

Research Article

Governance and Upgrading Product: Study of Kopi Kenangan and Starbucks

Ica Cahayani¹, Imam Fadhil Nugraha², and M. Andi Pasha³

¹ Universitas Gadjah Mada, Indonesia
icacahayani2998@mail.ugm.ac.id



² Universitas Gadjah Mada, Indonesia (corresponding author)
imamfadhilnugrahasupriadi@mail.ugm.ac.id



³ Universitas Gadjah Mada, Indonesia
muhammadandipasha@mail.ugm.ac.id



Received 13 December 2021; Revised 21 March 2022; Accepted 19 April 2022; Published Online 27 June 2022

Abstract

This study was conducted to explain, first, the form of governance and upgrading between two coffee companies, namely Kopi Kenangan and Starbucks. Second, it would explain in detail the components of Starbucks governance that could be applied to Kopi Kenangan considering that Kopi Kenangan had a fairly high coffee quality but still requires development in terms of governance. This study uses the theory of governance and upgrading and the research method used is in-depth interviews and narrative review to explain and analyse the governance and upgrading of Kopi Kenangan and Starbucks. Based on the research, results showed that Starbucks Coffee had reached the world market, this was due to Starbucks governance which had undergone a commodification process. Starbucks was not only able to create a value chain in coffee-based beverages but could also reach the level of sustainability standards. Starbucks had good governance externally and internally. While Kopi Kenangan was a coffee company with distinctive coffee standards and must be able to compete with market standardization in the current era of globalization. Thus, Kopi Kenangan must be able to have governance like Starbucks which had a chain and high standards. In the context of upgrading analysis, the two coffee companies tended to have the same upgrading.

Keywords: Governance, Upgrading, Kopi Kenangan, Starbucks

Introduction

Coffee industry in Indonesia has gained a lot of popularity in these past few years, according to the International Coffee Organization from September of 2020 to October 2021. Indonesia exported 7,1 millions of the 60kg bag of coffee beans, which made Indonesia become the fourth largest exporter of coffee bean in the world after Brazil, Vietnam, and Colombia. Not only in the scale of production, the consumptions rate was also increasing, based on the data which was provided by International Coffee Organization, during 2018 to 2019 coffee consumption rate in Indonesia was at the 4.800 bags of 60kg coffee beans that number increased rapidly from the data during 2014 to 2015 where in that year the amount of coffee consumption in Indonesia only reached 4,417 bags per year (International Coffee Organization, 2021).

The high level of coffee consumption in Indonesia could also be seen with the growing of coffee shop industry in Indonesia. In this era, it was very easy to find coffee shops, especially in big cities in Indonesia. These coffee shops appeared in various concepts and a wide selection of products, and one name that stole the highlight is Kopi Kenangan. This company was founded by Edward Tirtanata, James Prananto, and Cynthia Chaerunissa (Kopi Kenangan, 2017), with the concept of “*Coffee to go*”. Kopi Kenangan has experienced rapid development since its establishment, especially in 2020. This refers to the result of a survey conducted by Top Brand Awards 2020 which declared that Kopi Kenangan won the popularity by 39.9% outperforming other local brands such as Kopi Janji Jiwa, Kulo, and Fore (Top Brand Award, 2021). Although the Kopi Kenangan brand dominated the coffee market for local category, it could be said that the coffee market in Indonesia was still dominated by the well-known foreign brand, in this case, Starbucks.

Starbucks was founded in 1971 and continued to experience rapid development, even now it has 33,295 stores spread across 79 countries in the world, of which as of 2018, 328 outlets are in Indonesia (Starbucks Indonesia, 2018). The first Starbucks outlet in Indonesia was in Plaza Indonesia, which was founded in 2002. The existence of Starbucks could no longer be seen as a coffee shop, but it could be said that it has become a lifestyle, especially for young people in big cities in Indonesia. The development of Starbucks from a coffee shop company to presenting a new lifestyle in people's lives certainly did not come in a blink of an eye, many improvements and changes were made by Starbucks management to pursue this, for example by presenting a comfortable place to gather at Starbucks outlets, and also presenting facilities such as Wi-Fi to support this convenience of the customers. On that basis, in further discussion, this paper would like to examine and explain how the governance and upgrading process could be taken by Kopi Kenangan so that it could be at the same level as Starbucks and in the future could become a global brand from Indonesia, especially to promote local coffee industry to the bigger market.

Coffee industry has become quite popular in Indonesia in these past few years. Based on that data, this research will provide information and insights for local coffee shop, Kopi Kenangan to develop its brand so that they could be on the same level as Starbucks. In order to analyse that, researchers underlined the importance of product upgrading policy so that Kopi Kenangan would be able to compete in a bigger market. Not only that, to analyse the issue this research will look to the growth of food & beverage industry in Indonesia, and in this case is the coffee industry.

Literature Review

To analyse in depth about governance and upgrading of a product, the researcher conducted several literature reviews to compare how previous studies analysed the upgrading process of governance in Starbucks coffee companies and Kopi Kenangan companies. The literature review in this research will cover two main issues, namely a study on the existence of a coffee-based F&B industry that affects the governance of the coffee industry on a competitive national and international scale and a study on product improvement that includes local. Indonesian environment and the international coffee industry with outlets in Indonesia. The local coffee brand in question is Kopi Kenangan which has experienced rapid development since 2017 (Kopi Kenangan, 2017). On the other hand, a company that has an international brand, namely Starbucks as an American coffee industry that has reached global value chains, including in Indonesia (Starbucks Indonesia, 2018). The two companies engaged in the F&B sector each have a focus on creating coffee-based drinks in an effort to achieve a high coffee value chain.

