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STRATEGIC DIVERSIFICATION ANALYSIS: BUSINESS STRATEGY DEVELOPMENT FOR MBG PROGRAM KITCHEN MANUFACTURING

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Abstract

This research examines how CV XYZ can formulate appropriate business strategy to achieve growth objectives while preserving competitive advantages in the highly competitive, price-sensitive MBG market. The research employs qualitative case study methodology combining primary data through questionnaire surveys measuring competitive forces, semi-structured interviews with internal stakeholders, and document analysis, supplemented by secondary data from government documents and industry reports. Analysis applies strategic frameworks including General Environment Analysis, Industrial Analysis, competitor analysis, Resource-Based View, and Value Chain Analysis. SWOT synthesis integrates findings identifying critical strategic issues, while TOWS Matrix generates strategic alternatives evaluated through weighted criteria matrix. Analysis reveals CV XYZ possesses distinctive resources including medical-grade manufacturing expertise, comprehensive certifications (ISO 13485, CPAKB, Halal, SLHS, HACCP), proprietary software, zero-incident track record, and modular construction capability. External environment demonstrates substantial opportunity through large-scale government program requiring approximately 30,000 kitchens nationally, though tempered by intense price competition. The food safety crisis creates temporary quality premium expanding addressable market from 10-15% to 20-25% of quality-aware buyers. Three strategic alternatives emerge: Premium Niche Defense, Mass Market Penetration, and Integrated Market Leadership. Evaluation reveals Integrated Market Leadership scores 4.05, significantly ahead of alternatives (3.20 and 3.00), reflecting superior performance on growth achievement and financial returns while maintaining competitive advantage. The recommended Differentiation Strategy implements three product tiers: Premium, Standard, and Essential, Implementation follows phased quarterly approach through 2026.

Keywords: Business Strategy, Differentiation Strategy, Industrial Kitchen, Makan Bergizi Gratis, Strategic Management, SWOT Analysis, Tiered Products

INTRODUCTION

As of 2023, the medical device industry in Indonesia has reached a market of US $4.38 billion. The industry is expected to continue to grow at a rate of 7.82% annually until 2029 (Statista, 2024). Despite the promising projections, local manufacturers are struggling to keep up in the market due to challenges that threaten their viability and financial sustainability. The outline of the industry indicates that there is fierce competition between a fragmented base of domestic manufacturers and the well-established foreign competitors, who enjoy extensive economies of scale and advanced technological resources. There has been a considerable increase in the manufacturing sector, with the device and equipment manufacturing facilities growing by 361% between 2015 and 2021 (Yahoo Finance, 2024). However, this growth was counterbalanced by a sharpened competitive landscape due to domestic regulatory requirements.

Indonesia's Tingkat Komponen Dalam Negeri (TKDN) or Local Content Requirements triggers a significant change in policy that has transformed industry dynamics since its inception. The TKDN policy blocks government spending for 79 categories of over 5,400 medical devices that are imported, while simultaneously requiring that local makers meet certain local content levels to gain access to government procurement contracts (Stoneturn, 2025). TKDN policies state that government medical purchases must contain a certain percentage of domestically produced materials and labor. The methodology for calculating local content allocates 80% of the weighting to the manufacturing component which includes materials, production, and packaging, and 20% to the development component which includes labor and factory overheads. The policy gained traction fueled by the COVID-19 pandemic, and full implementation and enforcement ramping up from mid-2022 through 2024 as the government

sought to achieve independence with regards to the healthcare supply chain. The regulation impacts all government healthcare procurement in all 34 provinces of Indonesia, which impacts the hospitals, clinics, and public health facilities that form the primary market for many domestic medical device makers. The policy impact goes further than single transactions and includes transformation of entire business models which forces manufacturers to determine whether to bear the compliance costs or surrender market access, and in many cases, leads to drastic cuts in revenues for firms that cannot swiftly reconfigure their supply chains. The difficulties encountered by manufacturers of medical devices reflect an industry-wide trend in which established manufacturers attempt to diversify in order to avoid regulatory burdens and competitive threats. This trend toward diversification has moved more rapidly since late 2023, when large government-subsidized infrastructure projects were announced, paving the way for further expansion into related markets.

The introduction and launch of Indonesia's free nutrition program (Makan Bergizi Gratis, MBG) under the current government exemplifies this phenomenon. The MBG program has created significant demand for specialized infrastructure to simultaneously support nutrition programs for the entire Indonesian archipelago. With annual budget allocation of Rp71 trillion and target of 30,000 industrial kitchens needed nationally through 2029, the program represents one of the largest government infrastructure initiatives in recent history. The program's coverage spans the entire archipelago, which includes remote regions designated as 3T (Terdepan, Terluar, Tertinggal) representing frontier, outermost, and disadvantaged areas. These areas present unique logistical and construction challenges that are more conducive to modular and prefabricated approaches rather than traditional static construction.

