

# Marketing Capabilities and Differentiation Strategy for Performance: A Case Study of Internet Service Providers in Indonesia

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## Abstract

*In view of the economic growth expected from Internet industry, the business performance within the Internet industry in Indonesia needs boosting. This study was aimed to analyze the influence of Marketing Capability and Differentiation Strategy for business performance within the Internet industry in Indonesia. This study used a sample of 128 Internet Service Providers (ISPs) with a sampling technique via a web survey. The collected data were analyzed using partial least squares path modeling. Software XLSTAT 2017 was utilized to estimate the model. The analysis showed that variables such as capabilities and business strategies have a significant positive impact on business performance; while differentiation strategy provides a greater influence.*

**Keywords** — Marketing Capabilities, Differentiation Strategy, Performance, Internet Service Providers.

## I. INTRODUCTION

There has been a significant growth in the Internet industry all over the world. In the second quarter of 2013, 70% (134 out of 193) of all countries in the world had launched a national broadband plan (NBP). Countries with NBP were expected to have an approximately 2.5% increase in their level of fixed broadband penetration and an approximately 7.4% increase in their level of mobile broadband penetration [1].

One potential market share for the development of Information and Communication Technology (ICT) is Indonesia, wherein the growth of that particular industry has been significantly advanced at the moment. The large population, as well as the increasing awareness of technology amongst Indonesians, serves as strong potential consumers for the telecommunication producers.

The benefits of Internet, especially with the broadband services, can be observed from the findings that every 10% increase in broadband penetration within a country will raise the country's economic growth up to 1.38% [1]; every 1% increase

in broadband penetration will lead to 0.6-0.7% GDP growth; and every 1000 new broadband access users will provide 80 new employment opportunities [2].

In spite of that, the observed number of Internet service in Indonesia itself has not yet reached the expected target. Until the end of 2013, the Internet service penetration for every 100 citizens in Indonesia was still generally far below the world average penetration number, which is 15.36%.

At the moment, operators in the Internet Service Provider Industry have expanded the construction of infrastructures and extended cooperation in order to improve their services and revenue. However, such effort has not yet been able to boost the increase in revenue. This result might come from the condition in which the practice of business strategies and their internal capabilities – two aspects that play an important role in influencing the companies' performance - is not yet optimized.

Company's performance is the output or result of the practice of any business activities, and that the indicator of this performance can be observed from the company's sales and profitability growth [3]. Business strategies play an important role in putting a company at the right competing position within its industry. Differentiation Strategy is a decision to focus on competing for their products/services within the industry or in the particular market share that is served by the company [4]. Determination of Differentiation Strategy is influenced by the environment industry and can be associated with the achievement of performance. The implementation of appropriate Differentiation Strategy will help win the competition in the Internet industry ([5],[6]).

The differentiation Strategy, companies need to identify the company's internal analysis, which must be able to analyze companies' ability to exploit their resources [7].

This research aims to elaborate the influence of capabilities and business strategies into the business performance of the Internet industry in Indonesia.

## II. THEORETICAL AND METHODOLOGY FRAMEWORK

Management strategies are the art and science to formulate, implement and evaluate cross-functional decisions that make the organization achieve its objectives [5].

Marketing capability of a company is the company's ability to exploit the resources; it consists of business processes and routines that manage the interaction between the resources to transform inputs into outputs, which evaluate the resources and capabilities. In general, the systems that take on the functions of the company's business are Marketing, Finance, Research and Development, Human Resources, and Information systems ([4],[9]).

Differentiation Strategy, on the other hand, is the establishment of an appropriate strategy to be able to compete and achieve and maintain a competitive advantage ([5],[10]).

The company's performance is the output of the result of the implementation of all activities related to business activities, where the company's performance indicator is the growth in sales and profitability [3].

This study has two hypotheses, which are:

- H<sub>1</sub>: Marketing capability has a positive effect on business performance in the Internet industry in Indonesia
- H<sub>2</sub>: Differentiation strategy has a positive effect on business performance in the Internet industry in Indonesia

### A. Methodology

This research used descriptive method and verification. Descriptive method is a research that aims to obtain a picture or description of phenomena or characteristics of the population that can provide descriptive information to answer the question in the formulation of the problem on Marketing capability and Differentiation strategy and to provide descriptive information about its implications on Corporate Performance. While research verification, on the other hand, is to determine the relationship between variables through a hypothesis based on the data in the field [11]. The conceptual model being tested is:

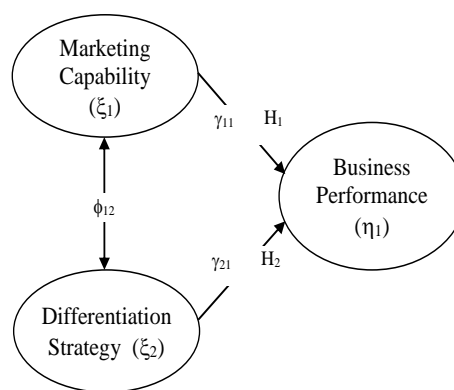


Fig 1: Conceptual Model

The mathematic model that will be tested is:

$$\eta_1 = \gamma_{11}\xi_1 + \gamma_{21}\xi_2 + \zeta_1 \tag{1}$$

### B. Measurement Variables

The operation of the investigated variables is arranged according to dimensions and indicators. Therefore, the measurement variable model is called second-order model. The questionnaire is organized using Likert scales with intervals ranging from 1 to 5.

