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The Influence of Differentiation Strategy on Competitive Advantage through Product Positioning, Moderated by Competition Intensity: A Study of O Coffee Kandis

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Abstract: Increasing competition in the coffee shop industry encourages businesses to develop differentiation strategies that can create competitive advantage. This study aims to analyze the effect of differentiation strategy on competitive advantage through product positioning, as well as to examine the moderating role of competitive intensity at O Coffee Kandis, Siak Regency, Riau. A quantitative approach was employed using a sample of 190 consumer respondents. The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4.0 software. The results indicate that differentiation strategy has a positive and significant effect on product positioning ($\beta = 0.105$; $p = 0.025$) and competitive advantage ($\beta = 0.121$; $p = 0.012$). Product positioning partially mediates this relationship with a significant indirect effect. Competitive intensity shows a strong direct effect on product positioning ($\beta = 0.777$; $p < 0.001$) but fails to moderate the relationship between differentiation strategy and product positioning ($\beta = 0.047$; $p = 0.311$). The structural model explains $R^2 = 0.64$ for product positioning and $R^2 = 0.45$ for competitive advantage. These findings contribute to the marketing strategy literature by highlighting the importance of product positioning as a mechanism that bridges differentiation strategies in creating competitive advantage.

Keywords: Differentiation Strategy, Product Positioning, Competitive Advantage, Competitive Intensity, Coffee Shop.

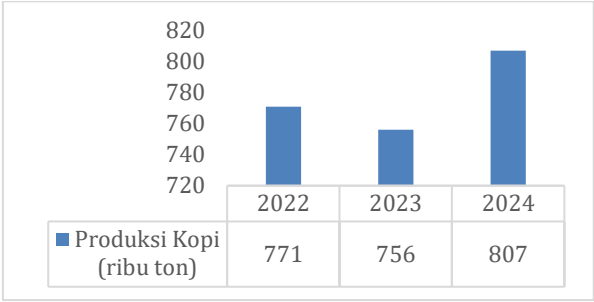
INTRODUCTION

The coffee shop industry has experienced rapid growth in recent years, marked by the emergence of various brands with different concepts and characteristics. This condition has created a high level of competition, requiring firms to develop strategies that distinguish them from competitors. In Siak Regency, Riau, the number of coffee shops surged from 120 new coffee shops in 2022 to 180 in 2024, creating strong competitive pressure for businesses such as O Coffee Kandis, which is strategically located on Kandis Main Road, only 1 km from its main competitor, VJ Coffee, which benefits from tourist access. Pre-survey data show that consumers appreciate product uniqueness (4.2/5), quality (4.0), and brand image (4.1), while

competitor comparisons confirm that O Coffee holds an advantage in price (3.7) but lags behind VJ Coffee in quality (4.5). However, its differentiation strategy has not been optimal in building product positioning and customer loyalty, especially given the limited empirical studies that examine product positioning as a mediator and competitive intensity as a moderator in local Indonesian coffee shops.

Coffee has become an important part of modern culture and lifestyle, experiencing significant growth, especially among urban younger generations. The trend of drinking coffee is no longer limited to enjoying its taste, but has also become a social activity at both the global and national levels, including in Indonesia (ICO, 2024). As one of the world's leading commodities, coffee is cultivated in more than 50 countries. Indonesia is recognized as one of the largest coffee producers, ranking fourth globally. This commodity also plays an important role in the national economy, prompting the government to make coffee one of its production priorities alongside other major plantation commodities such as palm oil and cocoa (Business Competition Supervisory Commission, 2020).

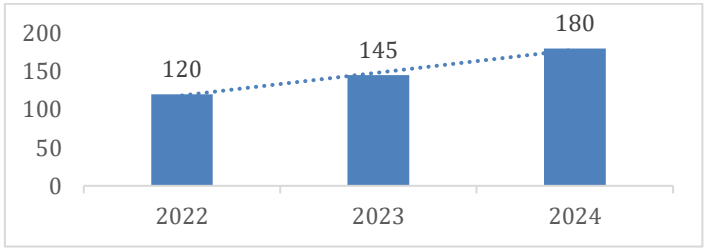
This study aims to analyze the effect of differentiation strategy on product positioning, to examine the role of product positioning as a mediating variable in the relationship between differentiation strategy and competitive advantage, and to evaluate the moderating effect of competitive intensity on the relationship between differentiation strategy and product positioning at O Coffee Kandis.