The first literature used was a journal entitled *Defining the Role of Multinational Companies: Starbucks and Coffee Culture in Indonesia* by Siti Nurhasanah and Chika Dewi. In this paper, researchers analysed the influence of Starbucks on the mindset of the Indonesian people, especially in using coffee to create a coffee shop business with a more modern concept (Nurhasanah & Dewi, 2019). In international relations, non-state

actors have influence in several sectors, namely political, social, and economic which ideally play a role in the domestic and international order. One of the non-state actors discussed in this paper is Multinational Companies (MNCs) which can be key actors in the global economic system towards meeting market needs (Rianto, 2004). One example of a case study is Starbucks as one of the MNCs that can be said to be successful in the coffee industry sector and become the number one coffee shop in 2018. In 2018, Starbucks also has 27,000 outlets spread across various countries, one of which is Indonesia (Nurhasanah & Dewi, 2019).

Indonesia became the host country in 2002, marked by the presence of the first Starbucks in Indonesia as an effort to change the coffee culture in Indonesia from traditional to modern ways (Nurhasanah & Dewi, 2019). In its journey, by modernizing the coffee culture in Indonesia, Starbucks has created various innovations, including in product management and marketing that can reach a wider range of consumers. This research also stated how the arrival of Starbucks in Indonesia could affect the local coffee shop business in Indonesia in an effort to modernize the developed business. Starbucks has also carried out technology transfers that can support Indonesia's going forward in its efforts to build modern domestic coffee shops and enable its workers to upgrade the same skills. This method will provide trading partners with offers that are more than just the choices that Starbucks offers to the domestic coffee industry or other coffee shops in Indonesia (Nurhasanah & Dewi, 2019).

The next journal article from Kioumars Paryani with the title Product quality, service reliability and management of operations at Starbucks, which discusses Starbucks management which shows that product and service quality is a top priority (Paryani, 2011). In this research, Starbucks position in the premium market can be seen from the first few categories, management systems and product quality assurance in this case coffee beans. Second, the superiority of Starbucks is assessed from three things, namely the quality of coffee, the relationship between individuals at Starbucks and company management and the experience gained from visits to Starbucks (Paryani, 2011). On an international scale, it is important for Starbucks to maintain its relationship with consumers by not focusing on increasing market share, productivity, and profitability. Therefore, it is important for Starbucks as one of the largest coffee industries to further improve its operations management process and in an effort to maintain the quality of its products and services.

The next article in this literature review section describes the F&B industry in Indonesia with a case study on Kopi Kenangan. This article is entitled Gaining ground: How Kopi Kenangan Brews Becomes a Big Business written by Khamila Mulia (2020). In this research about Kopi Kenangan which experienced rapid development as one of the local coffee industries in 2017, then in October 2018 Kopi Kenangan had an initial investment of USD 8 million to maintain its existence in the coffee industry (Mulia, 2020). The rapid development of technology and information makes Kopi Kenangan capable to compete with other coffee shops by utilizing current developments in technology and information. The high demand for online-based food and beverage delivery services encourages Kopi Kenangan to innovate on this need by creating online-based applications so that consumers can make online transactions via mobile phones, receive orders at predetermined locations, and give points in the program loyalty to consumers. In his research, he also discusses the development of Kopi Kenangan from year to year, especially in the face of the global health crisis during the Covid-19 pandemic that has occurred since the beginning of 2019 where many companies or the F&B industry have not been able to afford it. It is able to survive due to a drastic decline in revenue, so the company issued a company policy closing its facilities or outlets. Kopi Kenangan has 324 outlets spread throughout Indonesia and has received funding through investors of USD 137 million in 2019 (Mulia, 2020).

The fourth research was conducted by Keane (2008) with the title research: A New Approach to Global Value Chain Analysis. The research shows a concept of governance that includes internal governance and external governance. Governance is the power authority that determines the allocation of material and non-material in the value chain. Governance in the global value chain can be divided into two, namely internal governance and

external governance. Internal governance is the influence and power of the main actors who determine corporate governance from upstream to downstream which can be done by analysing the degree of coordination (Keane, 2008). The following concept is given by Keane (2008) to analyse governance. This concept is also used by researchers to explain Governance in Kopi Kenangan and Starbucks.

Tabel 1. Governance Analysis Concept

	Exercised by parties internal to chain	Exercised by parties external to chain
Legislative governance	Setting standards for suppliers in relations to on time deliveries, frequency of deliveries and quality	Environmental standards Child labour standards
Judicial governance	Monitoring the performance of suppliers in meeting these standards	Monitoring of labour standards by NGOs Specialised firm monitoring conformance to ISO standards
Executive governance	Supply chain management assisting suppliers to meet these standards Procedure associations assisting members to meet these standards	Specialised service providers Government industrial policy support

Sources: Global Value Chain Governance Structures (Keane, 2008)

Thus, the researchers used complexity, codification and competence that determine the degree of coordination in Kopi Kenangan and Starbucks Coffee companies. Meanwhile, external governance influenced power that is outside the operation of the value chain, such as environmental standardization, child labour standardization and wage standards.

As explained from some of the literature above, the researchers then obtained four literatures, each of which contributed to the continuation of this research. These literatures are sufficient in order to contribute to this research and to be carried out in this research. This study seeks to fill the gap from previous research as well as provide information and confirm some of the arguments from previous research. The main topic of this research is to answer the research problem formulation on how to upgrade and manage Kopi Kenangan and Starbucks in an effort to achieve the highest value chain in the F&B industry scale.

Methods

This study used in-dept interview and narrative review methods to identify more deeply related to governance and upgrading in Kopi Kenangan and Starbucks Coffee companies. In-dept interview is a form of extracting information through a question-and-answer process to construct openly, deeply, freely and focus on research needs (Esterberg, 2002). The in-dept interview method helps in more in-depth identification of governance and upgrading of the two coffee shops above. Thus, they could identify the advantages and disadvantages in governance and upgrading of Kopi Kenangan and Starbucks. With the results of the interview, it builds a calm conceptual understanding of what Kopi Kenangan and Starbucks have done in maintaining product quality. The researchers reviewed the results of interview data for representative data for the needs of articles that have the potential to pass using keywords that focus on two themes, namely governance and upgrading. Search terms ensure that insights included in reviews, validation reports and reference lists of eligible articles on Google Scholar have been conducted to find relevant additional notes. The narrative review method is a method that is able to identify previous research, to avoid duplication and identify gaps in a relatively new field so that limited research is expected to have been carried out and published (Grant & Booth, 2009).

