

Proposed Business Strategy to Overcome Operational Challenges in Frozen Food Company: Case Study on CV XYZ

Erlinda Deviana¹, Yuanita Handayati²

¹⁻²) SBM ITB, Bandung Indonesia

E-mail: ¹) erlinda_deviana@sbm-itb.ac.id, ²) yuanita@sbm-itb.ac.id

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Abstract

This study aims to formulate the right business strategy for CV XYZ, an MSME in the frozen food industry, in facing operational challenges such as high employee turnover, dependence on out-of-town suppliers, and logistics inefficiencies due to limited cold chain technology. This study uses a qualitative method with a case study approach. Data were collected through semi-structured interviews, internal company reports, literature reviews, and industry publications. The analysis was conducted through an external approach using PESTEL and Porter's Five Forces, as well as internal analysis through VRIO and Value Chain Analysis. The results of the analysis are summarized in a SWOT Analysis and continued with the formulation of a business strategy using Porter's Generic Strategies and TOWS Matrix. The proposed strategy is Cost Leadership with a focus on operational efficiency, investment in cold chain technology, and employee training to increase productivity. This strategy is expected to help CV XYZ increase competitiveness, expand the market, and support sustainable business growth in the frozen food industry.

Keywords: Business Strategy, SWOT Analysis, TOWS Matrix, Cost Leadership, Frozen Food Industry

1. INTRODUCTION

Indonesia's frozen food business has grown significantly in recent years. The market was valued at approximately USD 1.93 billion in 2020 and is expected to reach USD 2.78 billion by 2028, growing at a Compound Annual Growth Rate (CAGR) of 7.50% throughout the forecast period. Processed meat, seafood, and meat alternatives are among the most significant segments in the frozen food market, with combined sales of USD 1.55 billion in 2021 (Mordor Intelligence, 2024). Growing urbanization and the rise of nuclear families have increased demand for ready-to-eat foods. Furthermore, the rise of the middle class with increasing earnings has increased the demand for frozen goods. (GMI Research, 2024). That is to open up opportunities for frozen food companies.

One of the companies that took advantage of these opportunities was CV XYZ. CV XYZ is one of the MSME companies that produces frozen food located in East Kalimantan, Indonesia. Since 2020, the sales trend has always increased, but in 2022 sales dropped drastically to -78%. This is due

to large returns from modern trade partners. The returned products are not up to standard, this is due to operational problems such as, there is a dependence on suppliers from Java, resulting in having to replace raw materials available locally, resulting in inconsistency, high employee turnover so that new employees must continue to be replaced who are not well trained to handle production, and shipping of goods that do not use cold chain transportation. These challenges are in line with previous research, The survey conducted by UNDP and LPEM UI (2023) shows that more than 48% of MSMEs face obstacles in providing raw materials., as well as research conducted by Evitha (2018) the cold supply chain industry has high risks and the purchasing, maintenance and operational costs are much more expensive than other supply chains. Research conducted by Widyawati & Himawan (2022), it can be concluded that high turnover has a significant impact on performance and productivity. To face these challenges, a business strategy is needed that focuses on strengthening the supply chain and increasing operational efficiency.

To face these challenges, a business strategy is needed that focuses on strengthening the supply chain and increasing operational efficiency. According to Rothamel (2023), an effective business strategy allows companies to overcome external and internal challenges by optimizing resources and creating competitive advantages. Business strategy is needed to identify, utilize, and protect the competitive advantages that are owned, especially in facing complex industry challenges such as dependence on raw materials and operational cost pressures. To address these issues, CV XYZ needs to conduct a comprehensive evaluation to determine the most effective business strategy for overcoming its challenges.