Table 1. :Operationalization Of The Variables

Dimension	Item	
Marketing capability	Determining the price of Internet services that have been done by the company	X1.1
	Formulating company's promotion program	X1.2
	Determining company's Internet product quality	X1.3
Differentiation strategy	Increasing product quality through attractive product bundling packages, which are different from other products in the market, so that buyers are willing to pay a higher price than the competitors' products.	X2.1
	More responsive and different after sales services than the competitors	X2.2
Company's Performance	Succeeding in increasing product's quality and reliability	Y3
	Succeeding in developing more responsive after-sale services.	Y4
	Succeeding in operating efficiently	Y5
	Succeeding in increasing the procurement of new customers	Y6
	Succeeding in customer retention	Y7

### C. Validity and Reliability

Because various items are being employed to measure abstract concepts, these items must be assessed for reliability and validity. Internal consistency of the data was evaluated by three different measures: Cronbach's alpha and composite reliability [12]. All of the latent variables had

Cronbach’s reliability coefficient higher than the minimum threshold value of 0.65 ([13],[14]), which indicates satisfactory internal consistency for confirmation purposes. An exception was found for the dimension of cost leadership strategy. However, this dimension has a composite high reliability, so they can be declared reliable. While Cronbach’s alpha presumes that each item carries the same weight, composite reliability relies more on the actual loading score of a construct; therefore, it is considered a better measure of internal consistency [12]. To provide adequate internal consistency, the value of composite reliability must be greater than 0.7 [14] (see Table 4 and Table 5). We examined construct validity by assessing the convergent validity. We ran a Confirmatory Factor Analysis (CFA). The survey items were confirmed to be sufficiently valid and reliable for further analyses.

**III. DATA COLLECTION AND SURVEY DESIGN**

The unit of analysis in this study is a company engaged in the Internet service industry in Indonesia as many as 285 companies. The unit of observation is the managers, senior managers, and the general manager who were rated as competent in providing answers to every question items related to the Marketing capability of the company, Differentiation strategy, as well as the performance of the company. Data were collected via Internet surveys. Total valid data were collected from as many as 128 respondents.

**Table 2 : Demographic Analysis**

Category	Freq.	%
General Manager	30	23.4
Manager	74	57.8
Senior Manager	24	18.8

The analysis technique used in this study was partial Least Square Path Modeling. It is one of the techniques in the structural model analysis that is based on component variance ([15]-[17]). XLSTAT 2017 software was used to analyze the data.

**IV. RESULTS**

**A. The goodness of Fit Results**

The initial stage in PLS-PM modeling is to conduct tests on the fitness of the model. The fitness tests gave a goodness of fit value that is greater than 0.8, for both outer and inner models (see Table 3) [16] Therefore, further analysis can be carried out using the model that has been fitted with the data.

**Table3. Goodness of fit model**

	GoF
Outer model	0.996
Inner model	0.959

**B. Measurement Results**

As previously explained under the validity and reliability section, the result of validity and reliability test on the first order and second order measurement models is shown below.

**Table 4. Validity results**

Dimension	Item	Mean	Loading
Marketing capability	Determining the price of Internet services that have been done by the company	3.720	0.806
	Formulating company’s promotion program	3.730	0.851
	Determining company’s Internet product quality	3.720	0.859
Differentiation strategy	Increasing product quality through attractive product bundling packages, which are different from other products in the market, so that buyers are willing to pay a higher price than the competitors’ products.	4.020	0.909
	More responsive and different after sales services than the competitors	3.390	0.901
Company’s Performance	Succeeding in increasing product’s quality and reliability	3.660	0.822
	Succeeding in developing more responsive after-sale services.	3.690	0.843
	Succeeding in operating efficiently	3.680	0.863
	Succeeding in increasing the procurement of new customers	3.720	0.765
	Succeeding in customer retention	3.700	0.846

**Table 5. Reliability results**

Dimension	Reliability	
	Cronbach's alpha	Composite
Marketing capability	0.791	0.878
Differentiation strategy	0.779	0.900
Company's Performance	0.885	0.916

From the first order measurement model, it can be generally concluded that the employed items were valid and reliable in measuring every investigated dimension. All items have high validity coefficients (i.e., greater than 0.500) and also high-reliability coefficients (i.e., greater than 0.700).