With Indonesia's distinctive geographical features, modular approaches to construction have innate advantages. Building in the remote regions of the country's 17,508 islands faces traditional construction approaches with logistical hurdles and is economically demanding. This region's geography, particularly in the remote islands, presents market opportunities for firms with modular manufacture and installation capabilities. Infrastructural projects of considerable scale concomitantly with traditional sector regulatory demands create a blend of circumstances that influence long-term strategies for diversification of traditional manufacturers. For companies that have successfully entered the MBG market, the strategic challenge shifts from initial market entry to scaling operations to capture meaningful market share within the limited program timeframe extending to 2029.

METHODOLOGY

This research employs a qualitative case study research design to explore the strategic challenges and opportunities facing CV XYZ in achieving its growth target in the MBG industrial kitchen market.

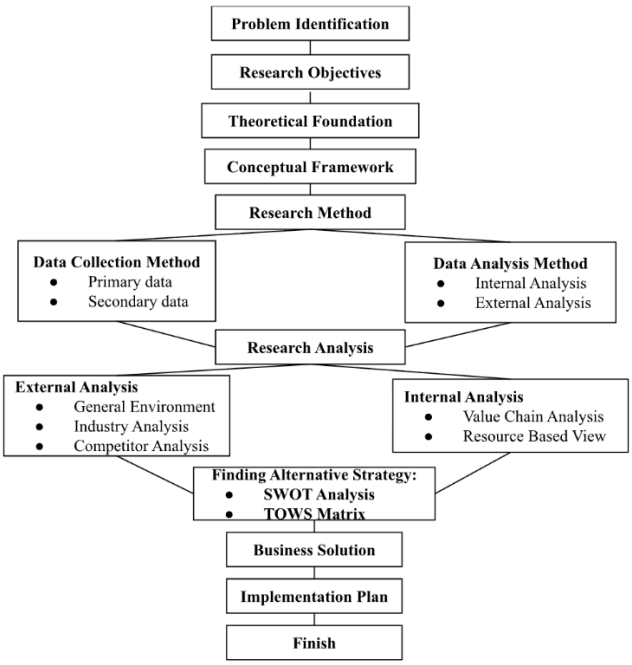

Figure 1. Research Design

As shown in Figure 1, the research design is systematic. The process starts with (1) Problem Identification, which CV XYZ articulated as the challenge of production scaling in 2026 while facing capacity constraints, premium pricing barriers, and market access limitations in the competitive MBG industrial kitchen market. This leads to (2) Research Objectives focused on understanding the external environmental conditions creating opportunities and threats, assessing internal capabilities and constraints affecting growth potential, and formulating appropriate business strategy to achieve organizational goals. The research framework is then further split into two foundational parallel components: (3) Conceptual Framework and (4) Theoretical Foundation. The conceptual framework outlines the analytical process design used to examine CV XYZ's strategic positioning challenges in the MBG market. The theoretical foundation provides the source from which materials are drawn from strategic management literature discussed in Chapter II.

From these foundational components, (5) Research Method is identified and this sets the methodical technique appropriate for the data to be gathered and analyzed. The research method is then split into two main streams: (6) Data Collection combining primary data through questionnaires and interviews with secondary data from industry reports and company documents, and (7) Data Analysis Method which employs qualitative techniques integrated with strategic analysis frameworks for external, internal, and integrated strategic assessment. The (8) Research Analysis phase incorporates three components: Internal Analysis which includes Value Chain Analysis and Resource Based View; External Analysis which includes General Environment, Industrial Analysis, and Competitor analysis. (9) Strategic Analysis Integration, which consolidates all analytical streams based on synthesized findings from external opportunities and threats combined with internal strengths and weaknesses. This integration allows (10) Finding Alternative Strategy via SWOT and TOWS Analysis to systematically generate strategic options by matching internal and external factors across four strategy quadrants. The framework culminates in (11) Business Solutions development that addresses identified challenges through proposed STP and Marketing Mix for the company. (12) Implementation Plan that outlines actionable recommendations for strategy execution through phased approach with specific initiatives, deliverables, and performance indicators, and "Finish," which represents the closure phase of the research process.

RESULTS AND DISCUSSION

Product Strategy

CV XYZ implements three-tier product line serving different market segments while maintaining consistent core capabilities ensuring food safety and operational functionality across all offerings.

