

## Strategic Decision Making For A Material Construction Store: A Simple Multi-Attribute Rating Approach

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### ABSTRACT

**Purpose:** TDJ Store, a leading building material retailer in Kendal, Central Java, has been operating its offline store for 15 years and its online store for two years. As part of its growth strategy, the store aims to transition to a company and open a new physical store.

**Research Methodology:** To achieve this objective, a comprehensive strategy is required to ensure alignment with its goals. This study conducts an analysis of TDJ stores' internal conditions and external environment to provide insights into the company's current situation. Utilizing Porter's Five Forces framework, the Diamond Model, financial performance analysis, and SWOT analysis, this research examines both internal and external factors affecting TDJ stores.

**Results:** The findings were then used to formulate strategies with the TOWS matrix and determine the type of strategy using the SPACE matrix, which identified an aggressive strategy (quadrant 1) as suitable. Finally, the SMART method is applied to prioritize alternative strategies, selecting market penetration as the most appropriate strategy for TDJ stores based on the current conditions,

**Conclusions:** TDJ Store's analysis shows an aggressive strategic position, with market penetration identified as the best strategy to enhance competitiveness through better management and marketing.

**Limitations:** The study focuses on one SME with limited financial data, restricting generalization. Broader, data-rich studies are recommended.

**Contributions:** This study integrates SWOT, TOWS, SPACE, and SMART methods, offering a practical framework for SMEs to develop sustainable, evidence-based growth strategies.

**Keywords:** *Strategy, Porter's five forces, The Diamond Model, Financial Performance Analysis, SWOT Analysis*

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## 1. Introduction

Developing a strategy is fundamental to any business that aims to ensure long-term success and sustainability. This strategy involves the creation of a unique and valuable position, involving a different set of activities (Porter, 1996). It is designed to achieve specific goals and gain a competitive advantage. This process involves analyzing both internal and external environments, setting clear objectives, determining the most effective actions to allocate resources, and navigating challenges to outperform rivals and achieve the desired outcomes. According to Aliekperov (2021), strategy creation concentrates on two stakeholders: customers and competitors. A company is required to formulate strategies based on its approach to creating customer value and position in the market. As the market and society evolve, a company should analyze the internal and external environments to evaluate its performance and redefine its strategy in a timely manner according to the current situation.

Given that resources are typically limited, a well-defined strategy is crucial for any business size to manage these constrained resources, optimize their operations, prioritize activities, and achieve sustainable growth. For Micro, Small, and Medium Enterprises (MSMEs), strategic planning is required to expand business to facilitate expansion and transition to larger-scale operations. According to the Indonesian Chamber of Commerce and Industry, there are approximately 66 million MSMEs in Indonesia, which will contribute to 61% of Indonesia's GDP in 2023, equivalent to IDR 9,580 trillion. Despite this significant contribution, micro-sized enterprises remain dominant, highlighting the need for strategic scaling to enhance Indonesia's economic growth further. By developing and implementing effective strategies, MSMEs can overcome resource limitations, increase their market presence, and play a substantial role in boosting a nation's GDP.

Kendal has nearly 4,000 MSMEs, of which 63% are micro-sized, 36% are small-sized, and less than 1% are medium-sized enterprises according to recent data from the Department of Cooperatives, Small and Medium Enterprises of Central Java Province. TDJ store is a small-sized building material store in Kendal, operating both offline and online. The store was started as a micro-sized enterprise, and it has now become a small-sized enterprise with yearly sales of around IDR 4 billion to 8 billion. In 2024, the TDJ store embarked on a new goal of scaling up and expanding its business. The store aims to transition into a full-fledged company with open branches in new locations. This goal is driven by the timeless and promising nature of the retail building materials industry. To achieve this objective, thorough understanding and in-depth analysis are essential for designing an effective strategy.

This thesis aims to analyze the internal conditions and external environment of TDJ stores using historical data and interviews with the owner and its management. The analysis conducted in this study uses financial analysis, SWOT analysis, Porter's five-force framework, and Porter's diamond model. The outputs are utilized to select the best strategy for the TDJ store to enable it to establish a sustainable competitive advantage. The strategy will help the company to connect all activities within the company into a single system and ensure the coordination of all functional divisions to understand the market structure, the processes of planning, promotion, sales of products, and mechanisms of market price formation (Lesnikova, Schmidtova, & Cichocka, 2023). Based on the analysis of the internal conditions and external environment, the TOWS matrix is utilized to formulate alternative strategies, whereas the SPACE matrix helps determine the strategic focus areas for the company. By combining the results from both the TOWS and SPACE matrices, a company can narrow down viable strategic alternatives. Finally, the SMART method was employed to prioritize these alternatives and select the most effective action for the company to achieve its goal.

### ***1.1 Research Questions and Research Objectives***

#### ***1.1.1 Research Questions***

Based on the business issues mentioned above, the research questions are as follows.

1. What are the current internal and external conditions for TDJ stores?
2. What are the strategic issues faced by TDJ stores?
3. What alternative strategies are available, based on internal conditions and the external environment?
4. What is the best strategy for addressing the TDJ store's goal?

### *1.1.2 Research Objectives*

Based on these research questions, the objectives of this research are as follows:

1. Analyze the internal and external conditions of the TDJ store.
2. To analyze the strategic issues faced by the TDJ store.
3. To create the alternative strategies available based on the current condition
4. Select a recommended strategy for the TDJ to achieve this goal.

### *1.2 Research Scope and Limitation*

The scope of this research is limited to analyzing the internal conditions and external environments of TDJ stores. To gather the information, interviews with management were conducted to understand the internal condition and external environment. The interviews also gathered additional information about this store to formulate the best strategic plan for TDJ stores. As financial data are not complete for a certain period, some assumptions are made based on discussions with management. The results of this research only select the best strategy that must be prioritized.

## **2. Literature review and hypothesis/es development**

### *1.1 Theoretical Foundation*

#### *1.1.1 Strategy and Competitive Strategy*

This strategy encompasses the set of actions and decisions taken by a company to outperform competitors and achieve superior performance. According to Porter (1996), strategy is the creation of a unique and valuable position that involves a different set of activities. Another definition by Kenny (2022) is the strategy of positioning a company to its competitor. This is a plan to create value for key stakeholders, which in turn produces a competitive advantage. Strategy indicates a comprehensive plan for long-term goals designed by a company to achieve sustainable profitability. In contrast to operational effectiveness, in which a company performs similar activities better than competitors, strategy means performing different activities from competitors or performing similar activities in different ways (Porter, 1996). Further, Porter (1996) explained that operational effectiveness is about achieving excellence in individual activities or functions; strategy is about combining activities.