Tabel 2. Exclusion Criteria

Theme	Search String
Governance	Market, Modular, Relational, Captive, Hierarchy
Upgrading	Product Upgrading, Process Upgrading, Functional Upgrading, Chain Upgrading

The full list of inclusion criteria that we adopted to screen articles can be found in Table 2. Overall, we excluded records if: (1) they were not written in English, (2) did not focus on governance and upgrading, (3) not Kenangan and Starbucks (4) does not provide detailed information about the attributes or effects of governance and upgrading at Kopi Kenangan and Starbucks.

Tabel 3. Inclusion Criteria

Data Type	Inclusion Criteria
Governance	English
Upgrading	Governance and upgrading
Type of cooperation	About Kopi Kenangan and Starbucks
Study design	Provide detailed information about the attributes or effects of governance and upgrading on Kopi Kenangan and Starbucks

Discussion

Governance Kopi Kenangan and Starbucks

Governance in the global value chain can be divided into two, namely internal governance and external governance. Internal governance is the influence and power of the main actors who determine corporate governance from upstream to downstream which can be done by analysing the degree of coordination (Keane, 2008). The researcher used complexity, codification and competence that determine the degree of coordination in Kopi Kenangan and Starbucks companies. Meanwhile, external governance is the influence or power that is outside the operation of the value chain, such as environmental standardization, standardization of child labour and wage standards.

Governance Starbucks

1. Internal Governance

In determining a corporate governance that can be carried out in the coffee industry, it is necessary to pay attention to several things, first, product commodification and competence in analysing the company's internal power. This is related to the quality of the coffee beans produced by Starbucks. Management of determining the quality of Starbucks coffee beans is a differentiator from other coffee industries in the world. Starbucks value chain management functions to build coffee supplier relationships to ensure coffee beans meet regulatory standards as an effort to fulfil Starbucks chain governance (Starbucks, 2018).

Starbucks has standard coffee beans that are used with criteria that they must go through a roasting process and coffee beans that have gone through a roasting process are processed through an Espresso coffee machine. The roaster used varies depending on the weight of the coffee beans used. The types of coffee used vary including Arabica, Robusta, Ekselsa and Liberika which are produced from all continents in the world including Indonesia. In Indonesia, Starbucks had its flagship coffee beans from Sumatra and Sulawesi. The types of Arabica coffee used come from several countries, namely Casi Cielo in Mexico, Kenya, Africa, Sumatra, and several countries in Latin America such as Guatemala. While the type of robusta coffee used comes from several regions such as Gayo, Sidikalang, Toraja, Sapan, and others (Starbucks, 2018).

After meeting the standards of coffee beans and going through the roasting process, they were then processed by using an espresso coffee machine. Coffee machines and roasting equipment had certain variations and standards in accordance with the provisions of Starbucks, such as fully automatic machines, for example, those used are the Mastrena brand, the semi-automatic machines are the Blackeagle brand, the manual machine is the Lamarzocco brand. The Mastrena brand is the standard coffee machine used by Starbucks to roast quality Espresso coffee. This was slightly different from Starbucks Reserve which had a standard where consumers can ask to make coffee beans from the roasting to grinding process according to the desired consumer requirements (Interview with Barista of Starbucks Coffee shop Makassar City Shop Branch, November 2021). Starbucks reserve was a place for consumer experimentation and sharing activities with Starbucks baristas about coffee knowledge. The manual brew process was carried out using various machines such as pour over, V60, Flat Bottom, French Press, and others (Interview with Store Manager of Starbucks Branch Makassar City, Internal Governance of Starbucks, 2021).

Starbucks has a core type of coffee, namely Espresso with blended coffee beans (mixed from all types of original coffee) and whole bean origin. Whole bean origin in the form of brewed from Starbucks instant coffee beans and seasonal coffee or limited time offer. Seasonal coffee beans that are found at Starbucks are only available at certain times, for example only at Starbucks' birthday celebrations and Starbucks will issue special coffee beans that are only available for a short time. Starbucks quality control of coffee beans through a strict sorting process in determining the quality of coffee beans. Starbucks coffee management has its own standards in terms of storing the coffee in accordance with the standards to avoid direct sunlight and must be stored at a certain temperature. Coffee beans should not be touched directly with bare hands and must wear hand gloves and cannot be exposed to the air "*seal bag*" for a long time. The retail world of the Starbucks coffee industry prioritizes its quality control and has a first in and first out system (Interview with Store Manager of Starbucks Branch Makassar City, Internal Governance of Starbucks, 2021).

2. External Governance

Externally, Starbucks has achieved sustainability standards which cover the relationship between farmers and climate change. Starbucks since 2004 has focused on renewable energy, energy conservation, and collaboration and advocacy. Starbucks strives to save energy and water use, reduce waste and increase recycling and incorporate green design in Starbucks stores. In addition, Starbucks industry is committed to increasing partnerships in fighting for climate change (Starbucks, 2011). Since 2011, Starbucks has been networking in the environmental sector through the World Resources Institute Green House Gas Protocol.

In an effort to maintain sustainability standards, Starbucks recertifies stores at the design, construction and operational strategy levels, using wood certified by the Forest Stewardship Council. Starbucks store building complies with Leadership in Energy and Environmental Design (LEED) standards with a globally recognized symbol of sustainable achievement (Starbucks, 2016). Starbucks provides recycling bins to control waste and serves 5% of drinks in reusable cups. Starbucks has received numerous awards since 1997, 2006, 2008, 2009, 2010, and 2011 for achievements in reducing waste. At the 2011 High Behavior Conference (Summit) at MIT, the Starbucks company committed to reducing the environmental impact of single-use cups and other packaging change (Starbucks, 2011).