Product Specifications by Tier:

Element	Premium Tier	Standard Tier	Essential Tier
Production Capacity	4,000 meals/day	4,000 meals/day	4,000 meals/day
Building Construction	Premium materials, optimized layout	Standard materials, functional layout	Basic materials, minimal layout
Food Contact Surfaces	Food-safe commercial-grade stainless steel	Food-safe commercial-grade stainless steel	Food-safe commercial-grade stainless steel
Kitchen Layout Design	Optimized workflow, premium design	Functional workflow layout	Basic functional layout
Training Program	Two weeks comprehensive: operations, maintenance, software, food safety protocols	One week essential: basic operations, software usage, safety procedures	Installation orientation: basic equipment operation only
Warranty Coverage	Two years comprehensive	One year standard	None
After-Sales Maintenance	Annual preventive maintenance for two years	Annual preventive maintenance for one year	No maintenance included
Installation Timeline	Six weeks standard	Six weeks standard	Six weeks standard

All tiers maintain identical production capacity of 4,000 meals per day as capacity requirements are determined by government program specifications rather than customer segment differences. The strategic product differentiation occurs through quality grades on building and equipment, comprehensiveness of training and support services, warranty coverage, and maintenance commitments rather than fundamental capacity variation. This consistent capacity ensures all buyers, regardless of tier selection, receive kitchens meeting MBG program operational requirements.

Critical Product Design Decisions

Several product design decisions reflect strategic priorities balancing differentiation, cost management, and market access:

A. **Universal Software Inclusion:** The decision to include complete software suite across all tiers, from Premium through Essential, reflects strategic judgment that software provides substantial customer value at modest incremental cost. Software development costs are largely fixed regardless of installation volume, making per-unit software costs minimal. Universal software inclusion differentiates all CV XYZ tiers from equipment-focused competitors lacking digital capabilities, creates switching costs supporting customer retention, and demonstrates commitment to customer operational success beyond physical infrastructure provision. This universal inclusion strengthens positioning across all segments.

B. **Food-Safe Standards on Critical Surfaces:** Standard and Essential tiers utilize food-safe commercial-grade stainless steel on all food-contact surfaces rather than medical-grade specifications, balancing cost management with safety standards. Food-safe commercial-grade meets regulatory requirements and provides adequate hygiene for food preparation, though without hospital-grade premium of Premium tier. This decision enables competitive pricing for Standard and Essential tiers while maintaining core safety commitment preventing food safety incidents that could damage overall brand reputation. Even Essential tier buyers receive food-safe specifications on critical systems, differentiating from commodity contractors potentially using basic materials.

C. **Warranty and Maintenance Differentiation:** The tier-specific warranty and maintenance approach creates clear value distinction while managing cost structures. Premium tier's two-year warranty and maintenance, Standard tier's one-year coverage, and Essential tier's no coverage reflect different buyer priorities and willingness to pay for ongoing support. Quality-focused and value-conscious buyers selecting Premium and Standard tiers value long-term reliability assurance and vendor commitment to operational continuity. Price-sensitive buyers selecting Essential tier prioritize initial cost minimization and accept responsibility for ongoing maintenance, or possess internal maintenance capabilities reducing need for vendor support.

D. **Training Intensity Variation:** Training program variation from two-week comprehensive for Premium through one-week essential for Standard to orientation-only for Essential reflects both cost management and buyer sophistication differences. Premium buyers investing Rp3.0 billion expect and require comprehensive training ensuring staff can maximize kitchen capabilities including advanced software features and maintenance protocols. Essential buyers investing Rp1.0 billion often possess greater internal expertise from previous kitchen operations or face budget constraints limiting ability to free staff for extended training, making orientation-level training appropriate to tier positioning.

Product Strategy Strengths and Weaknesses

Product strategy strengths include clear tier differentiation enabling segment-specific value propositions, consistent quality on critical food-safety systems protecting reputation across portfolio, universal software inclusion differentiating from hardware-only competitors, and capacity consistency ensuring all tiers meet MBG program operational requirements. Product strategy weaknesses include organizational complexity managing three distinct offerings with different specifications and service requirements, potential channel conflict if buyers perceive tiers as arbitrary price discrimination rather than genuine value differences, cannibalization risk if Standard or Essential tiers attract buyers who would have selected Premium tier, and Essential tier reputation risk if quality issues occur without warranty or maintenance support demonstrating vendor commitment.