Source: Statistic Indonesia (2024)

Figure 1. Coffee Production (thousand tons)

Figure 1 shows a fairly dynamic trend in national coffee production from 2022 to 2024, amounting to 771 thousand tons in 2022, declining slightly to 756 thousand tons in 2023, and then rising sharply to more than 807 thousand tons in 2024. Meanwhile, coffee consumption in the domestic market also continued to increase, from 5,100 thousand bags in 2022 to 5,200 thousand in 2023, and is estimated to reach 5,600 thousand bags in 2024. This condition indicates that domestic coffee demand is strengthening and signals increasingly intense business competition in the coffee industry, particularly in the rapidly growing coffee shop sector.



Source: Indonesian Cafe and Restaurant Entrepreneurs Association Riau (2025)

Figure 2. Number of Coffee Shops, 2022-2024

Figure 2 shows that Riau Province recorded a significant increase in the number of new cafés over the last three years, with 120 new cafés in 2022, 145 in 2023, and a sharp rise to 180

in 2024 (Apkrindo Riau, 2025). This increase in the number of coffee shops creates challenges for coffee shop managers in maintaining their competitive advantage. Sari and Prasetyo (2024) emphasize that the rapid growth of the coffee shop business has led to a significant increase in competition, requiring managers to focus on product innovation, service quality, and customer experience management in order to compete effectively in local markets.

O Coffee Kandis is a coffee shop strategically located on the side of Kandis Main Road with easy access and high visibility, while its main competitor, VJ Coffee, occupies a similar location but holds an advantage because of a large hotel directly across the road that attracts tourists. With a distance of only 1 kilometer between them, customers have many nearby options, and product differentiation becomes a key determinant because location advantages are relatively equal.

The success of a coffee shop business depends heavily on its ability to create unique and attractive product positioning in the eyes of consumers. In facing such competition, differentiation strategy becomes crucial. This strategy focuses on creating unique product value that distinguishes the business from its competitors. However, for this strategy to succeed, the product must be positioned properly in consumers' minds known as product positioning. Appropriate positioning makes it easier for consumers to remember and choose the product amid many alternatives. This means that differentiation strategy and product positioning cannot stand alone; they must operate together and be aligned with the level of competition in the market.

Table 1. Pre-Survey of O Coffee Kandis Consumers

Product Positioning Attributes	Average Score (1–5)	Description
Product Uniqueness	4.2	Highly appreciated by consumers
Product Quality	4.0	High
Price	3.8	Competitive
Accessibility	3.6	Moderate
Brand Image	4.1	Good
Location Convenience	3.9	Adequate
Service	4.0	Satisfactory

Source: Processed Data (2025)

Table 1 shows that consumers highly value the aspect of product uniqueness, with an average perception score of 4.2. This indicates that the added value of product uniqueness is the main factor attracting consumer attention. Consumers also gave high evaluations to product quality (score 4.0) and brand image (score 4.1), confirming the importance of both aspects in forming positive impressions in consumers' minds. Kotler and Keller (2022) state that effective product differentiation and proper product positioning can significantly increase a company's competitive advantage. As Porter (1985) explains, products that are unique and difficult for competitors to imitate tend to have stable market share and high customer loyalty. In addition, competitive pricing is also an important consumer consideration, as reflected by the score of 3.8. Kim and Mauborgne (2019) argue that appropriate pricing enhances competitiveness while retaining customers. Ease of access, reflected in the score of 3.6, is also one of the considerations in the purchasing decision process. Location comfort and company service are likewise important, with scores of 3.9 and 4.0, respectively. According to Zeithaml et al. (2020), a comfortable positive customer experience and friendly service can strengthen product positioning in consumers' minds.