In addition, in an effort to sustainability standards, Starbucks has also complied with the monitoring of labour standards by Non-Governmental Organizations (NGOs) and Specialized firm monitoring conformance to ISO standards. Starbucks can empower employees with excellent service experience skills so that employees, especially baristas, will become brand ambassadors because experience is sufficient to provide the best service and new knowledge about coffee to be consumed (Interview with Barista of Starbucks Branch Makassar City, Internal Governance of Starbucks, 2021).

Governance of Kopi Kenangan

Governance explain how value chain management occurs in the Kopi Kenangan industry. Attending Keane, internal governance in the Kopi Kenangan industry is still achieving governance exercised by internal parties (Keane, 2008). This is because the corporate governance of Kopi Kenangan is still at the stage of complexity, codification and developing competence. The internal governance relates to internal management, such as determining which coffee beans are used as the basic ingredients for the company's signature drink, Kopi Kenangan. Governance serves to achieve coffee value chain governance from suppliers, how to coordinate and monitor raw coffee suppliers to be used by ensuring that the coffee standards brought by suppliers meet the quality assurance and standards of Kopi Kenangan. In addition, internal governance also reaches a fairly high level of supply management to involvement in helping share knowledge with coffee suppliers to achieve the desired coffee standards.

The standard of coffee beans used by Kopi Kenangan must meet several criteria, including choosing a certain type of coffee to be processed into Kenangan Blend. The selected coffee beans include Mandailing, Flores, and Dampit coffee types. The standard determination of coffee beans aimed to create a distinctive taste and to not experience a change in taste in every brew of coffee served. After selecting the selected type of coffee, the coffee cherries then went through further processing, the first process was soaking to sort the coffee cherries that were suitable for processing and not, then enter the stage of separating the flesh of the coffee cherries from the part that coats the coffee beans. Then the coffee beans were washed and dried. After that, it entered the no less important stage, namely washing coffee beans. According to Yanuar Alif (2020) as the head of Quality Control from Kopi Kenangan saying that Kopi Kenangan used the dry process or natural process method. This method was also done by traditional coffee processors in several areas and this process started by spreading coffee beans on plastic mats and then drying them under direct sunlight. In addition to this method, Kopi Kenangan also used the wet process or wet milling technique. This method consists of several steps, the first was peeling the coffee cherries which had been harvested, then the coffee beans were dried to reduce the water content in the coffee beans to 30-35%, then a further drying process was carried out until the water content in the coffee beans remains 12.5% (Alif, 2020).

After processing the coffee beans, a further process was the roasting process of coffee beans, this process aimed to maximize the existing taste of the coffee beans. The next step was cooling the coffee beans. After the coffee beans were rested, Kopi Kenangan set a resting period for the coffee beans for 2 weeks after roasting which aimed to reduce carbon dioxide levels in the coffee beans (Kopi Kenangan, 2021). After the coffee beans were rested then the next process was carried out, namely Calibration. Kopi Kenangan applies a rule to calibrate this coffee five times a day, this process is necessary because the taste of coffee is often inconsistent and easily influenced by many things, such as room temperature, process this was done before the outlet opened (Alif, 2020).

Regarding to the equipment, Kopi Kenangan uses the best coffee machines from Italy, with the names of the machines used, namely La Marzoco and Victoria Arduino, where the cost needed to buy the coffee machine is around 300 million Euro (Susilawati, 2019). This typical internal governance of Kopi Kenangan was carried out with the aim of presenting a cup of coffee that was not only affordable but also high quality.

Product Upgrading of Kopi Kenangan and Starbucks

In order to increase the value chain, companies need an upgrading process. Upgrading is a very substantial component of GVC. Upgrading is defined as the ability of producers to carry out innovations aimed at increasing and strengthening competitiveness in the global market (Kaplinsky & Morris, 2001). Upgrading is done to improve product quality and change the production process to be more efficient. According to Gerrefi (1999), to make it easier to analyse upgrading in the value chain, it can be classified into 4 types of upgrading (Gerrefi, 1999):

1. Product Upgrading, carried out by introducing new products or updating old products, of course, in order to compete with competitors
2. Process Upgrading, increasing efficiency in internal processes and of course having an advantage over its rivals
3. Chain Upgrading, is an effort to increase competition by creating new chains. Kopi Kenangan and Starbucks have no product switching.
4. Functional upgrading is depicted in the curve below which shows that Research and Development (R&D), Labeling, and Branding activities have a higher position and generate greater profits than just manufacturing. The smiley curve concept in the Global Value Chain (GVC) is an illustration of increasing production activities. According to Gereffi (1999), the stages of the process carried out on the curve indicate the proportion of profits earned by a particular country or company. The decomposition of the total sales price of a Starbucks product was made in the United States for the first time and has grown almost all over the world and Kopi Kenangan in Indonesia, but its development is significant enough to create an Asian value chain and the first in Southeast Asia. In curve figure 1, the stages that produce the highest value are branding and standardization. Therefore, the researcher used a milling curve to analyse the activities carried out by Kopi Kenangan and Starbucks to reach the branding and standardization stage (Gereffi & Fernandez, 2011).