2. IMPLEMENTATION METHOD

This study uses a qualitative method with a case study approach on CV XYZ, an Micro, Small and Medium Enterprises (MSMEs) in the frozen food industry, to formulate the right business strategy in facing operational challenges and increasing competitiveness. Data were collected through semi-structured interviews with company management and secondary data from internal reports, literature study, and related industry publications. The analysis was carried out through external analysis using PESTEL and Porter's Five Forces, as well as the VRIO framework and value chain analysis to conduct internal analysis. The results of the analysis are summarized in a SWOT Analysis that identifies the strengths, weaknesses, opportunities, and threats faced by CV XYZ. Based on the SWOT Analysis derived from the external and internal assessments, this study proceeds to propose a business strategy for CV XYZ by integrating Porter's Generic Strategies and the TOWS Matrix. The combination of these frameworks allows for the formulation of strategies that align the company's internal capabilities with external market opportunities while addressing operational challenges.

3. RESULTS AND DISCUSSION

3.1 External Analysis

Utilizing the PESTEL and Porter's Five Forces approaches, external analysis seeks for insight into the external factors of the environment that have an impact on the organization. The PESTEL framework, that allows businesses to scan, monitor, and evaluate changes and trends in their macroenvironment (Rotharmel, 2019). That is the first step in analyzing a CV. XYZ's external

environment, including the dynamics of the industry. The relocation of the IbuKota Nusantara (IKN) to East Kalimantan opens up opportunities for economic and infrastructure growth in the Samarinda and Balikpapan cities, creating a potential market for CV XYZ through product diversification and optimization of distribution networks. Indonesia's economic growth of 5.05% and increasing purchasing power also support market expansion opportunities, especially in the food sector which has experienced significant development. In addition, changes in people's increasingly busy lifestyles and the increasing number of small families are driving demand for practical and healthy frozen food products, providing opportunities for CV XYZ to meet consumer needs with quality products. On the technology side, digital advances and the growth of e-commerce facilitate the distribution and marketing of frozen food products, allowing CV XYZ to reach a wider market at a more efficient cost. However, environmental challenges remain a concern because production that relies on agricultural and fishery raw materials is vulnerable to the impacts of climate change, such as extreme weather that disrupts supply and increases logistics costs. Ownership of certifications such as BPOM and Halal MUI also strengthens consumer confidence and ensures CV XYZ's compliance with food and halal regulations, thus supporting the company's position in the increasingly competitive frozen food market.

Using Porter's five forces, industry analysis is carried out. Buyers' and suppliers' negotiating power, the threat of new competitors, the threat of substitute goods or services, and competition among current rivals figure in Porter's five forces analysis (Porter, 1998). The results of industry analysis summarized in following Table.1.

Table.1 Summary of Porter's Five Forces Analysis

Factor	Analysis	Implication
Threat of New Entrants	Moderate barriers to entry with capital and certification requirements. However, low availability of raw materials and technology allow small players to enter.	Medium threat of new entrants
Bargaining Power of Suppliers	Raw material prices sold in Surabaya, Jakarta, and Sulawesi provide cost advantages. However, dependence on external suppliers poses distribution risks.	Low bargaining power of suppliers
Bargaining Power of Buyers	Buyers prefer fresh and ready-to-eat alternatives that are considered healthier. CV XYZ must emphasize affordability, convenience, and safety.	High bargaining power of buyers
Industry Rivalry	High competition in the premium and economy segments. Competitors from Surabaya excel because they are close to the source of raw materials and have a strong agent network.	High rivalry among existing competitors

3.2 Internal Analysis

Internal analysis is conducted to determine two elements, strengths and weaknesses of the company. The framework consists of VRIO analysis and value chain analysis used to achieve a competitive advantage based on the capabilities and core competence of the company. Based on the VRIO analysis, CV XYZ's physical resources, such as machinery and extensive distribution networks, provide sustainable advantages because they are difficult for competitors to imitate. The company's financial resources are quite valuable but not rare or difficult to imitate, so CV XYZ is in a competitive parity position. Technological resources, such as the use of cold chain logistics to maintain product quality, are also valuable but not rare, so they provide an equal position with competitors. Organizational resources, although able to create operational efficiency, are not difficult to imitate and only provide a competitive advantage that is equal to other companies. Innovation resources, such as the ability to develop product innovations gradually, have value but are not rare enough to provide sustainable competitive advantage. Human resources make a significant contribution but the skills possessed by most workers are not unique and can be found in the market, so they only provide competitive parity. Managerial skills, although valuable in ensuring efficient operations, are also not unique and are found in many other companies, so they only provide an equal position. Brand resources, although they have good perceptions and a loyal customer base, are not different enough compared to competitors, so they only provide competitive parity. Finally, long-term relationships with suppliers and agents provide temporary strategic advantages, but because they are easily imitated, their contribution is limited to temporary competitive advantage.