Table 2. Competitors of O Coffee Kandis

Product	Quality (1–5)	Price (1–5)
O Coffee Kandis	4.3	3.7
Competitor A (Lucky Coffee)	3.8	4.0
Competitor B (VJ Coffee)	4.5	4.2

Source: Processed Data (2025)

Table 2 shows that O Coffee Kandis has a fairly high quality score (4.3), although it still trails VJ Coffee (4.5) and performs better than Lucky Coffee (3.8). This indicates that, in terms of quality, O Coffee Kandis ranks second after VJ Coffee but surpasses Lucky Coffee. O Coffee Kandis has a price score of 3.7, meaning its price is perceived as more affordable than VJ Coffee (4.2) and Lucky Coffee (4.0). In other words, O Coffee Kandis is viewed as less expensive than both competitors while still maintaining competitive quality. According to Porter (1985), strong product positioning depends heavily on the competitive advantage that a firm succeeds in creating, whether in terms of quality or price, so that consumers perceive significant added value. Achieving clear and distinctive positioning helps a product remain recognized and remembered by consumers (Kotler and Keller, 2022). A product's success in the market is closely related to its ability to build a unique and high-value position that attracts and retains consumers amid competition (Kim and Mauborgne, 2019).

O Coffee Kandis faces intense competition but has not yet been able to optimally leverage differentiation strategy and product positioning to create sustainable competitive advantage. Although consumers give high ratings to product uniqueness, quality, and brand image, the differentiation strategy implemented has not fully strengthened market position or built customer loyalty amid the growing number of competitors in the Kandis area. This indicates a gap between the strategy that has already been implemented and the desired level of product positioning and competitive advantage, making further research necessary to understand the factors affecting the effectiveness of that strategy.

Theoretically, the limited number of studies that comprehensively examine the relationship among differentiation strategy, product positioning, competitive intensity, and competitive advantage in the context of local coffee shops in Indonesia, along with the scarcity of research that tests product positioning as a mediator and competitive intensity as a moderator, forms the basis for developing a more comprehensive conceptual framework to fill the existing scientific gap. This study is highly relevant because Indonesia's coffee shop industry is growing rapidly and competition is becoming increasingly intense. As a result, business actors need data- and theory-based strategic guidance to design effective differentiation and product positioning, and the findings are expected to serve as a reference for the development of knowledge as well as to provide practical input for improving the competitive advantage of local coffee shops.

Several previous studies have confirmed the benefits of differentiation strategy in the coffee shop industry, but methodological shortcomings underlie the present study. For example, Rahmadani (2023) concluded that differentiation drives customer purchase decisions at Papa Ong Coffee Shop with a regression value of 0.678 ($p < 0.01$), yet did not explore product positioning as an intervening bridge or market competition as a factor that alters the direction of that relationship. Similarly, Nugraha (2020) demonstrated the direct impact of differentiation on competitive advantage (regression = 0.712, $p < 0.01$) in coffee shops generally, without addressing the mediating role of product positioning or the moderation of competitive pressure. Even Mutianto (2024) only linked product positioning to competitive advantage (0.645, $p < 0.05$), ignoring its interaction with differentiation amid local market dynamics. Although various studies have examined the effect of differentiation strategy on competitive advantage, research remains limited in testing the role of product positioning as a mediator and competitive intensity as a moderating variable in that relationship.

This study fills that gap by testing the relationship among differentiation strategy, product positioning, competitive intensity, and competitive advantage within one integrated analytical framework. The study is also relevant because it can provide strategic guidance for coffee shop business actors in designing effective differentiation strategies and product positioning amid increasingly intense market competition. Therefore, this study aims to analyze the effect of differentiation strategy on product positioning, test the role of product positioning as a mediating variable in that relationship, and evaluate the role of competitive intensity as a moderating variable in the relationship between differentiation strategy and product positioning. Accordingly, this study offers novelty by integratively examining the relationship among differentiation strategy, product positioning, and competitive advantage while also incorporating competitive intensity as a contextual factor in the coffee shop industry.