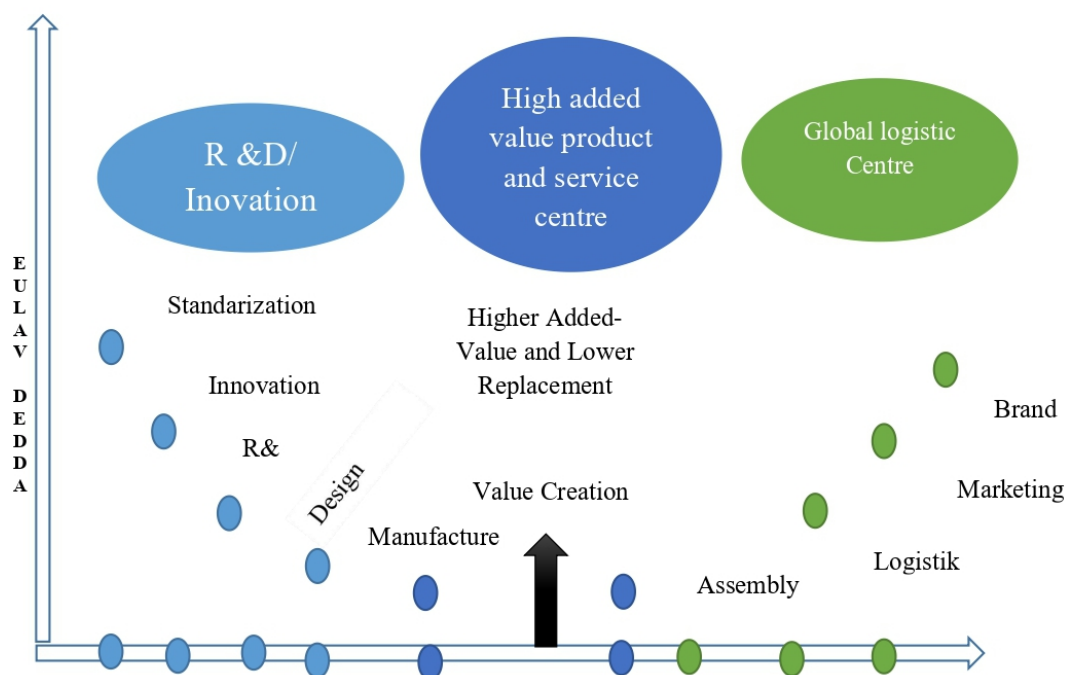


Figure 1: Smile Curve Functional Upgrading Level of Kopi Kenangan and Starbucks

Upgrading of Kopi Kenangan

1. Upgrading Product

Kopi Kenangan as a new F&B retail industry with the fastest growth in Indonesia. The improvement in Kopi Kenangan is quite significant when viewed from product upgrading, where in 2020 Kopi Kenangan launched Cerita Roti and Chigo products (Kopi Kenangan, One of The Fastest Growing Brands In Indonesia, 2017). Cerita Roti is a food brand created by Kopi Kenangan to add products and can be a food that accompanies consumers in enjoying coffee. Cerita Roti is a new product in Kopi Kenangan which is based on a story. Cerita and Kenangan are a unique combination of product upgrading concepts (Kopi Kenangan, 2017). Cerita Roti is a food brand created by Kopi Kenangan to add products and can be a food that

accompanies consumers in enjoying coffee. Cerita Roti is a new product in Kopi Kenangan which is based on a story. Cerita and Kenangan are a unique combination of product upgrading concepts (Kopi Kenangan, 2017). Cerita and Kenangan have the meaning of past concepts that Kopi Kenangan is trying to evoke. Kopi Kenangan launched a food sector brand as one of the first steps in presenting food that can be enjoyed by various groups in Indonesia. Cerita Roti was inspired by Kopi Kenangan which raised various childhood stories of people in Indonesia. Cerita Roti already has 443 outlets throughout Indonesia. Besides, still in the context of food products, Kopi Kenangan launched Chigo as a step to expand its reach in the food industry in 2021. Chigo is Chicken on the Go; "Chi" means seven and "Go" means five in Hokkien. As an F&B start-up, Kopi Kenangan wants to continue to grow by taking different new ways and bringing trends for food lovers or Foodies. Another product improvement at Kopi Kenangan is collaborating with SomeThing in supporting the existence of local brands in Indonesia. SomeThing is a cosmetic product made from coffee in collaboration with Kopi Kenangan. Thus, coffee is not only used as an ingredient for making food and beverages but can also be used as a cosmetic ingredient for skin health. So that the collaboration resulted in the Coffeinc Body Scrub and Coffeinc Lip Scrub products (Kopi Kenangan, 2021).

2. Functional Upgrading

Kopi Kenangan since 2019 has received halal certificates for drinks and food served at Kopi Kenangan. There are 11 halal criteria set by LPPOM MUI including the implementation of company policies, management team, training, facilities and halal raw materials. Based on the statement of the CEO and Co-Founder of Kopi Kenangan, Edward Tirtanata, certification is one of Kopi Kenangan's efforts to continuously improve product quality, which is balanced with training and certification of employees and outlets (Kopi Kenangan, 2017). Moreover, based on the smiling curve of Gerreffi and Fernandez, (2011) that Research and Development (R&D), Labeling and Branding activities have the highest position in generating profits. Kopi Kenangan as a local brand coffee company, the three components above have been carried out not just manufacturing. R&D seen in product upgrading has research and development that is quite interesting in various fields, creates opportunities and challenges for coffee companies and labelling which are not only exist in food but also in combination with cosmetic products. Kopi Kenangan has now reached the Unicorn stage with a coffee chain that has raised around \$100 million (Diela & Silviana, 2021).

3. Upgrading Process

Upgrading process, Kopi Kenangan continues to improve the efficiency of the company's internal processes and strives to be ahead of its rivals. Upgrading processes are carried out within individual networks in the chain, for example increasing service inventory, suppressing service cancellations and between networks in the chain. In order to provide delivery services, Kopi Kenangan collaborates with Fintech companies namely Dana and OVO and collaborates with online transportation services such as Gojek and Grab (Kopi Kenangan, 2021).