Aligned with the above explanation, Porter (1991) mentioned that strategy is a way of integrating the activities of the different departments within the company. The importance of having a strategy is to integrate various departments within a company to ensure that all actions align with the organization's overall goals and policies. The success of a strategy depends on doing many activities well and integrating them among them (Porter, 1996). Porter (1985) introduced three concepts of competitive strategy: cost leadership, differentiation, and focus. Cost leadership or strategies are more sensitive to factor costs, size of demand, and conditions that favor large-scale plant investments. A cost advantage can arise when a company is able to perform a particular activity more efficiently than a competitor. Differentiation strategies tend to depend more on specialized human resources, sophisticated local buyers, and local supplier industries. Focus strategies rely on the presence of unusual demand in particular segments, factor conditions, or supplier access that benefits competition in a particular product range (Porter, 1990).

A company's strategy serves as a roadmap that defines how it will compete, allocate resources, and achieve long-term goals. In today's dynamic business environment, strategic success depends not only on positioning within an industry but also on the firm's ability to adapt, innovate, and integrate digital transformation into its operations. According to Grant (2021), strategy has evolved from a static plan toward a dynamic process that emphasizes agility, data-driven decision-making, and sustainable advantage. In addition, Johnson, Scholes, and Whittington (2008) argued that competitive advantage now increasingly depends on sustainability and stakeholder integration, not merely profitability. Strategies must therefore align financial goals with environmental and social values, enabling companies to gain trust and long-term legitimacy. Similarly, Lu and Shaharudin (2024) highlighted that digitalization and innovation capability have become central determinants of competitiveness in emerging markets.

A competitive strategy requires a company to make tradeoffs, which means choosing what not to do. Trade-offs are important to the success of a strategy as they necessitate choices and purposefully limit what a company can offer, and trade-offs help ensure that the activities within the company reinforce one another. There are three reasons for the trade-offs: inconsistencies in a company's image reputation. Second, trade-offs arise from activities within the company because different positions require different employees, skills, equipment, and management systems. Lastly, trade-offs stem from limiting internal coordination and control to clarify organizational priorities (Porter, 1996).

The purpose of strategy is to make a business fit with the environment so the probability to survive and prosper are enhanced (Campbell, Stonehouse, & Houston, 2002). To create a suitable strategy, the company needs to analyze its environment. Campbell et al. (2002) mentioned that the analysis involves an examination of a company's internal and external environments. Internal analysis establishes an understanding of the company's strengths and weaknesses. External analysis aims to understand the factors that influence and affect a business.

### *1.1.2 Porter's Diamond Model*

The diamond model introduced by Porter (1990) consists of four broad attributes of a company's proximate environment that influence its ability to innovate and upgrade. These attributes influence the information available to companies to identify opportunities; the pool of inputs, skills, and knowledge they can draw on; the goals that condition investment; and the pressures on companies to act (Porter, 1991). The attributes are company strategy, structure, rivalry, factor conditions, demand conditions, and related and supporting industries. The diamond model is widely used to assess the important areas of competitive strength and weakness.

Firm or company strategy, structure, and rivalry are related to how a company is created, organized, and managed as well as the intensity of competition within a region to determine the aggressiveness and effectiveness of a company in a wider marketplace. Porter (1990) explained that for international competition, the environment in the company's home region will strongly influence the strategic choices of foreign rivals. National and local environments also have a strong influence on management practices, organizational structures, and goals set by individuals and companies (Porter, 1991).

The demand condition attribute concerns the nature and sophistication of demand for the industry's products or services that can significantly influence competitiveness. Porter (1990) mentioned that home demand is more important for its character than size, as sophisticated and/or especially demanding customers often stimulate competitive success. As the demand in each location can be different, analyzing the demand condition provides information about segment structures, differing buyer needs, and buyers with various levels of sophistication.

The presence of related and supporting industries also influences competitive advantage (Porter, 1991). The availability of supporting products, components, machines, or services that are specialized and/or integral to the innovation process in the industry is important to the sustainability of a business in a specific region. Hence, the availability of domestic suppliers, quality of interaction with supplier industries, and presence of related industries are required to achieve competitive advantage (Porter, 1990). Additionally, two factors influence the four broad attributes of the diamond model: chance and government. According to Porter (1991), true chance events and historical accidents play a role in the process by which competitive advantage is created. However, true chance rarely results in competitive industries unless other favorable conditions in the diamond model are present. The government also significantly influences the environment for a competitive advantage through its policies. The impact of government policy is best understood by examining how it affects the various elements of the diamond model.

### *1.1.3 Porter's Five Forces Framework*

Porter's five-force framework is a long-standing methodology for understanding the external environment for strategic analysis. Porter (1998) explained that in any industry, the rules of competition are embodied in five competitive forces: the entry of new competitors, threat of substitutes, bargaining

power of buyers, bargaining power of suppliers, and rivalry among existing competitors. The collective strength of these five competitive forces influences a company's capacity within an industry to achieve average returns on investment that exceed the cost of capital. Porter's five-force framework enables a firm to evaluate the attractiveness and potential profitability of its industry as well as its competitive position within it. Porter also noted that a firm's potential for profitability diminishes with heightened competition, lower barriers to entry, numerous substitutes, and stronger bargaining power between customers and suppliers (Porter, 1998; Stonehouse & Snowdon, 2007). To date, this framework remains one of the most effective tools for analyzing the business environment.

According to Porter (1998), these five forces can shape industry profitability by affecting the prices, costs, and investment requirements of the firm. For instance, buyer power influences the prices that firms can charge, which is also influenced by the threat of substitutes. Powerful buyers can also influence costs and investments because of their demand for premium services. Suppliers' bargaining power impacts the costs of raw materials and other inputs. The intensity of competition affects both pricing and expenses related to competition in areas such as plants, product development, advertising, and sales. The threat of entry imposes a ceiling on prices, and shapes the investment required to deter entrants. Bejleri, Kraja, and Memaj (2024) mentioned that from the five forces in Porter's framework, the intensity of competition among sellers within an industry is the most crucial of Porter's five competitive forces.

#### 1.1.4 Financial Performance Analysis

Financial performance refers to the measure of a company's profitability, financial health, and ability to generate revenue and manage expenses. The financial performance analysis uses ratios or relative values. According to Zutter and Smart (2021), ratio analysis involves methods of calculating and interpreting financial ratios to analyze and monitor a company's performance. In most cases, a company does not focus on the values of specific ratios. Instead, it places greater importance on how these ratios change over time or how they compare with industry benchmarks (p. 133). Analyzing ratios over time or in comparison to other companies in the same industry enables users to make more informed judgments about a company's performance (Tiimub et al., 2023; Zutter & Smart, 2021).

According to Zutter and Smart (2021), there are five general keys to financial ratios that can be used to understand a company's performance: liquidity, activity, debt, profitability, and market ratios (p.136). In this final project, the profitability ratios were calculated using the available data of TDJ store from 2017-2023. These profitability measurements enable a company to evaluate its profits with respect to its sales, assets, or owners' investment (Amegayibor, 2023; Zutter & Smart, 2021).

**Common-size income statements** are used to evaluate profitability in relation to sales. Each item in this statement shows the percentage of sales, and the total percentage of all items is equal to sales. The common-size income statement is especially useful for comparing performance across years because it is easy to see if certain categories of expenses are improving or worsening.