Pricing Strategy

CV XYZ employs value-based pricing strategy with tier-specific price points reflecting differentiated value propositions and target segment willingness to pay:

A. **Premium Tier:** Premium pricing reflects comprehensive medical-grade specifications, maximum warranty and maintenance coverage, complete training program, and flagship quality positioning. The premium price point positions approximately 35-50 percent above mid-market competitors and three to four times above equipment-only providers, requiring strong quality differentiation justification for quality-focused buyers. Premium pricing generates highest per-unit gross margins of approximately 25 percent supporting investment in capabilities, quality systems, and premium service delivery. Cost structure includes approximately 22 percent for equipment and 65 percent for building.
B. **Standard Tier:** Mid-premium pricing positions 27 percent below Premium tier and approximately 10-20 percent above mid-market competitors. This price point balances accessibility for value-conscious buyers with sufficient margin to maintain food-safe quality differentiation and profitable operations. Standard tier serves as volume contributor while preserving healthy margins supporting sustainable business operations. Cost structure includes approximately 30 percent worth of equipment and 60 percent for building.
C. **Essential Tier:** Competitive pricing positions 67 percent below Premium tier and 33 percent above equipment-only providers. Essential pricing enables market access in large price-sensitive segment while maintaining food safety standards and modest margins supporting sustainable operations. This price point represents strategic compromise between affordability and maintaining turnkey value proposition justifying premium over equipment-only alternatives. Cost structure includes approximately 25 percent for equipment and 65 percent for building.

Pricing Strategy Rationale

The three-tier pricing approach reflects strategic positioning balancing growth objectives with profitability requirements and market access optimization. Premium pricing alone would limit addressable market to quality-focused segment. Equipment-competitive pricing would require abandoning turnkey positioning or accepting unsustainable margins. The three-tier approach enables serving quality-focused buyers at premium pricing capturing willingness to pay for medical-grade quality, value-conscious buyers at moderate pricing balancing quality and cost, and price-sensitive buyers at accessible pricing maintaining turnkey differentiation from equipment-only alternatives.

Distribution and Sales Channels

CV XYZ employs multi-channel distribution strategy combining government procurement platforms with direct sales approaches and distributor relationships:

A. **E-Catalog Channel**

The government's electronic procurement platform provides primary distribution channel for direct procurement contracts. CV XYZ maintains e-catalog listings enabling government buyers to order directly for contracts below tender threshold values. E-catalog channel advantages include lower customer acquisition costs as buyers self-identify needs and initiate contact, faster transaction cycles avoiding lengthy tender preparations and evaluations, and access to small and mid-sized buyers preferring convenient direct ordering.

E-catalog optimization strategies include enhanced product listings with detailed specifications, photos, and certifications for all three tiers making selection easier, rapid response processes ensuring inquiries receive attention within 24 hours preventing buyer drift to competitors, and competitive pricing particularly for Essential and Standard tiers matching buyer expectations on platform. E-catalog channel serves balanced tier distribution with Essential tier (50-55 percent of e-catalog volume) attracting price-sensitive direct procurement buyers, Standard tier (30-35 percent) serving value-conscious buyers, and Premium tier (10-15 percent) capturing quality-focused buyers using e-catalog for convenience.

B. **Distributor Channel**

Direct relationship-based sales through existing distributor networks and government procurement relationships provide supplementary channel. The distributors established through medical device business provide geographic coverage and customer relationships across Indonesia. Distributor channel advantages include trust-based selling leveraging established relationships rather than formal procurement processes,

opportunity for consultative selling where CV XYZ can educate buyers on quality differentiation and value propositions, and access to repeat customers from satisfied initial purchases.

CONCLUSION

The study concludes that the MBG industrial kitchen market offers substantial opportunities but is marked by intense competition, strong buyer power, and significant price pressure from low-cost equipment providers. External analysis indicates that the large-scale MBG program expands the potential market for quality-oriented suppliers, especially as food-safety concerns rise. Internally, CV XYZ holds strong differentiation assets, including medical-grade manufacturing standards, key certifications, integrated software, and high production control faces constraints such as limited capacity, premium pricing, weak market access, and organizational inefficiencies. These strengths and limitations shape the company's competitive position, allowing it to lead in quality but restricting its ability to reach higher sales volumes. Given these findings, the recommended direction is a differentiation strategy supported by a three-tier product portfolio that addresses multiple market segments while maintaining essential quality standards. The implementation roadmap spans four quarters of 2026, covering organizational strengthening, product rollout, capacity activation, process scaling, and performance optimization. This strategic approach is designed to increase annual unit output, boost revenue, and capture a larger share of national MBG kitchen installations.

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