

## Conference Paper

# Diversification Strategies in Developing SMEs Engaging with Local Dairy Milk Products

Khasan Setiaji and Yusuf Firdam Setiadi

Universitas Negeri Semarang

## Abstract

Salatiga is one largest dairy milk producer in Central Java. *Stasiun Susu* is the first SME engaging with dairy milk production in Salatiga and greatly influences the dairy milk product innovations. In developing its businesses, *Stasiun Susu* implements five diversification dimensions, including product, service, personal, channel, and image. This qualitative research employs a case study approach to examine and figure out models of diversification strategies used by SME *Stasiun Susu* in Salatiga. The research results show that the diversification strategies have made various contributions to the development of *Stasiun Susu*, such as (a) the dairy products have more than 70 flavor variants and highly emphasize on milk quality; (b) implementing the concept of homey-based services; (c) having strong and competent leaders in various fields, (d) no branches as one *Stasiun Susu* strategy; and (e) having a strong image in line with its philosophy "when people are looking for milk, *Stasiun Susu* is the place". *Stasiun Susu* should have further diversified its milk into food products, such as yoghurt, milk tofu, chips, or *dodol*.

Corresponding Author:  
Khasan Setiaji  
setiaji@mail.unnes.ac.id

Received: 7 August 2018  
Accepted: 15 September 2018  
Published: 22 October 2018

Publishing services provided by  
Knowledge E

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Selection and Peer-review under the responsibility of the ICE-BEES 2018 Conference Committee.

**Keywords:** business strategy, diversification, SME development

## 1. Research Background

The dairy milk productivity level in the developing countries, including Indonesia, has become one main priority as the demands for dairy milk are relatively high. Milk is considered greatly necessary to develop healthy and smart human resources in the society. The Ministry of Industry and Trade states that the domestic recent demands for fresh milk raw materials further processed into milk products are approximately 3.3 million tons per year. However, the domestic milk supplies have only 690 thousand tons per year that the remaining 2.61 million tons of milk should be imported from various countries such as Australia, New Zealand, the United States and the European Union in the form of skim milk powder, anhydrous milk fat, and butter milk powder (<http://www.kemenperin.go.id>).

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Beside Boyolali and Semarang Regency, Salatiga is one largest milk producer in Central Java (<https://jateng.bps.go.id/>). SME has a strategic role in the development of regional economy (Law No. 20 of 2008). The SMEs engaging with dairy milk are required to produce more innovative and high-quality products to meet the costumers' increasing needs and demands. The demand to produce new products is made by implementing a product diversification strategy. Diversification is an effort to find and develop the new products or markets, or both, for growth, sales improvement, profitability and flexibility [9]. There are various diversification types, not only product diversification but also service, personal, channel, and image diversification [3], as performed by SME *Stasiun Susu* located in Salatiga to reach its success. *Stasiun Susu* is the first dairy milk SME in Salatiga which influences the milk taste.

The business development with the necessary efforts made to improve both present and future working implementation may provide information, direction, organization, and guidance [2]. The factors influencing business development are leadership, capital, counseling, working partners, customers, environmental location, competitiveness, marketing, and human resources.

Basically, strategy is defined as various stages of the optimal answers to face the new challenges, both as the result of previous steps and pressures from the outside [12]. Organizing a strategy means finding a way to achieve the targeted results based on the vision and missions within the organizational situations and prospects faced.

Diversification is a process of designing a meaningful set of differences offered by a company. The offer should be perceived by the consumers as something different, yet should be completely different in content, context and infrastructure. The company may implement five dimensions of diversification [3]:

1. **Product diversification.** It is an activity to modify products to become more attractive. A serious market research is greatly required. In facts, to become a completely different product, information about the competitor products is also necessary. In general, this product diversification only changes several product characters, including packaging and promotional themes without changing the product physical specifications, even if it is allowed.
2. **Service Diversification.** When a product is not easy to be diversified then a company is required to increase the service value and improve its quality. The key success in a competition frequently lies on the service addition to improve the value and quality. Service is a form of system, including certain procedures given

to others, in this case the customers' needs, may be fulfilled based on the customers' expectations or desires with their perceptual level. Some characteristics of service quality according to Tjandra and Chandra (2005) are (1) service timelines; (2) accessibility and simplicity to obtain the services, including location, operational time affordability, employee availability when the consumers require public services; (3) the provided service accuracy; (4) employees' good manner when providing services; (5) information adequacy disseminated to the potential users; (6) facility condition and security used by the consumers; (7) consumer satisfaction on certain characteristics or aspects of the provided public services; (8) consumer satisfaction on the overall public services.