CV XYZ faces challenges along its value chain, but also has strategic opportunities to create competitive advantages. In inbound logistics, the company is highly dependent on suppliers outside the island, such as Surabaya, Jakarta, and Sulawesi, which increases the risk of supply disruptions due to logistics problems or extreme weather. To overcome this, the company can build partnerships with local suppliers in Kalimantan to reduce logistics risks and costs, while ensuring a more stable supply of raw materials. In operations, the production of frozen foods such as otak-otak, bakso, sausages, and nuggets faces obstacles in the form of high employee turnover, which impacts efficiency and product quality. Consistent training and local community-based recruitment strategies can increase productivity and ensure operational sustainability. In outbound logistics, product distribution through modern markets such as Giant and Transmart, as well as traditional markets in East Kalimantan, has great potential for expansion. By utilizing cold chain technology and collaborating with local agents, the company can increase distribution efficiency while maintaining product quality during delivery. In marketing and sales, official certifications such as BPOM and Halal provide competitive advantages that can be used to increase consumer confidence, especially in the premium segment, while product diversification can expand penetration in traditional markets. However, threats from large companies and local suppliers remain a challenge, so an aggressive marketing strategy based on product quality and uniqueness is needed to increase competitiveness. In terms of service, the lack of consumer feedback mechanisms is an untapped opportunity. By implementing a system for collecting customer input, the company can continue to improve product quality while building long-term loyalty. In supporting activities, CV XYZ has great potential to strengthen its infrastructure to support market expansion. A simple organizational structure can be improved with a clearer division of responsibilities to handle modern and traditional markets effectively. Human resource management faces the challenge of high turnover which can be overcome with a strategy of continuous training, local recruitment, and incentives to increase

employee loyalty. In technology development, the limitations of cold chain technology are a significant obstacle, but investment in a modern distribution system can help maintain product quality during long journeys. In terms of procurement, dependence on suppliers outside the island creates risks, but diversification by involving local suppliers can reduce costs and increase supply chain stability. Through an integrated approach across primary and supporting activities, CV XYZ can improve operational efficiency, strengthen competitiveness, and take advantage of significant growth opportunities in the frozen food market, both in the premium and economy segments.

3.3 SWOT Analysis

A SWOT analysis helps you to analyze a company's current position and future possibilities while taking into consideration external as well as internal factors. In addition, identify any factors that may impact the firm's existing or future competitive advantage (Rothaermel, 2023). The SWOT analysis can be seen in the following table 2 :

Table.2 Summary of SWOT Analysis

Strengths	Opportunities
1 Own Established Certifications	1 Growth in Demand for Frozen Foods
2 Product Diversification	2 Relocation of the Indonesian Capital City (IKN)
3 Wide Distribution Network	3 Traditional Market Expansion
Weaknesses	Threats
1 Capital Constraints	1 Competition with Big Companies
2 Dependence on Off-Island Suppliers	2 Distribution Constraints and Fluctuations in Raw Material Prices
3 High Employee Turnover	3 Pressure on Traditional Agents

3.4 Proposed Strategy

Based on the results of the analysis of internal and external factors, CV XYZ, as a small and medium enterprise (SME) in the frozen food industry that produces otak-otak, bakso, sausage, and nuggets, faces limited resources and value chain activities that have not been optimized optimally. These weaknesses are challenges in facing rapid market growth and increasingly tight competition, thus hindering the company in achieving optimal profits. Through an analysis of the company's internal strengths and weaknesses as well as opportunities and threats from the external environment using SWOT analysis, the formulation of business strategies is continued with the TOWS Matrix approach to design the right strategy to improve the company's competitiveness and operational efficiency.