Porter's theory of competitive advantage defines competitive advantage as a company's ability to continuously develop and maintain a superior position compared with its competitors over the long term (Porter, 1985). In essence, such an advantage can be achieved by offering unique value that is difficult for customers to imitate or by managing costs more efficiently than competitors. Porter groups the strategies that can generate competitive advantage into three main types, known as generic strategies: cost leadership, differentiation, and focus.

Rahmadani (2023) examined the influence of differentiation, price, and quality on purchasing decisions at Papa Ong Coffee Shop, Bandung, using multiple linear regression on 50 respondents. The results showed that differentiation had the strongest positive effect (coefficient 0.678), meaning that every 1-unit increase in differentiation increased purchasing decisions by 67.8%, confirming differentiation as the main driver of consumer behavior. Tintara et al. (2020) evaluated product, service, and image differentiation on the competitive advantage of Starbucks Dewata, Bali. Their main finding was that these three aspects accounted for 75.3% of the variation in competitive advantage, meaning that a holistic differentiation strategy can explain more than three-quarters of the competitive factors of coffee shops in dense markets. Pristiyono (2022) examined differentiation innovation during the pandemic in coffee shops in Labuhanbatu. Interview and observation results revealed positive coefficients for product differentiation (0.589), price (0.472), and service (0.601), indicating that adaptation through multidimensional differentiation was crucial for surviving under conditions of economic crisis.

Nurhasan (2024) examined knowledge sharing among coffee MSMEs in Garut through a case study. The findings confirmed a strong positive effect (coefficient 0.689), where knowledge collaboration among business actors increased competitiveness by up to 68.9%. Soegoto (2018) compared product differentiation and position advantage in relation to retail purchasing decisions. Regression analysis on 96 respondents revealed that position advantage was dominant (coefficient 0.732) while differentiation was weak (0.048), implying that perceived product positioning plays a greater role in purchasing decisions than differentiation alone.

Cristea (2014) conceptually described innovative product positioning strategies. The study concluded that approaches such as reverse or breakaway positioning create strong brand associations and sustainable advantage, making them more effective than conventional differentiation in dynamic markets. Kireru et al. (2016) assessed multi-aspect differentiation at Equity Bank Kenya. A survey of 100 supervisors found that product, process, and distribution differentiation significantly increased competitive advantage, as evidenced by transfer costs of 1% (versus the market rate of 16%), which strengthened customer loyalty.

This study offers novelty by testing an integrated moderation–mediation model linking differentiation strategy, product positioning, and competitive advantage, with competitive intensity as a moderating variable. Although a number of previous studies have examined the influence of differentiation strategy on various marketing performance outcomes, most still

focus on direct relationships among variables. For instance, Rahmadani (2023) found that differentiation strategy significantly affects purchase decisions, whereas Nugraha (2020) showed that differentiation influences competitive advantage. However, those studies did not integrate product positioning as a mediating mechanism while also considering competitive intensity as a contextual factor capable of affecting that relationship.

In addition, research on differentiation strategy in the context of independent local coffee shops in Indonesia remains relatively limited, even though the industry is developing rapidly and characterized by a high level of competition. Therefore, this study seeks to fill that gap by examining the relationship among differentiation strategy, product positioning, and competitive advantage more comprehensively, while positioning competitive intensity as a variable that can influence the dynamics of these interrelationships in the local coffee shop market context.

Differentiation Strategy

Differentiation strategy is an approach used by companies to create added value and product uniqueness that distinguish them from competitors (Harahap, 2022). In the context of coffee shops, differentiation can be implemented through menu innovation, raw material quality, customer service, and store atmosphere. Research by Ilham et al. (2025) shows that product, service, and image differentiation simultaneously has a positive and significant effect on product positioning, with a coefficient of determination reaching 79.1%. Effective differentiation increases customer loyalty and strengthens the company's market position.