3. **Personal Diversification.** It deals with improving the employees' competence through the development of knowledge, hospitality, manner and friendship, as well as credibility, including trustworthy, honest and responsiveness to the customers.
4. **Channel Diversification.** A company may dominate the market if the company has the power to distribute its products which channel diversification variables cover the business distribution and branch.
5. **Image Diversification.** According to Zyman, S. (2000), image is identical with attribute, that is, a special or distinguishing characteristic of an object's or person's appearance. Image diversification is a properly mixed image elements to create the image branding. The image process should build, maximize, utilize, and exploit the strengths and weaknesses of each brand-image element to ensure that the brand sustainably has good prospects.

## 2. Methodology

This qualitative research employs a case study approach. The research intensively focuses on a particular object discussed as a case. This research focuses on diversification strategy made by the SME "Stasiun Susu" in Salatiga, analyzed from various aspects, including product, service, personal, channel, and image.

To obtain the data, the researchers are required to make following activities: first, conducting an observation to the Cooperatives & Micro Enterprises; second, conducting interviews to those engaging with Dairy Milk, such as the SME owners, communities and documentations to the existing products available in that MSME engaging with Dairy Milk. The data analysis model is conducted using the Model of Interactive

Analysis [5, 8] consisting of Data collection, Data reduction, Data display, and drawing conclusion/verification.

### 3. Discussion

#### 3.1. Product diversification

There are various menus beyond people's expectation regarding to the fresh milk. This is because *Stasiun Susu* has various innovations and creations that people may not be bored of consuming fresh milk. In general, all menus are served in two broad categories covering single and dual zone either cold or hot. Fresh milk, for example, is served in many variations, such as original milk, Choco milk, vanilla milk, coffee milk, mocha milk, taro milk, and others. These are included in the single zone. The dual zone includes Choco-vanilla milk, caramel-rum milk, strawberry-vanilla milk, coffee-mocha milk, Choco-cookies milk, and others.

The raw material superiority of milk quality used by *Stasiun Susu* are as follows; (1) using pasteurization and homogenization. Pasteurization is a milk processing method conducted by heating the milk at the temperature of 65 °C for 30 minutes or 72 °C for 15 seconds; (2) *Stasiun Susu's* motto is "best blended milk in town" that each production process always considers the milk hygiene and quality control; (3) the environment and workers are always sanitized. All workers wear special production clothing and are equipped with caps and masks to prevent the milk from contamination. Before and after the production process, the production room is cleaned using disinfectant that the production room is definitely sterile.

#### 3.2. Service diversification

*Stasiun Susu* is designed with homey concept and excellent services in which the business is located in a house redecorated in such a way with the concept of homey cafe to make the consumers feel comfortable. Excellent services are realized by providing the best services.

The *Stasiun Susu's* characteristics in serving the consumers are as follows; (1) the availability of good employees. The consumers' comfort is highly dependent on the serving employees that all employees should be friendly, courteous and attractive; (2) the availability of good facilities and infrastructure. *Stasiun Susu* has a quit cozy place for consumers with its homey concept, and the product serving and presentation are well

equipped with hygiene facilities and guaranteed with its best quality; (3) Responsible to each consumer. The consumers may feel satisfied if the employees are responsible for the desired services.

### 3.3. Personal diversification

There are two implicit knowledge dimensions belonging to the owners of *Stasiun Susu*, covering; (1) Technical dimension, that is, a non-formal skill type frequently expressed in term of "know-how". It is related to the *Stasiun Susu* owner's ability to derive from his/her experiences for years. (2) Cognitive dimension, that is, a belief, perception, value, emotion and mental model strongly attached to a person, as if it is a gift and inherited factor.