Upgrading of Starbucks

1. Upgrading Product

Upgrading the product is in accordance with Starbucks' vision that the company is consistent with the coffee it serves without following the current trend but creating a new trend with the highest quality that no other coffee shop has to win the market competition. Starbucks provides coffee-based main drinks with a wide variety of coffee flavours with food in the form of bread, pies, sandwiches, cakes. In order to meet the demands of customers who come to enjoy holiday coffee with their families but there are customers who don't like coffee, Starbucks also provides chocolate and tea-based drinks. This is what Starbucks does to meet customer needs. Upgrading the product, Starbucks is not a top priority to create a product that is a momentary trend but is more concerned with the standard of coffee beans used to provide the best coffee

drinks. Starbucks provides the flexibility to order drinks with roasting procedures to the grind method according to customer requests. Starbucks could serve customers by “sharing barista knowledge coffee” to improve its products make and its baristas as a brand ambassador (Interview with Barista of Starbucks Branch Makassar City, Internal Governance of Starbucks, 2021). In addition, Starbucks would issue a new drink every new season and the first trial will only be carried out by Starbucks members as the highest and exclusive service for every Starbucks customer (Interview with Store Manager of Starbucks Branch Makassar City, Internal Governance of Starbucks, 2021).

2. Functional Upgrading

The Starbucks value chain continues to be legendary because it does not only sell coffee but also sells "life style". Starbucks creates trends not following trends (Interview with Store Manager of Starbucks Branch Makassar City, Internal Governance of Starbucks, 2021). Provisions for opening outlets in certain countries were required to be able to produce the best espresso coffee wedges and were tested according to Starbucks coffee standards to produce the same coffee taste throughout the world. The presentation of imported coffee should be smaller than that of local coffee because one of Starbucks' goals was to achieve sustainability standards by empowering coffee farmers in the countries where Starbucks is located. Every country that opens Starbucks coffee farmers outlets that produce coffee beans for Starbucks needs would be empowered to provide coffee quality assurance according to Starbucks standards. In 2016 Starbucks empowered farmers in Suka Tiga Panah Village, Berastagi, North Sumatra where Starbucks and Farmer Support and Starbucks Indonesia held coffee cultivation training involving coffee farmers in the area (Starbucks, 2016). Besides Sumatra, the region that produces Starbucks Indonesia coffee beans is the Sulawesi region, so Sulawesi and Sumatra became one of the "*Core Whole Bean Coffee*" in Indonesia and was made worldwide by the Starbucks company.

Functional upgrading depicted in curve 1 showed that RnD, Labeling, and Branding activities had a position to generate greater profits than just manufacturing. Functional upgrading was also related to Starbucks Research and development to achieve the best coffee standardization not only in the standard of coffee bean supply but also for customers. Customers could ensure that Starbucks can inspire someone through a glass of coffee "*Starbucks to inspire and nature the human spirits one person one cup one neighbourhood at the same time*". Research and development reached almost all areas both internally and externally. Starbucks is able to meet the needs of the community according to the seasons in the country where the Starbucks outlets are located (Interview with Store Manager of Starbucks Branch Makassar City, 2021). Research and development Starbucks also continued to conduct employee training to ensure employees have values in accordance with Starbucks vision and mission. Starbucks has achieved functional upgrading to value in the environmental field so it is not surprising that Starbucks is able to reach the highest point in the world's F&B industry value chain.

In the field of Branding and Labeling awareness Starbucks has the principle of "*make every customer feel specially and customed oriented*". It is important for Starbucks to pay attention to customers in order to have a pleasant experience. Starbucks in Indonesia itself in the Covid-19 era had a branding strategy, namely:

- a. Focus on Drive Thru
- b. Take advantage of the Work from Home trend by increasing the presence of new clusters in residential areas
- c. Take advantage of the availability of locations at a more affordable price but have long-term benefits
- d. Creating Starbucks existence not only in western and central Indonesia but also in eastern Indonesia by taking advantage of the moment of the National Sports Week held in Papua
- e. Take advantage of the crisis due to Covid-19 to increase market share
- f. Expanding into residential areas with “Stand alone” outlets
- g. In the "new normal" situation, social distancing will be further enhanced, strict coordination of orders

but still prioritizing customers and coordinated order taking (Interview with Barista of Starbucks Branch Makassar City, 2021)

In the field of marketing, Starbucks combined its market strategy with physical outlets, digital and hybrid outlets. The combination of the three marketing methods provides an opportunity for Starbucks to be present to meet the needs of the community. In addition, another effort made by Starbucks was the competitive marketing landscape to maintain its position as a big market leader, namely not only selling coffee and food but creating new habits in society, taking over the main locations of competitors and expanding new areas using location technology software (GapMaps) to strengthen its presence in real estate. The most important thing for Starbucks was to improve the excellent customer service experience (Interview with Store Manager of Starbucks Branch Makassar City, 2021).

3. Upgrading Process

Upgrading processes, Starbucks emphasized digital marketing strategies to mobilize convenience and lifestyles without physical money. In order to outperform trading rivals, Starbucks opened new sales channels by distributing Vouchers. In order to provide delivery services, Starbucks collaborates with Fintech companies namely Dana and OVO and collaborates with online transportation services such as Gojek and Grab. In order to maintain the quality of coffee to the customer perfectly, the provision of drinks or food would only be done if the customer had arrived at the place or if it used an online transportation application service, drinks and food would only be provided after the customer service arrives at the Starbucks outlet (Interview with Store Manager of Starbucks Branch Makassar City, 2021).

Comparative Analysis of Kopi Kenangan and Starbucks

The comparison of Kopi Kenangan and Starbucks was seen from two value chain analyses, namely governance and upgrading. Based on the governance context, Starbucks has achieved exercised by internal and external parties. In external governance, Starbucks has achieved environmental standards by empowering environmentally friendly coffee farmers, having child or employee labour standards, Monitoring of labour standards by NGOs, specialized firm monitoring conformance to ISO standards, Specialized service providers and government industrial policy support, so the resulting value chain is very broad when compared to Kopi Kenangan.