**C. Regression Results**

The result from appraisal and testing of regression parameters in this study indicates that Marketing capability and Differentiation strategy variables had a significant positive influence on

business performance, with estimated values of 0.352 SD (standard deviation) and 0.392SD respectively. (See table 6).

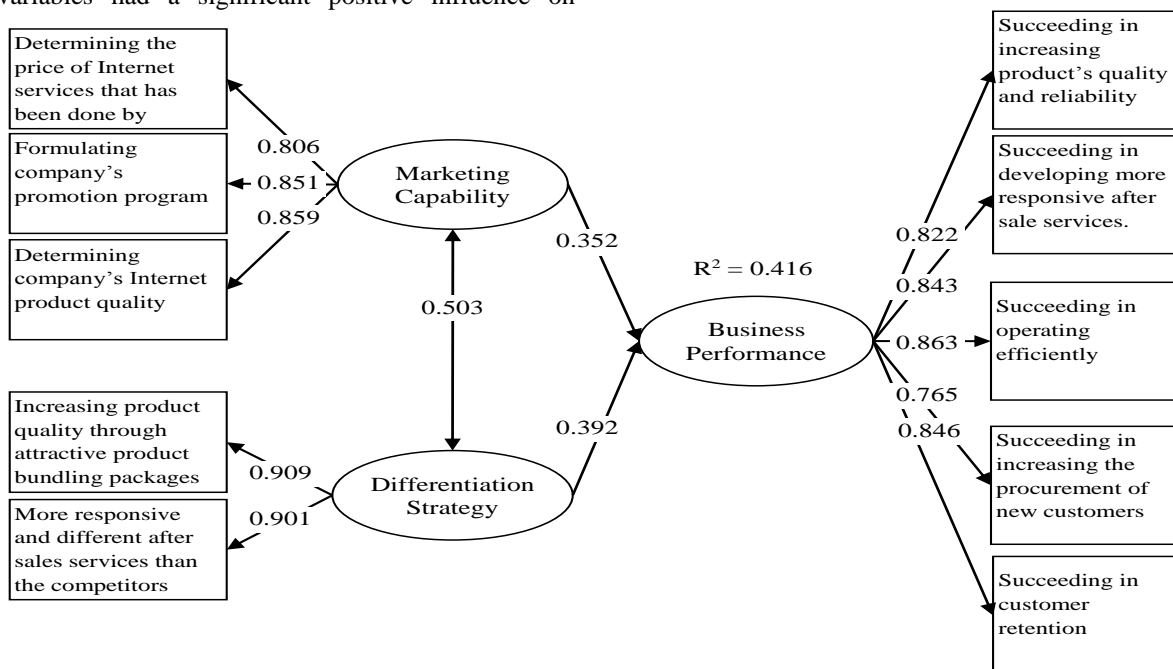
Based on the effect size ( $f^2$ ), Marketing capability variable ( $f^2 = 0.159$ ) can be categorized as

having a strong effect on business performance, whereas Differentiation strategy had a moderate effect ( $f^2 = 0.196$ ).

**Table6. Regression results**

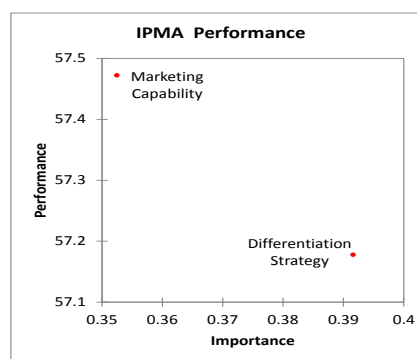
Latent variable	Value	Standard error	t	Pr >  t	$f^2$
Marketing capability	0.352	0.079	4.459	0.000	0.159
Differentiation strategy	0.392	0.079	4.955	0.000	0.196

\*) Significant at alpha level 5%



**Fig 1: Path Analysis of Research Model**

The analysis result also showed a positive relationship between Marketing capability and Differentiation strategy, with a moderate correlation coefficient of 0.495.



**Fig 3: Importance and Performance**

(IPMA) Analysis of Business Performance IPMA shows that the marketing capability has a better performance compared to differentiation strategy, however, it has a lower impact on the business performances.

## V. CONCLUSIONS

In order to increase the Business performance within the Internet service industry in Indonesia, companies in the industry have to focus on the Marketing capability and differentiation strategy. The result of this research demonstrates that Marketing capability and differentiation strategy variables significantly influence business performance. Differentiation strategy process has a relatively greater effect on business performance than marketing capability. This means that, compared to the improvement in marketing capability, improvement in differentiation strategy will have a greater impact on business performance. Consequently, the effort to optimize business performance needs to be focused on enhancing differentiation strategy.

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