The employees' ability to identify the work meeting the expected achievement is greatly necessary. The employees should possess the competency levels, including: (1) Flexibility; the ability to see changes as exciting opportunities rather than threats; (2) Information seeking, motivation, and ability to learn; the ability to obtain learning opportunities related to the technical and interpersonal skills; (3) Achievement motivation; the ability to innovate to improve the quality and productivity; (4) Work motivation under time pressure; the ability to work under pressure within organization, and commitment in completing the work; (5) Collaborativeness; the employees' ability to cooperatively work in groups; (6) Customer service orientation; the ability to serve consumers, make initiatives to overcome the problems faced by the consumers.

### 3.4. Channel diversification

*Stasiun Susu's* target market covers all community levels. However, *Stasiun Susu* uses an independent Channel system to distribute its products to sell. To obtain its products, the consumers should come to *Stasiun Susu* that the buying and selling process may immediately take place and the consumers may directly obtain the products. The independent channel options are considered as follows.

#### 1. Market Consideration

To reach the market, *Stasiun Susu* does not require retailers. *Stasiun Susu's* potential customers are relatively reachable that its own salespersons may directly sell its products to individual buyers. Since Salatiga is a small town and *Stasiun Susu* has the philosophy "if you want to get fresh milk, just come to *Stasiun Susu*. Thus, branches are not necessary for its brand image.

## 2. Product Consideration

Due to the relatively high unit value of goods, *Stasiun Susu* tends to use short distribution channels. Milk is a perishable product, unless marketed in bottle packaging. The consumers should come to *Stasiun Susu* since the products are served in plating just like in a restaurant that intermediaries/retailers are not necessary. The use of bottles is only applied in seminars or television shows to introduce the products. *Stasiun Susu's* employees are able to explain the available menus and provide good services before or after selling the products.

## 3. Business Consideration

*Stasiun Susu's* finance has actually declined since 2015, yet it is still stable in the last two years. The companies which sell their new products usually prefer using intermediaries to obtain experiences in the new field. Thus, the decision related to the distribution channel is influenced by their experience and management competence. *Stasiun Susu* owner is a qualified person who has a good leadership spirit, is well trained and has a lot of experiences. Thus, *Stasiun Susu* does not require intermediaries as its distribution channels. *Stasiun Susu* has short distribution channels and may aggressively promote its products.

### 3.5. Image diversification

*Stasiun Susu* is named due to its initial intention as a place to stop and wait. In early 2011, there is no place selling fresh milk with more than 40 flavors in Salatiga. *Stasiun Susu's* name is also related to Salatiga which has no station and people rarely mention the term (*stasiun*). Thus, *Stasiun Susu* is a name which is easy to remember.

A brand is commonly associated with the followings:

1. Product attributes. *Stasiun Susu* develops the product attributes with the picture of cow and station in the logo. It is considered effective as the attribute is meaningful in accordance with the name of *Stasiun Susu*.
2. Intangible attributes. In running the business, *Stasiun Susu* always maintains its fresh milk nutritional and taste quality using modern technology. It gives the perception on quality and technological development, or impression on value summarizing an objective attribute series.
3. Customers' benefits. It is obvious that the product attributes used by *Stasiun Susu* are to maintain the fresh milk quality that it is greatly beneficial to the customers.

Since most product attributes provide benefits to the customers, a relationship between them is commonly established.