Based on the context of the upgrading value chain, Kopi Kenangan and Starbucks had significant similarities. Kopi Kenangan as a local brand coffee had had a significant development. Kopi Kenangan has only been established since 2017 but has a fairly high competitiveness in terms of process upgrading, already has services such as Starbucks, in terms of functional upgrading, has a high level of branding and significant marketing and in November 2021 has reached the first Asian Unicorn F&B stage in South East Asia. Kopi Kenangan in upgrading products is quite good in increasing the value chain because it is able to provide food and beverage variants. In 2021, it had launched Cerita Roti and Chigo products as new products at Kopi Kenangan outlets and has opened 443 outlets with Cerita Roti for the Sumatra and Java regions.

Furthermore, Starbucks is a coffee shop with a high global value chain that reaches almost all over the world by creating a dedicated F&B company with the highest coffee quality standards. Starbucks is not only able to create upgrading on the internal side of Starbucks but has achieved the empowerment of coffee farmers, attention to the environment in this case already has sustainability standards. Starbucks has achieved the upgrading component according to Gary Gereffi (1999). The three types of upgrades are able to explain the quality of Starbucks.

According to the researchers' observations, seeing the development of Kopi Kenangan at such a high level would reach a point like Starbucks which is able to become a global coffee outlet. Kopi Kenangan could be a local brand coffee that is able to compete with Starbucks and must be able to improve its external governance.

As for what needs to be known that based on the analysis of Governance. Referring to the statement, the researcher observes 4 forms of recommendations that can be adopted by Kopi Kenangan in order to be able to compete and be on par with Starbucks, namely:

1. Environmental Standard

Kopi Kenangan must be able to build external governance that is active and pays attention to the standards of sustainability efforts considering that currently the environmental issue of climate change and global damage has become a concern for the international community. The impact of climate change has a major impact on economic growth and the safety of the world community. Involvement in efforts to reduce the global climate with environmentally friendly packaging standards (Starbucks, 2006).

2. Monitoring of Labour Standards by NGOs

Kopi Kenangan should improve employee recruitment management according to world standards and must be of utmost importance. It aims to be known by the international community about the recruitment management of Kopi Kenangan employees. There is no form of discrimination and gives employees the right to freedom of association.

3. Government Industrial Policy Support

Kopi Kenangan must have standards of support for government industrial policies, external governance, namely obtaining support from the country where it is opening a branch, following the standards and legal rules applied by the country where it is opening a branch. This also needs to be done by Kopi Kenangan considering that in 2021 it has reached Unicorn and has entered the label of Asian market products that are ready to enter the world market.

Conclusion

Based on the research that has been done, the researchers highlighted that the dynamics of international trade and the structure of the global economy are not only regulated by the free-market system and organizational rules between countries but are also closely related to global networks and even become one of the determinants of the development trend of a particular company being able to compete. In this regard, the researchers focused on examining the analysis of governance and product upgrading: the study of Kopi Kenangan and Starbucks. Kopi Kenangan as a coffee company originating from Indonesia which achieved the first Unicorn in Southeast Asia in 2021 and has contributed to introduce and develop coffee commodities in Indonesia. Starbucks is a coffee company that is the leader of an F&B company engaged in the coffee beverage sector, which has implications for the development of Indonesian coffee commodities and even the world. The Starbucks value chain has not only had an impact on the development of coffee commodities but has also reached farmer empowerment as part of the market strategy to achieve quality coffee as part of Starbucks' corporate governance strategy.

In addition to the governance process, the upgrading analysis carried out by the researchers make it easier for the researchers to see further the efforts made by Kopi Kenangan and Starbucks in forming a product, maintaining product quality, how to market products and survive in market competition and form products by involving a combination of physical transformation, and cooperation with various companies. Starbucks has an upgrading model to maintain the quality of the minimal products provided, the principle of creating trends is not following trends and not only selling coffee but also selling lifestyle. Starbucks makes the barista a brand ambassador to convey various important messages about coffee to consumers "*sharing barista knowledge coffee*".

In addition, Kopi Kenangan in product upgrading tends to improve the product by providing new inspirations

that match the Kopi Kenangan theme, namely Cerita Roti. Kenangan dan Cerita are unique concepts. In product upgrading, particularly in upgrading the process, which is currently the same way, Kopi Kenangan and Starbucks tend to cooperate with Fintech companies namely Dana and OVO which collaborate with online transportation services such as Gojek and Grab to achieve high consumer satisfaction and follow development trends era. In this case, the researchers found that Kopi Kenangan and Starbucks have been able to collaborate with other companies to support common interests through the use of mutually beneficial services. In addition, the researchers also found that Kopi Kenangan and Starbucks have made efforts to implement fair trade norms in various company activities where Kopi Kenangan has provided feedback for increasing the income of Indonesian coffee farmers and Starbucks provides examples of norms and developments in world trade that have sustainability standards.

In the last part, the researchers provided recommendations for Kopi Kenangan to take quick steps to achieve external governance standards because in terms of governance, Starbucks is still superior because it has achieved two governance components, namely exercised by internal and external parties to the chain. Meanwhile, Kopi Kenangan has just reached the point of being exercised by internal parties. This recommendation could be considered by Kopi Kenangan in the future, namely carrying out product innovations that take into account Environmental standards, Monitoring of labour standards by NGOs and Government industrial policy support to achieve global value chains.

Acknowledgements

The authors received no financial support for this research.