Gross **profit margin** measures the percentage of sales remaining after the company has fulfilled its cost of goods sold. The higher the gross profit margin is, the better.

$$\text{Gross profit margin} = \frac{\text{Sales} - \text{Cost of goods sold}}{\text{Sales}}$$

**The operating profit margin** indicates the percentage of sales remaining after deducting all costs and expenses, other than stock dividends, taxes, and interest. Operating profit represents "pure" profit because it measures only the profits earned from the company's operations without considering interest, taxes, and preferred stock dividends.

$$\text{Operation profit margin} = \frac{\text{Operation profit}}{\text{Sales}}$$

**The net profit margin** measures the percentage of sales remaining after deducting all costs and expenses including stock dividends, taxes, and interest. The higher the net profit margin, the better is the company's performance. Net profit is sometimes called the earnings available for common stockholders.

$$\text{Net profit margin} = \frac{\text{Net profit}}{\text{Sales}}$$

### 1.1.5 SWOT Analysis

In strategic planning and management, internal and external analyses are required to formulate a sustainable strategy. Multiple methods can be used for internal analysis, such as SWOT analysis, VRIO analysis, and Resource-based View. SWOT analysis is a common method used to understand both internal and external conditions. According to Vladoš (2019), SWOT analysis summarizes the central elements drawn by studying the external and internal environments of every organization. SWOT stands for strengths (S), weaknesses (W), opportunities (O), and threats (T), and the analysis can assist in identifying an organization's core abilities, such as prospective traits, and applying them to seize opportunities and neutralize threats, as well as identify weaknesses and reduce them (Akter & Rahman, 2020; Kashif & Iqbal, 2022; Yuliari & Riyadi, 2019).

In SWOT analysis, strengths and weaknesses are considered for internal analysis, and opportunities and threats are used for external analysis. However, there are many criticisms and objections to this conventional SWOT analysis because it only provides a separate understanding of the internal strengths and weaknesses, and external opportunities and threats of business organizations, but it does not provide an understanding of how external and internal factors are interconnected and what to do about them (Vladoš, 2019). Furthermore, Vladoš (2019) explained that business is dynamic; hence, the SWOT analysis cannot be static. Kashif and Iqbal (2022) also mentioned that constant natural changes occur, and the need for new methodologies is apparent; conventional SWOT updates are essential.

Vladoš (2019) proposed a correlative and evolutionary view of SWOT analysis that can be used for the strategic planning of the organization. This is termed correlative because this analysis recognizes that all forces and factors are intricately and systematically interconnected. With a correlative interpretation of SWOT analysis, the opportunities and threats are always "potential," depending on the organization's strategic capability to exercise its comparative strengths and weaknesses. In addition, the analysis is described as evolutionary because it views organizational reality as a gradual process of change, where results accumulate over time, and development is path-dependent, affecting all forces and individuals (Anochiwa, 2021; Hadiwijaya & Yustini, 2023).

## 1.2 Conceptual Framework

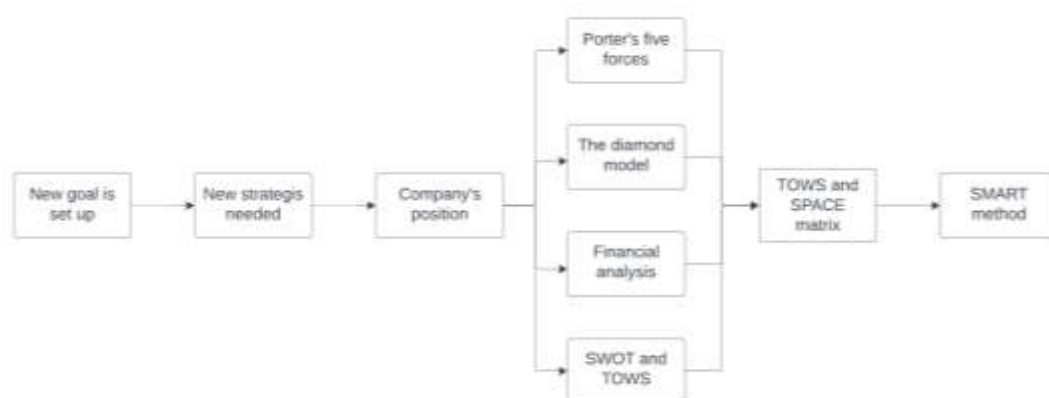


Figure 1. Conceptual framework

The objective of this final project is to propose a strategic plan for a TDJ store to achieve the company's goal. The first is to describe the business issues and design the research. We then analyze the current

position of the TDJ store using SWOT analysis, Porter’s five-force framework, Porter’s diamond model, and financial analysis. To propose a strategic plan, the researcher collects data from financial reports and cash flows and conducts interviews with the company’s management. Alternative strategies are formulated using the TOWS matrix and SPACE matrix based on the company’s conditions. Finally, the SMART method was used to select the best strategy to address the new goal of the TDJ store.

### 3. Methodology

#### 1.3 Data Collection

This study used both quantitative and qualitative data. Quantitative data will be collected from the TDJ store’s financial reports and cash flows for both offline and online stores. For financial reports, the data used are available from 2017 to 2023, and for cash flow, the data used are from January 2021 to June 2024. Qualitative data will be obtained by conducting interviews with the management. The financial reports used by the researcher were yearly income statements and balance sheets used to conduct the financial analysis. This study uses monthly financial reports and cash flows to support the findings and enhance the analysis. The data for both online and offline stores were combined and analyzed together. The interviews to collect qualitative data will be conducted with the director, manager, finance head, and operation team head. The management profile is as follows, and the questions are available in the exhibits.

Table 1. The profile of management team

No	Name	Positions	Years of experience
1	Moh Kholid	Director & owner	15
2	Faris Amalul Hidayat	Manager	1
3	Afif Hidayat	Head of finance	2
4	Aqib	Head of operations	10

Furthermore, the assessment of the SPACE matrix is performed by the owner only as the main decision maker. For the SMART method, the weight is determined by the owner, and the score for assessment is collected from all management teams listed in the above table. The average score for each alternative was then used to select the best strategy for the TDJ store.

#### 1.4 Data Analysis Method

This study used both quantitative and qualitative data for analysis. The methodologies used in the research were SWOT analysis, financial analysis, Porter’s diamond model, and Porter’s five-force framework.

##### 1. Porter’s five forces framework

This framework is used to understand the five competitive forces based on Porter: the entry of new competitors, threat of substitutes, bargaining power of buyers, bargaining power of suppliers, and rivalry among existing competitors. The data used to conduct this analysis were gathered from interviews.

##### 2. Porter’s diamond model

The diamond model is used to understand four main attributes to achieve competitive advantage: company strategy, structure, rivalry, factor conditions, demand conditions, and related and supporting industries. The data used to conduct this analysis were gathered from interviews.

##### 3. Financial performance analysis

Profitability ratios are used to conduct this analysis, including profit margin ratios, ROA, and ROE. The data for conducting the analysis were obtained from the company’s yearly income statement and financial reports. As a benchmark, the company’s profitability ratios were compared with the industry’s profitability ratios.

