local Indonesian coffee can be divided into five main focuses:
   a. Product:
      Quality improvement through international certification such asFair Trade, etc.
   b. Price:
      - Price adjustments based on market segments (premium and mid-range).
      - Discount scheme forbulk buyeror international retailers.
   c. Place:
      Maximize utilization of digital distribution channels through international marketplace platforms such as Amazon, etc.
   d. Promotion:
      Promotion program through social media with a focus on the theme "Coffee from the Archipelago".
   e. Strategic Partnership:
      - Collaboration between government, coffee associations, and exporters.
      - Export training support for MSMEs and coffee farmers.

Conclusion and Suggestions

This research shows that factors such as exchange rates, destination country GDP, and the value of Indonesian coffee exports significantly influence Indonesian coffee export volume. A comprehensive marketing strategy must consider digitalization, product quality, and promotions based on cultural and geographic characteristics. Based on the research findings, suggestions that can be put forward include:

1. Training in digital marketing, export packaging design, and international certification can be a priority in the coffee export roadmap.
2. Synergy between central and regional governments, exporters, coffee associations, and higher education institutions.

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