References

- Alif, Y. (2020). Rahasia Kenangan Blend: Ada di Biji Kopinya. Retrieved from Kopi Kenangan: <https://kopikenangan.com/news/rahasia-kenangan-blend-ada-di-biji-kopinya>
- Alif, Y. (2020). Seni Mengolah Kopi, Dari Biji Hingga ke Cangkir. Retrieved from Kopi Kenangan: <https://kopikenangan.com/news/seni-mengolah-kopi-dari-biji-hingga-ke-cangkir>
- Diela, T., & Silviana, C. (2021). Indonesian Coffee Chain Kopi Kenangan May Hit Unicorn Status With Falcon Edge-led Round. Retrieved from dealstreetasia: <https://www.dealstreetasia.com/stories/kopi-kenangan-funding-270346/>
- Esterberg, K. G. (2002). *Qualitative methods in social research*. McGraw-Hill.
- Gereffi, G., & Fernandez, K. (2011). *Global Value Chain Analysis*. Durham: Center on Globalization, Governance & Competitiveness (CGGC).
- Grant, M. J., & Booth, A. (2009). A typology of reviews: An analysis of 14 review types and associated methodologies. *Health Information & Libraries Journal* 2009, Vol.26, 91-108.
- International Coffee Organization. (2021). Trade Statistics Table. Retrieved from International Coffee Organization: https://www.ico.org/trade_statistics.asp?section=Statistics
- Interview with Barista of Starbucks Branch Makassar City. (2021, November 14). Internal Governance of Starbucks. (Imam, Interviewer)
- Interview with Barista of Starbucks Branch Makassar City. (2021, November 15). Upgrading Process of Starbucks. (Imam, Interviewer)
- Interview with Store Manager of Starbucks Branch Makassar City. (2021, November 13). Internal Governance of Starbucks. (Imam, Interviewer)
- Interview with Store Manager of Starbucks Branch Makassar City. (2021, November 15). Internal Governance of Starbucks. (Imam, Interviewer)
- Interview with Store Manager of Starbucks Branch Makassar City. (2021, November 15). Upgrading Process of Starbucks. (Imam, Interviewer)

- Kaplinsky, R., & Morris, M. (2001). *A Handbook for Value Chain Research*. Brighton: Institute of Development Studies, University of Sussex.
- Keane, J. (2008). A 'new' approach to global value chain analysis. Overseas Development Institute, 2-3.
- Kopi Kenangan. (2017). One of the fastest growing brands in Indonesia. Retrieved from Kopi Kenangan: <https://kopikenangan.com/about>
- Kopi Kenangan. (2017). One of The Fastest Growing Brands In Indonesia. Retrieved from Kopi Kenangan: <https://kopikenangan.com/about>
- Kopi Kenangan. (2021). Kolaborasi Dukung Produk Lokal, Kopi Kenangan Bersama Somethinc Luncurkan Body Scrub dan Lip Scrub Berbahan Kopi. Retrieved from Kopi Kenangan: <https://kopikenangan.com/news/kolaborasi-dukung-produk-lokal-kopi-kenangan-bersama-somethinc-luncurkan-body-scrub-dan-lip-scrub-berbahan-kopi>
- Mulia, K. (2020). Gaining grounds: How Kopi Kenangan brews beans into big business. Retrieved from KrASIA: <https://kr-asia.com/gaining-grounds-how-kopi-kenangan-brews-beans-into-big-business>
- Nurhasanah, S., & Dewi, C. (2019). Defining the Role of Multinational Corporations: Starbucks and Coffee Culture in Indonesia. *Jurnal Sentris KSMPMI* Vol.2, 3-4.
- Paryani, K. (2011). Product quality, service reliability and management of operations at starbucks. *International Journal of Engineering, Science and Tehcnology* Vol. 3, No. 7, 6-9.
- Rianto, P. (2004). Globalisasi, Liberalisasi Ekonomi, dan Krisis Demokrasi. *Jurnal Ilmu Sosial dan Ilmu Politik* Vol. 8, No. 2, 168.
- Starbucks. (2011). Tackling Climate Change. Retrieved from Starbucks Site: <https://www.starbucks.co.id/responsibility/environment/climate-change>
- Starbucks. (2016). Developing Better Future With Farmers. Retrieved from Starbucks Site: <https://www.starbucks.co.id/responsibility/ethical-sourcing/farmer-support>
- Starbucks Indonesia. (2018). Starbucks in Indonesia. Retrieved from Starbucks: <https://www.starbucks.co.id/about-us/our-heritage/starbucks-in-indonesia>
- Starbucks Indonesia. (2018). Timeline for Starbucks Coffee Indonesia. Retrieved from Starbucks in Indonesia: <https://www.starbucks.co.id/about-us/our-heritage/starbucks-in-indonesia>
- Starbuks. (2006). Starbucks Supplier Social Responsibility Standards: Manufactured Goods and Services. -: Starbucks Coffee Company.
- Susilawati, D. (2019). Rahasia Panjangnya Antrian Kopi Kenangan. Retrieved from Republika: <https://www.republika.co.id/berita/pyqc2e328/rahasia-panjangnya-antrian-kopi-kenanga>
- Top Brand Award. (2021). Top Brand Index. Retrieved from Top Brand Award: https://www.topbrand-award.com/en/top-brand-index-int/?tbi_find=Kenangan

Author Biographies

Ica Cahayani is a graduate student in International Relation Studies at Universitas Gadjah Mada, Indonesia. Her research interests include practices and policies in international cooperation and development covering the realms of global political economy, security, gender, global value chains and diplomacy. Other research interests Commentries focus on the Indopacific region, ASEAN and Europe. Her actively writes in various domestic and foreign media regarding the latest international relations issues, such as the issue of the ukraine conflict, the phenomenon of world food oil scarcity, the presidency of the G20 Indonesia and its challenges and cultural diplomacy. Email: icacahayani2998@mail.ugm.ac.id

Imam Fadhil Nugraha is a student of the Postgraduate Program in International Relations, Faculty of Social and Political Sciences, Gadjah Mada University, Indonesia. His research interests include research related to environmental issues and cybersecurity. Such research interests may include the study of various aspects such as politics, economics, human security, culture, development, and the politics of international law. Email: imamfadhilnugrahasupriadi@mail.ugm.ac.id

M. Andi Pasha is a student of the Postgraduate Program in International Relations, Faculty of Social and Political Sciences, Gadjah Mada University, Indonesia. His research interests include research related to security studies and middle east issues. Such research interests may include the study of various aspects such as politics, economics, human security, culture, development, and the politics of international law. Email: muhammadandipasha@mail.ugm.ac.id