##### 4. SWOT analysis

This research will perform a SWOT analysis to describe the company's strengths, weaknesses, opportunities, and threats. The data used to conduct this analysis were gathered from interviews. The results from the SWOT analysis were used to create the TOWS matrix for alternative strategies.

#### 5. SPACE analysis matrix

The SPACE analysis matrix was used to determine the appropriate strategies for TDJ storage. The researcher starts by selecting variables or factors to define Financial Strength (FS), Industry Strength (IS), Competitive Advantage (CA), and environmental stability (ES). For positive quadrants FS and IS, assign the value between +1 (worst) and +6 (best) for each factor, and for the negative quadrants ES and CA, assign the value -1 (best) to -6 (worst) for each factor based on the current condition.

The score for each quadrant was calculated by averaging all the variables. Subsequently, two scores for the x-axis and two scores for the y-axis are added to obtain the intersections of the x-axis and y-axis. Then, we plot the average scores along with the intersection and draw a directional vector from the origin through the new intersection point. The quadrant with vector is selected as the type of strategy that the company can implement. The strategy is then used to narrow down the alternative strategies created using the TOWS matrix.

## 4. Results and discussion

### 4.1 Analysis

#### 4.1.1 Company Situation Analysis for competitive advantage

This subsection describes the general company situation analysis, before discussing the analysis defined in the conceptual framework. The results were obtained from interviews with the management and review of company documents.

#### 1. The company's strategy

From the beginning of the TDJ store opening, the owner has committed to selling high-quality products only. As mentioned in the company document, the vision of TDJ stores is to provide the best quality building materials for everyone, and the store commits to realizing everyone's dreams by selling the best quality products. Additionally, to build customer loyalty, the store delivers good quality services; for example, the customer can return the products that they bought if it is still in good condition and receipt exists. This differentiation strategy is catered to by the company to grab the market share.

Another differentiation point is that the store has employed technology that is more advanced than its competitors, such as visualizing the color in the computer before developing a specific custom color for the paint as requested by customers. Although the store's prices are relatively standard, as per average in the market, they are committed to maintaining consistent pricing for all customers and do not engage in price negotiation. By contrast, most competitors around the store frequently adjust their prices, often using them as competitive tools. By implementing a differentiation strategy, the store has been able to exist for around 15 years, and the size continues to grow. Although many new building materials store openings near the store area, they can survive on the market.

#### 2. Value chain analysis

Value chain analysis shows the set of activities involved in delivering value to customers. Strategy is reflected in the choices of how activities are configured and linked. The value chain displays total value and consists of value activities and margins. An analysis of the value chain rather than value addition is an appropriate way to examine competitive advantage (Porter, 1998). The value chain analysis for the TDJ store is as follows:



Figure 2. The value chain of TDJ store

#### 4.1.2 Porter's Five Forces Framework

This framework is used to analyze the external environment of TDJ stores and to understand the industry structure. Porter (1998) explained that the rules of competition in any industry are embodied in five competitive forces: the entry of new competitors, threat of substitutes, bargaining power of buyers, bargaining power of suppliers, and rivalry among existing competitors. The results for the TDJ store are as follows.

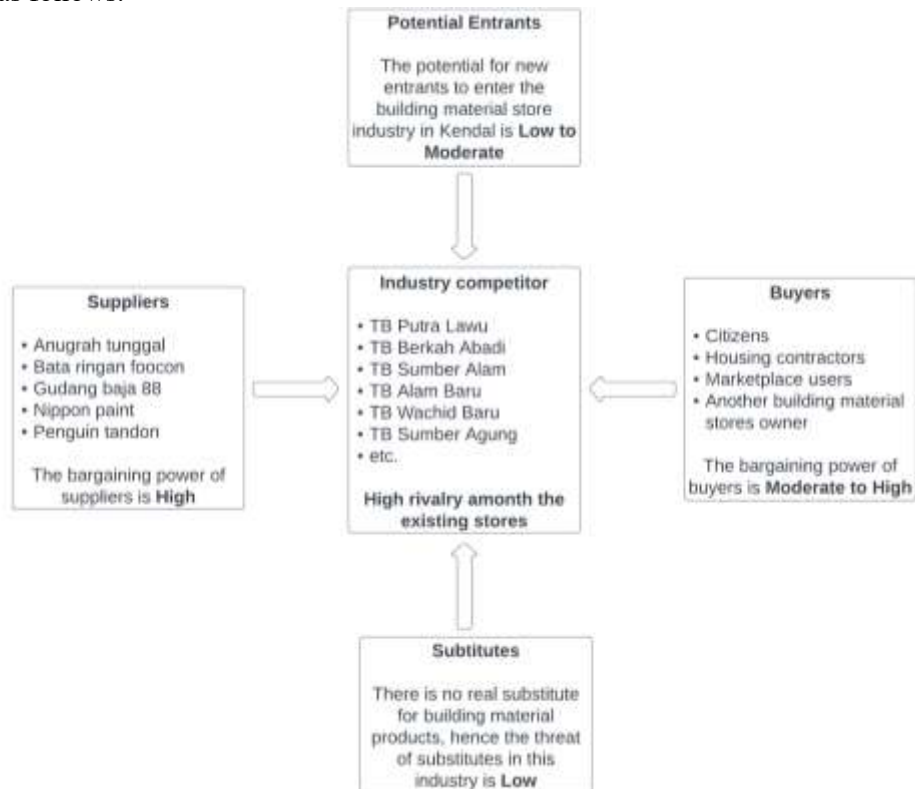


Figure 3. Porter's five forces framework of TDJ store

The scope of this analysis is limited to Kendal's building material store industry.

#### 1. Threat of New Entrants – Barriers to entry

Kendal's potential for new entrants to enter the building materials retail industry is low to moderate, indicating relatively high barriers to entry. This is primarily due to the significant capital investment required for inventory, infrastructure, and distribution channels. Building materials are typically large and bulky, necessitating substantial warehouse space. Additionally, products are often expensive, and many suppliers do not permit deferred payments, further increasing the need for substantial upfront capital.

In the building materials retail industry, established and large firms benefit from economies of scale, gaining cost and performance advantages by purchasing products in bulk, and leveraging their established brand identity. However, entry into the industry is relatively straightforward as there are no difficult-to-obtain licenses, insurance, or qualifications. Additionally, customers face minimal costs when switching suppliers and the products sold lack significant differentiation. Hence, the threat posed by new entrants to existing companies is low to moderate.

## 2. Bargaining power of buyers

Buyers' bargaining power is moderate to high. In the area where the store is located, there are a large number of customers but with relatively small purchases. However, few customers (e.g., housing contractors, store owners, etc.) are concentrated and purchase in large volumes. Customers have the power to pressure the store to maintain the average standard price as a market. Buyers are price sensitive and tend to negotiate with prices. In addition, individual customers are mostly well informed, which makes them negotiate for better prices. However, in the case of a TDJ store, it does not accept any negotiation in prices. The store is also known to sell high-quality products only, and it has accepted branding.