4. Relative price. The Prices of the existing products in *Stasiun Susu* are based on the product quality. Prices are established based on what will the costumers receive. In Salatiga, there are fresh milk sellers with the prices far below those belonging to *Stasiun Susu*. However, the consumers who know well about milk, they will still buy the milk at *Stasiun Susu* regarding to its quality.
5. Application. By associating the brand with a particular application using social media, such as Instagram, Facebook, twitter, website or blog, and YouTube, the brand image of *Stasiun Susu* has also developed and kept up with the recent era. With a number of applications or social media used, *Stasiun Susu* is always active, yet only to greet its followers on the website and social media.
6. User/customer. It is greatly necessary to associate a brand with its users, or customers with the products, and to sustainably be active in social media and always directly update information in social media to approach the consumers just like *Stasiun Susu* always does for four to five times a week.
7. Celebrity/person. Associating a famous person or artist with a brand may initiate and transfer the famous person's powerful image to the brand. *Stasiun Susu* represents the dairy clusters in Salatiga, and frequently becomes the guest on various events or seminars initiated by the Salatiga Mayor, Mr. Yuliyanto. He once became an invited guest on one television station program with the Central Java Governor, Mr. Ganjar Pranowo. *Stasiun Susu* has also ever been reported and broadcasted by both private and national TV.
8. Life style/personality. The association of a brand with a lifestyle may be encouraged by the association among the brand's costumers with various personalities and lifestyle characteristics. Based on the mission of *Stasiun Susu* which intention to support the government program of *Gerakan Minum Susu* (Milk Drinking Program Activity) to become the communities' good habit.
9. Product class. By associating a brand based on its product classes, paying attention and adjusting to its product quality, *Stasiun Susu* has actually belonged to the upper class with some pricing adjustment for the communities. It's not too expensive to obtain a high quality product and it is not too cheap as it is dealing with the quality that consumers may obtain. Thus, most *Stasiun Susu* customers

recently come from the middle to upper class communities. who understand the real milk quality.

10. Competitors. *Stasiun Susu* remains superior in Salatiga as a café or fresh milk seller due to its ability to match or even better than the competitors while overcoming its initial weaknesses and still maintaining its milk quality.
11. Country/geography. The biggest milk producer in central java besides Boyolali and Semarang Regency is Salatiga. The milk production of Salatiga is supported by its fresh milk good quality coming from the dairy cow farmers from Salatiga and Semarang regency.

According to Aaker (2008), there are 4 (four) main points should be paid attention to establish its brand, including:

1. Brand recognition level. There are more than 30 fresh milk sellers in Salatiga, starting from street vendors to café owners, such as *Stasiun Susu* which has chosen its concept as a café. *Stasiun Susu* has a high recognition level in Salatiga due to the following reasons; first, *Stasiun Susu* has a unique name. Second, *Stasiun Susu* has the concept of milk café. Third, *Stasiun Susu* is the pioneer of milk diversification, especially in Salatiga with more than 70 milk flavor variants that the consumers are familiar with the distinctive characteristics of *Stasiun Susu*. In Salatiga, *Stasiun Susu* is also greatly popular at online media.
2. Brand high reputation or status proven with its track records. *Stasiun Susu* is a SME engaging with dairy milk which represents the existing dairy milk cluster in Salatiga, and is frequently invited as a guest in various events or seminars and television shows or programs.
3. Affinity is one type of emotional relationship arising between a brand and its customers. *Stasiun Susu* recently has the customers with medium and upper segmentation ranging from students, foreigners living in Salatiga, and Chinese families. However, only some of those from the middle-lower segmentation really understand the fresh milk quality.
4. The customer loyalty to a brand (Brand loyalty). Due to the existence of emotional relationship arising between a brand and its consumers, the costumers directly become loyal to *Stasiun Susu* because they understand the good quality of milk belonging to *Stasiun Susu* as they may not obtain those milk products from the other sellers in Salatiga.

## 4. Conclusion

In developing its business, *Stasiun Susu* has implemented the diversification strategy, covering product, service, personal, channel, and image diversification. *Stasiun Susu* has combined the functional and emotional benefits in which dairy products are not merely concerned on benefits, but also maintaining the customers' loyalty by continuously maintaining the milk taste quality and content. The results show that the diversification strategy has made various contributions for the development of *Stasiun Susu*, such as: (a) the products have more than 70 flavor variants and are excellent in milk quality; (b) the services use the homey concept; (c) having a strong and competent leader in various fields, (d) having no branches as a part of *Stasiun Susu* strategy; and (e) having a strong image with its philosophy "when people are looking for milk, *Stasiun Susu* is the place". *Stasiun Susu* may further diversify its products into food products, such as yoghurt, tofu milk, milk chips, or milk *dodol*. In expanding the market, an effective marketing channel strategy should be well considered.

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