Porter's Generic Strategies. Cost Leadership strategy focuses on cost efficiency to offer products at lower prices than competitors while maintaining quality. CV XYZ can implement this strategy by reducing logistics costs through diversifying local suppliers in East Kalimantan, reducing

dependence on suppliers outside the island such as Surabaya and Sulawesi. In addition, increasing operational efficiency through employee training to overcome turnover can reduce waste and increase productivity. Investment in cold chain technology is also important to ensure product quality remains at a lower distribution cost. By utilizing this strategy, CV XYZ can expand traditional market penetration and compete effectively in the economy price segment, which is sensitive to price changes.

Matrix TOWS is a framework used as an advanced stage analysis of the SWOT analysis that has been done by developing four types of strategy, namely SO strategy, WO strategy, ST strategy, and WT strategy. This framework is used to formulate a business strategy based on existing internal and external factors. TOWS matrix shown in following table.3 below:

Table.3 Summary of TOWS Matrix

TOWS	Strengths	Weaknesses
Opportunities	S-O (Strengths-Opportunities) Strategy: 1. Optimize distribution networks to expand traditional markets with quality, economical products. 2. Use certification (BPOM, Halal) as a marketing tool to increase trust in new markets (IKN). 3. Diversify products with packaging innovations or new variants to attract a wider market segment.	W-O (Weaknesses-Opportunities) Strategy: 1. Negotiate long-term contracts with off-island suppliers to stabilize raw material prices and reduce the risk of fluctuations. 2. Invest in cold chain technology to maintain product quality during distribution at a more efficient cost. 3. Develop employee training programs to address turnover and improve production efficiency.
Threats	S-T (Strengths-Threats) Strategy: 1. Leverage product diversification to face competition with large companies in the economy segment. 2. Use certification advantages as a differentiation tool in traditional markets that are sensitive to quality. 3. Strengthen collaboration with local agents to overcome pressure from local suppliers in traditional markets.	W-T (Weaknesses-Threats) Strategy: 1. Implement mitigation strategies for raw material price fluctuations by negotiating volume contracts with off-island suppliers. 2. Improve distribution efficiency through cooperation with local logistics agents to overcome distribution constraints. 3. Implement an efficiency-based production system to reduce operational costs.

The W-O strategy focuses on addressing internal weaknesses while taking advantage of external opportunities, which is in line with the Cost Leadership objective of reducing operational and production costs. In the context of CV XYZ:

1. Long-Term Contract Negotiation with Off-Island Suppliers:
Although raw materials are only available outside the island, long-term contract negotiation helps stabilize raw material prices and reduces the risk of fluctuations in logistics costs. This supports cost efficiency and maintains profit margins.

2. Investment in Cold Chain Technology:

With more efficient distribution technology, CV XYZ can maintain product quality during long-distance shipping at a lower cost, reducing losses due to damaged products or declining quality.

3. Employee Training for Production Efficiency:

Overcoming employee turnover through intensive training will increase productivity and reduce waste in the production process, so that operational costs can be reduced.

4. CONCLUSION

The frozen food industry in Indonesia has experienced rapid growth due to urbanization and rising middle-class income, presenting significant opportunities for MSMEs like CV XYZ, which produces frozen foods such as *otak-otak* and *bakso*. However, CV XYZ faces challenges including high employee turnover, dependency on out-of-region suppliers, and distribution inefficiencies caused by limited cold chain logistics. To address these issues and remain competitive, a Cost Leadership strategy is recommended. This includes negotiating long-term contracts with suppliers to stabilize costs, investing in cold chain technology to optimize logistics and maintain product quality, and implementing structured training programs to reduce turnover and improve workforce efficiency. By focusing on cost efficiency and operational optimization, CV XYZ can strengthen its competitive position, capitalize on growing market demand, and sustain long-term business growth in the frozen food industry.

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