## 3. Threat of Substitute

In the building materials retail industry, there are no real substitutes for building material products and customers are unlikely to switch to alternative products. Therefore, the threat posed by substitutes is low. However, because of continuous product innovation, stores must stay updated with recent advancements. For instance, one of the best-selling products at TDJ stores is light brick, an innovation that substitutes traditional red brick; recently, there has been a new type of brick made from plastic recycling that can substitute light bricks and red bricks. Staying current with such innovations is crucial to maintaining competitiveness.

## 4. Bargaining power of suppliers

Suppliers have high bargaining power. TDJ Store commits to selling good-quality products only; consequently, switching between suppliers is difficult. The purchase cost has a significant influence on the overall cost, and substitute inputs are not readily available for most building material products. Additionally, for branded products, such as paint and cement, the number of official suppliers is limited. However, several suppliers are available for the same brand, each offering different advantages and disadvantages. This variety empowers the store to choose between suppliers, leveraging competition to obtain better terms and conditions. Although the bargaining power of suppliers is high, they would encounter significant challenges in entering the retail market for building material products because their operations are typically confined to production and wholesale distribution rather than direct retail sales. In addition, for some best-selling products, the store has a chance to integrate backward into manufacturing, which can reduce supplier power.

## 5. The rivalry among existing competitors

### a. Porter's diamond model

The diamond model consists of four broad attributes of a company's proximate environment that influence its ability to innovate and upgrade. The attributes are company strategy, structure, rivalry, factor conditions, demand conditions, and related and supporting industries. Additionally, two factors influence the attributes of the diamond model: chance

and government (Porter, 1991). The analysis results of the diamond model for the TDJ store are described as follows:

1. Company strategy, structure and rivalry

The company's strategy defines its configuration of activities and how they interrelate. This strategy must align with the organizational structure, management practices, and prevalent industry standards. This aspect examines how companies are organized and managed as well as the nature of local competition. Effective strategies enable companies to optimize their operations, differentiate themselves from competitors, and efficiently navigate the competitive landscape.

As discussed, TDJ stores employ a differentiation strategy to gain competitive success and maintain customer loyalty. The company's strategy focuses on offering good quality products and superior customer service to stand out in the market. In the building materials retail industry, the organizational structure predominantly consists of small to medium-sized enterprises (SMEs), similar to TDJ stores, especially in Kendal. All building material stores are SMEs, and this structure enables flexibility and a personalized approach to customer service. Local rivalry has a substantial influence on the rate of improvement, innovation, and ultimate success in an industry. In the case of TDJ stores, competitors have pushed them to open an online store for a wider audience. The local environment also has an impact on a company's strategy, structure, and rivalry, and at the same time, it creates potential for competitive success. However, the impact on the environment depends on companies' responses.

2. Factor conditions

Factor conditions refer to the essential inputs required for production or operation such as land, resources, capital, and infrastructure. For TDJ stores, ownership of the land, store, buildings, and warehouses by the owner significantly reduces operational costs by eliminating rental expenses. The store is financially robust as it operates without any debt, with 100% of its capital sourced directly from the owner. Additionally, the TDJ store employs 14 staff members who manage both the offline and online aspects of the store, ensuring efficient operations and customer service. As this retail industry does not require specialized skills, there is no specific factor of human resources that can improve competitive advantage.

3. Demand conditions

The demand conditions for the building materials retail industry in Kendal were relatively stable and experienced modest annual growth. This industry is characterized by slow growth, with trends showing only minor increases over time. However, the demand conditions are significantly influenced by government policies and the national economy. During economic downturns, the demand tends to decrease. Despite the Indonesian government's efforts to enhance infrastructure, the benefits primarily accrue to larger players in the industry, leaving smaller retailers such as TDJ stores with minimal impact from these initiatives.

4. Related and supporting industry

The related and supporting industries consist of suppliers, construction industry, and logistics and distribution. Suppliers have a strong influence on companies in maintaining the supply of products, prices, operations, and networking. Closed-related industries, such as construction, support the building materials retail industry as high-impact buyers and can further stimulate demand. The logistics and distribution industry also supports operations to deliver materials effectively, especially bulky and heavy building materials, as well as for online sales. Logistics and distribution companies for bulky and heavy materials are coordinated with suppliers to provide delivery services. TDJ stores have leveraged the logistics and distribution industry in

Indonesia to deliver their materials and expand their reach to capture a wider market share.

## 5. Government

Government policies and regulations can significantly impact the building materials retail industry. The government has set standards for certain building materials to ensure product quality and safety. Indonesia's government initiatives and investment in infrastructure development create a robust demand for building materials, even though this initiative has a less direct impact on the building materials retail industry, such as TDJ stores. However, Government investments in roads, bridges, and public facilities have led to an increase in the demand for building materials. Government policies directly influence national economies. Inflation and community economic conditions affect people's purchasing power, which then impacts sales. Government regulations, such as taxes and regional minimum wages, also impact companies in this industry. The TDJ store is currently trying to fix store management to comply with regulations.

### b. Financial performance analysis

Financial performance analysis is used to measure a company's profitability, financial health, and ability to generate revenue and manage its expenses. Profitability ratios are used to measure the financial performance of TDJ stores in this study. The data were obtained from the company's yearly income statements and cash flows from 2017 to 2023.

Table 2. Income statement and profitability ratios

Year	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>							
Sales	Rp 4,399,018,070	Rp 5,505,537,803	Rp 5,368,030,191	Rp 5,958,214,390	Rp 6,108,555,420	Rp 7,492,623,301	Rp 7,379,940,505
Discount	Rp 9,762,125	Rp 6,629,523	Rp 4,887,491	Rp 35,627,490	Rp 32,680,250	Rp 30,880,823	Rp 28,747,446
Return	Rp 26,664,000	Rp 26,851,000	Rp 9,382,000	Rp 24,819,000	Rp 36,456,650	Rp 34,041,000	Rp 32,652,100
Advance payment		Rp 806,000	Rp 275,000		Rp 843,000	Rp 3,401,000	Rp 5,882,000
Net Sales	Rp 4,362,591,945	Rp 5,471,251,280	Rp 5,353,485,700	Rp 5,897,767,900	Rp 6,038,575,520	Rp 7,424,300,478	Rp 7,312,658,959
Cost of goods sold (COGS)	Rp 3,822,327,411	Rp 4,800,937,364	Rp 4,684,862,260	Rp 5,150,573,979	Rp 5,302,301,443	Rp 6,559,537,705	Rp 6,462,954,379
Gross profit	Rp 540,264,534	Rp 670,313,916	Rp 668,623,440	Rp 747,193,921	Rp 736,274,077	Rp 864,762,773	Rp 849,704,580
<b>Expenses</b>							
Operational expenses	Rp 113,323,500	Rp 158,039,000	Rp 158,860,000	Rp 210,464,700	Rp 207,829,000	Rp 319,439,800	Rp 309,469,846
Employee's salary	Rp 191,247,250	Rp 207,892,000	Rp 218,013,500	Rp 263,142,967	Rp 247,080,500	Rp 282,525,500	Rp 270,484,983
Total waste (lost/broken)	Rp 15,165,159	Rp 31,138,215	Rp 59,907,217	Rp 26,338,742	Rp 49,824,843	Rp 19,555,861	Rp 35,148,176
Total expenses	Rp 304,570,750	Rp 365,931,000	Rp 376,873,500	Rp 473,607,667	Rp 454,909,500	Rp 601,965,300	Rp 579,954,829
Operating profit	Rp 220,528,625	Rp 273,244,700	Rp 231,842,724	Rp 247,247,512	Rp 231,539,734	Rp 243,241,612	Rp 234,601,575
Tax	Rp 12,129,074	Rp 15,028,459	Rp 12,751,350	Rp 13,598,613	Rp 12,734,685	Rp 13,378,289	Rp 12,903,087
Net profit	Rp 208,399,551	Rp 258,216,242	Rp 219,091,374	Rp 233,648,899	Rp 218,805,048	Rp 229,863,323	Rp 221,698,489
Asset	Rp 1,029,265,540	Rp 1,058,960,408	Rp 1,084,155,916	Rp 1,111,025,539	Rp 1,136,188,120	Rp 1,162,622,402	Rp 1,188,117,728
Equity	Rp 823,412,432	Rp 847,168,326	Rp 867,324,733	Rp 888,820,431	Rp 908,950,496	Rp 871,966,801	Rp 891,088,296
<b>Financial Performance Analysis</b>							
Gross Profit Margin (GPM)	12.38%	12.25%	12.49%	12.67%	12.19%	11.65%	11.62%
Operating Profit Margin (OPM)	5.05%	4.99%	4.33%	4.19%	3.83%	3.28%	3.21%
Net Profit Margin (NPM)	4.78%	4.72%	4.09%	3.96%	3.62%	3.10%	3.03%
Return on Assets (ROA)	20.25%	24.38%	20.21%	21.03%	19.26%	19.77%	18.66%
Return on Assets (ROE)	25.31%	30.48%	25.26%	26.29%	24.07%	26.36%	24.88%
<b>Benchmark (Depo bangunan)</b>							
NPM Depo bangunan			3.20%	4.04%	3.74%	4.13%	3.37%
ROA Depo bangunan			5.81%	6.98%	4.37%	3.72%	2.45%
ROE Depo bangunan			11.64%	13.67%	7%	5.38%	3.53%

Table 2 shows the financial conditions of the companies from 2017 to 2023. The table shows that sales had a positive trend. Sales increased significantly by 2022 after the opening of an online store. The online store operates through marketplaces such as Shoopex, Facebook, and Tokopedias. Online stores account for approximately 13% of the total revenue in 2022, and the next year, the percentage increased to approximately 20% of the total revenue.

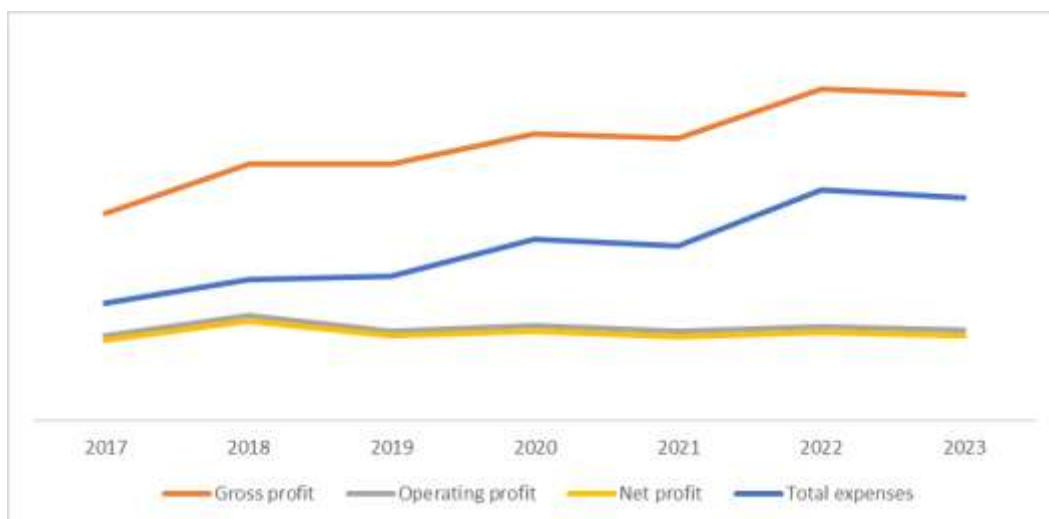


Figure 4. Financial performance of TDJ store (2017-2023)

In line with sales growth, gross profits also demonstrate a positive trend from 2017 to 2023. However, the total expenses have also increased annually, mirroring the trend in gross profit and representing incremental operating expenses or costs. This increase in expenses impacted the operating profit and net profit, resulting in relatively stagnant figures for these metrics over the same period. Furthermore, the profitability ratios do not demonstrate a positive trend. The Gross Profit Margin (GPM) has remained relatively stagnant from 2017 to 2023, whereas both the Operating Profit Margin (OPM) and Net Profit Margin (NPM) exhibit negative trends, with their percentages decreasing annually. This situation underscores the necessity of enhanced expenses or cost efficiency to improve the Net Profit Margin. To better understand the company's financial health, figure IV.4 depicts the comparison between the net profit margin of the TDJ store with the industry benchmark, Depo Bangunan, in the last five years. The graph shows that the NPM of Depo Bangunan has fluctuated over the years, while the NPM of Didi Jaya has always decreased from 2019 to 2023.

In terms of earnings relative to the resources invested, the TDJ store demonstrates a robust return on assets (ROA) averaging around 20%, and a return on equity (ROE) of approximately 25%. These figures underscore the TDJ store's strong ability to generate profits from its assets and equity, reflecting its efficient management and effective resource utilization. However, the scenario in which the ROA is high and the net profit margin (NPM) remains low suggests issues in cost management or pricing strategies. To address this, the company should analyze its cost structure to identify potential areas for expense reduction, review the pricing strategy, and focus on improving operational efficiency to reduce costs and enhance profitability.

### c. SWOT analysis

SWOT analysis is used to identify the strengths, weaknesses, opportunities, and threats that a company has. The findings explained in the previous subchapters are combined into this analysis to better understand the internal and external environments of TDJ stores. The table below summarizes the results of the SWOT analysis for TDJ stores.

Table 3. SWOT analysis

<b>Internal condition</b>	
<b>Strengths</b>	<b>Weaknesses</b>
The prices are consistent for all customers	Prices cannot be marked up, making it hard to compete in village fund projects
Sells the materials in both offline and online stores	Inefficient operations lead to high operating expenses

Neat arrangement of items	Internal management issues with overlapping tasks and positions
Fast and accurate services	Incomplete and unorganized financial report
Offers a return procedure facility	Location is far from city centre and the main road
Sell a variety of building materials	Ineffective marketing strategy
The sales are recorded in the system	Cost inefficiencies
Strong customer loyalty	Low net profit margin
15 years of industry experience	
Effective resource utilization	

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**External environment**

**Opportunities**

- High demand for light brick
- Growing trend towards online shopping
- The market is wide
- Collaborative and strong relationships with suppliers
- Government's focus on infrastructure
- Numerous new housing developments
- Timeless and always-needed product

**Threats**

- National economic slowdown
  - Emerging competitor
  - Rapidly changing market trends
  - Government policies
  - Customers often negotiate the price
  - Price wars
  - The fast-changing trend in the market
- 

The list of key internal factors shows that the store has strong customer service. However, from the list of weaknesses, there is a challenge in internal management. From external factors, there is an opportunity to expand the company specifically for light-bricks by collaborating with suppliers; however, the current national economic climate presents a potential hurdle.

d. Business solution

This subchapter presents solutions to generate alternatives to strategies for TDJ stores based on the analysis in the previous subchapter. Two solutions are presented in this subchapter: the TOWS matrix, which relies on qualitative analysis, and the SPACE matrix for quantitative analysis.

e. TOWS matrix

TOWS Matrix is used to bring together key internal and external factors in making a company strategy. The core of the TOWS matrix is the formulation of a combined strategy to match environmental threats and opportunities with a company's weaknesses and strengths to produce four types of combination strategies (Tantarto & Wandebori, 2020). A TOWS matrix was generated based on the results of the SWOT analysis. The combination of strategies for the TDJ store using the TOWS matrix is presented in the table below: The new goal of opening another offline store can be effectively addressed by focusing on a new light brick depot. This store specializes in selling light-bricks and complementary products. This strategy is recommended because of the high market demand for light bricks as well as historical sales data indicating strong and promising performance in this product category. Light bricks have consistently contributed significantly to overall profit, making this expansion a logical and potentially profitable move.

To address the issue of decreasing net profit margins, companies should focus on cost efficiency. This involves a thorough review of the internal cost structure in order to identify and reduce unnecessary expenses. Additionally, given the current trend towards online shopping, enhancing online marketing activities can help reach a wider market. Effective online marketing strategies include search engine optimization (SEO), content marketing on social media, and leveraging customer reviews. By implementing these measures, a company can improve its profitability and expand its market reach. To

overcome these weaknesses, TDJ stores need to focus on enhancing internal conditions. This involves clearly defining the task divisions for each position, improving the financial system, and upgrading financial reporting. Training employees and establishing standardized procedures for each activity within the company are crucial steps. By making these improvements, TDJ stores can achieve cost efficiency and enhance their service quality, ultimately leading to a stronger market position and better overall performance.

f. Strategic Planning and Action Evaluation Matrix (SPACE)

The SPACE matrix is a management tool used to analyze a company's condition and determine the type of strategy the company must use. The SPACE matrix focuses on the formulation of strategies, especially those related to an organization's competitive position (Wardhani & Dini, 2020). The SPACE matrix evaluates four dimensions to determine the appropriate strategy for a TDJ store.

Table 4. Financial strength evaluation of TDJ store

Factors Determining Financial Strength (FS)								
1. Return on investment	Low	1	2	3	4	5	6	High
2. Leverage (debt to equity ratio)	Inbalanced	1	2	3	4	5	6	Balanced
3. Liquidity	Inbalanced	1	2	3	4	5	6	Solid
4. Capital required versus capital available	High	1	2	3	4	5	6	Low
5. Cash flow	Low	1	2	3	4	5	6	High
6. Ease of exit from market	Difficult	1	2	3	4	5	6	Easy
7. Risk involved in the business	Much	1	2	3	4	5	6	Little
8. Inventory turnover	Slow	1	2	3	4	5	6	Fast
9. Use of economies of scale and experience	Low	1	2	3	4	5	6	High
<b>Average</b>		$= 40/9 = 4.4$						

Table 5. Competitive advantage evaluation of TDJ store

Factors Determining Competitive Advantage								
1. Market share	Small	-1	-2	-3	-4	-5	-6	Large
2. Product quality	Inferior	-1	-2	-3	-4	-5	-6	Superior
3. Product life cycle	Late	-1	-2	-3	-4	-5	-6	Early
4. Product replacement cycle	Variable	-1	-2	-3	-4	-5	-6	Fixed
5. Customer loyalty	Low	-1	-2	-3	-4	-5	-6	High
6. Competition's capacity utilization	Low	-1	-2	-3	-4	-5	-6	High
7. Technological know-how	Low	-1	-2	-3	-4	-5	-6	High
8. Vertical integration	Low	-1	-2	-3	-4	-5	-6	High
9. Speed of new product introductions	Slow	-1	-2	-3	-4	-5	-6	Fast
<b>Average</b>		$= -28/9 = -3.1$						

Hence, the intersection for x-axis =  $-3.1 + 3.9 = 0.8$  and y-axis =  $4.4 + (-2.7) = 1.7$ . A plot of the average of the SPACE matrix is depicted below.

The plot indicates a vector direction towards quadrant 1, suggesting an aggressive strategy. This strategy recommends leveraging a company's strengths to capitalize on available opportunities. The alternative strategies for Quadrant 1 (aggressive strategy) are backward, forward, horizontal integration, market penetration, market development, product development, and diversification. By connecting the solutions explained in the TOWS matrix above, the alternative strategies that can be selected by the TDJ store are as follows:

1. Forward integration: In this strategy, a company expands its operation to become a distributor to control the distribution process. This strategy can be implemented by TDJ store by opening a light brick depot and being a distributor for the light brick in Kendal and cities nearby

2. Market penetration: increasing marketing efforts to attract more customers, offering promotions or discounts to boost sales, and expanding distribution channels to reach more customers in the current market. The market penetration strategies that can be done by TDJ store includes online marketing activities, adjust the pricing strategy, expand the market share, promotions and discount, and customer loyalty program
3. Market development: TDJ stores can expand to new geographic markets by opening new stores or enhancing their online presence in different regions. Currently, online stores serve the Central Java region. Expanding the service to other regions can significantly increase market reach and customer base. Establishing a robust online store and possibly setting up physical stores in new areas will help tap into untapped markets, drive growth, and increase sales.
4. Diversification: TDJ stores can expand their product offerings by venturing into related product lines that complement existing portfolios. One of the opportunities that the TDJ has for a diversification strategy is expanding the business to sell its own product. Production can be done by the other company; then, the TDJ store can repackage the product under its own brand. For example, considering the high demand for light bricks, complementary products, such as cement, are also in high demand. Currently, cement for light bricks is available for only one size; the company can repackage the cement into a smaller size and sell it under its own brand. This approach not only enhances brand visibility, but also allows the company to offer a cohesive product line, catering to the specific needs of its customers. Thus, TDJ stores can establish themselves as comprehensive providers in the building materials market, potentially increasing customer loyalty and driving sales growth.

g. Simple Multi Attribute Rating Technique (SMART)

The SMART method is a multi-criteria decision-making method used to determine the best strategy for TDJ stores from alternative strategies formulated in the previous subchapter. The alternative strategies are assessed based on multiple criteria and each criterion has assigned a weight assigned that reflects its importance relative to the other criteria (Siregar, Arisandi, Usman, Irwan, & Rahim, 2017). Based on the TOWS and SPACE matrices, four alternative strategies can be selected by the company: forward integration, market penetration, market development, and diversification. Alternative strategies are ranked to determine priority based on the assessment of the decision makers. Six criteria were considered to assess alternative strategies in this research. The criteria for selecting the best strategy, along with the weights and normalized weights, are listed in table:

Table 6. The criteria and weights for SMART method

No	Criteria	Weight	Normalize weight
1	Cost	80	0.22
2	Implementation time	40	0.11
3	Expected additional revenue	100	0.27
4	Risk	50	0.14
5	Human resource requirement	30	0.08
6	Alignment with the company's goal	70	0.19
<b>Total</b>		370	1

Decision-makers conduct assessments to select the best alternative strategies based on multiple criteria. To make it easier for decision makers, the scores were assigned to each alternative range between 1 and 5. Similar to the SPACE matrix, the meaning of the order of the scores for each criterion is different. The following table describes the scores for each criterion:

Table 7. The score for each criterion

No	Criteria	Score

1	Cost	High	1	2	3	4	5	Low
2	Implementation time	Long	1	2	3	4	5	Short
3	Expected additional revenue	Low	1	2	3	4	5	High
4	Risk	High	1	2	3	4	5	Low
5	Human resource requirement	Much	1	2	3	4	5	Little
6	Alignment with the company's goal	Not align	1	2	3	4	5	Align

The scores gathered from all decision makers for each alternative strategy are as follows:

Table 8. The score for all alternative strategies

Criteria	Alternative strategies			
	Forward integration	Market penetration	Market development	Diversification
<b>Decision maker 1 : Owner</b>				
Cost	2	5	1	2
Implementation time	3	5	1	1
Expected additional revenue	4	2	4	3
Risk	2	5	1	2
Human resource requirement	3	4	1	1
Alignment with the company's goal	5	5	4	2
<b>Decision maker 2 : Manager</b>				
Cost	3	5	1	1
Implementation time	4	4	2	2
Expected additional revenue	4	3	4	3
Risk	3	4	1	3
Human resource requirement	2	5	1	2
Alignment with the company's goal	5	5	5	3
<b>Decision maker 3 : Operational Head</b>				
Cost	1	5	1	1
Implementation time	4	5	1	1
Expected additional revenue	4	3	5	2
Risk	3	5	2	1
Human resource requirement	3	5	1	2
Alignment with the company's goal	5	5	5	1
<b>Decision maker 4 : Finance</b>				

Cost	2	4	1	1
Implementation time	4	4	2	2
Expected additional revenue	5	4	3	2
Risk	2	5	1	2
Human resource requirement	2	5	1	1
Alignment with the company's goal	4	5	4	1
<b>Average</b>				
Cost	2	4.75	1	1.25
Implementation time	3.75	4.5	1.5	1.5
Expected additional revenue	4.25	3	4	2.5
Risk	2.5	4.75	1.25	2
Human resource requirement	2.5	4.75	1	1.5
Alignment with the company's goal	4.75	5	4.5	1.75

The next step is to calculate the final score for each alternative strategy using the calculated normalized weights.

#### h. Implementation Plan & Justification

This subsection proposes an implementation plan to be adopted by the company based on the previous section. The implementation plan was created by considering the strategies described in the section for the TOWS, SPACE, and SMART methods. The best strategy selected using the SMART method is market penetration, which includes online marketing activities, adjusting pricing strategy, expanding market share, promotions and discounts, and customer loyalty programs. However, decision-makers want to improve internal management before focusing on the new strategy. The owner also wants to plan the implementation of the forward integration (second priority) strategy after the best strategy is implemented and evaluated. The implementation plan for the TDJ store to cater to the new strategies is detailed in the table below.

By the end of 2024, a company's performance will be evaluated following the enhancement of internal conditions and the implementation of a market penetration strategy. When performance shows growth, the company will start to build a new physical store for a forward integration strategy. This new store specializes in selling light-bricks and complementary products, positioning itself as a key distributor in the area. Substantial additional capital is required to construct a building and purchase inventories from suppliers.

## 5. Conclusion

### 5.1 Conclusion

This subchapter presents the conclusions of this research based on the analysis and summarizes business solutions to answer the research questions.

#### 1. What are the current internal and external conditions of the TDJ store?

The internal conditions of TB Jaya require improvements in certain respects. In terms of financial condition, the store was able to effectively utilize its resources to generate profits, resulting in high ROA and ROE percentages. However, the net profit margin is relatively low and continues to decrease over time. From an operational perspective, the store has a good quality of service and can maintain its

customer loyalty; however, the operational expenses are high, and it requires cost efficiency. Internal management also needs to be enhanced to streamline the operational process.

The external conditions of TDJ stores present both threats and opportunities. An analysis using Porter's five-force framework indicates that threats from suppliers and competitors are high, the bargaining power of buyers is moderate, the threat of new entrants is moderate to low, and the threat of substitutes is low. According to the diamond model, the building materials industry experiences a relatively stable demand and is closely linked to supporting industries. Additionally, factor conditions, government policies, and chance events also affect the industry.

## **2. What are the strategic issues faced by TDJ stores?**

The strategic issues faced by stores are characterized by internal weaknesses and significant external threats. Internally, a company's conditions are not yet robust, impacting its overall efficiency and effectiveness. Externally, the company is challenged by threats from both customers and suppliers that affect its market position and operational stability. Addressing these issues requires strengthening the internal processes and developing strategies to mitigate external pressure. The SPACE matrix is used to determine the appropriate type of strategy based on the company's conditions to deal with the strategic issue.

## **3. What alternative strategies are available, based on internal conditions and the external environment?**

Alternative strategies were formulated using TOWS and SPACE matrices. The TOWS matrix lists strategies based on the SWOT analysis results. The SPACE matrix evaluates strategic planning and actions based on four dimensions: financial strength, industry strength, competitive advantage, and environmental stability. The output of the SPACE matrix shows that the appropriate strategy for the TDJ store is an aggressive strategy (quadrant 1). The alternative strategies for quadrant 1, based on the TDJ store case, are forward integration, market penetration, market development, and diversification.

### **5.2 Recommendation**

The recommendation for TDJ stores is to improve their internal condition and create a robust marketing plan before expanding the business by opening a new store. The company needs to have strong internal management to avoid operational issues and conflicts of interest in the future, which will help to gain a sustainability advantage as well. The company also needs to manage cash flows and ensure that there is enough cash to operate the existing stores both online and offline before opening the new one. For further research, a financial performance analysis using liquidity, activity, debt, profitability, and market ratios is recommended to better understand a company's financial health. A deep analysis of sales for each product category is also suggested to create different strategies for each product category, considering sales, profit, product durability, and trend. Benchmarking direct competitors around a store can be a good way to understand competition.

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