Product Positioning

Product positioning is the image or perception formed in consumers' minds regarding a product, particularly in relation to comparisons between that product and competing products in the market (Kotler & Keller, 2019). Research by Rua & Santos (2022) shows that product positioning plays a significant role as a mediating variable in the relationship between brand strength and differential advantage, strengthening a firm's ability to create a significantly distinct perception in consumers' minds. Supriyoso & Supriadi (2022) add that product positioning strategy must be designed to build market preference and competitive sustainability.

Competitive Intensity

Competitive intensity describes the level of competition among firms within a business sector (Porter, 1980). The higher the competitive intensity, the more innovative firms must be and the more consistently they must develop marketing strategies and product differentiation in order to maintain market advantage. In the coffee shop industry, competitive intensity can be measured by the number of competitors, the frequency of pricing strategy changes, and the level of product innovation undertaken by business actors.

Competitive Advantage

Competitive advantage is a condition in which a company is able to offer greater value than its competitors, thereby creating a superior market position (Porter, 1985). Research by Kusnanto & Azhari (2023) states that product differentiation and strong product positioning are able to enhance the competitive advantage of coffee shops. Competitive advantage is determined not only by price, but also by the added value offered to consumers, such as product quality, service, and customer experience.

The Relationship between Differentiation Strategy and Product Positioning

Differentiation strategy plays an important role in shaping consumers' perceptions of a product's position in the market. When a company is able to present clear uniqueness through features, quality, or service experience, that distinct value becomes the basis for creating product positioning that is easily recognized and differentiated from competitors. Differentiation efforts help companies implant a particular image in the minds of consumers so that the product occupies a specific place in the target market. Soegoto's (2018) study shows that differentiation contributes to the creation of position advantage, or a superior position relative to competitors. This approach is reinforced by Cristea (2014), who emphasized that product uniqueness must be followed by an appropriate positioning strategy so that it can be translated into consistent perception. Another study by Kireru, Ombui, and Omwenga (2016) also proves that differentiation implemented continuously, whether through product, service, or process innovation affects the strengthening of product positioning in the eyes of consumers. Thus, differentiation strategy directly affects the effectiveness of product positioning because differentiation provides the basis for creating a clear, relevant, and competitive position in consumers' minds.

The Relationship between Competitive Intensity and Product Positioning

Competitive intensity plays an important role in shaping how companies manage product positioning, especially when the market is filled with similar products offering comparable value. In such situations, companies are forced to formulate more focused, relevant, and easily distinguishable product positioning in order to continue attracting consumer attention. Findings from Rua, Santos, and Silva (2022) show that in competitive industries, companies tend to strengthen product positioning as a response to external pressure, especially to maintain brand relevance amid the many alternatives available. Wang's (2024) study on the product positioning strategies of independent sellers on digital platforms also reveals that more intense competition drives business actors to choose more specific positioning strategies—whether based on value, quality, or benefits, so that their products can survive in highly dynamic markets. In addition, another international study by Rua et al. (2021) in the context of export industries found that the stronger the competitive pressure, the greater the need for firms to reinforce product positioning through consistent brand communication and clear differentiation, because product positioning becomes the main tool for maintaining consumer attention. Overall, these studies show that competitive intensity is not only a challenge but also a driver that pushes firms to strengthen product positioning as a strategy for survival and market victory.

The Role of Competitive Intensity as a Moderator

Competitive intensity has the potential to strengthen or weaken the effectiveness of differentiation strategy in shaping product positioning in consumers' minds. When markets face high competition, companies are not sufficiently served by merely offering differentiation; they must also communicate that uniqueness more strategically in order to produce clear product positioning. Research in the coffee industry of the Rantau Prapat area shows that strong differentiation can build effective product positioning only when the firm responds to competitive dynamics through menu innovation, service, or store atmosphere. Riswanto et al. (2021) found that increasing competitive intensity encourages business actors to adjust their marketing strategies more aggressively through innovation and stronger unique value, making the product positioning process more adaptive. Utama and Mulyanto (2023) explain that in industries with high levels of competition, differentiation strategy will produce a significant impact only if the company is able to adjust its marketing approach to market pressure. This shows that competitive intensity acts as a variable affecting the strength of the relationship

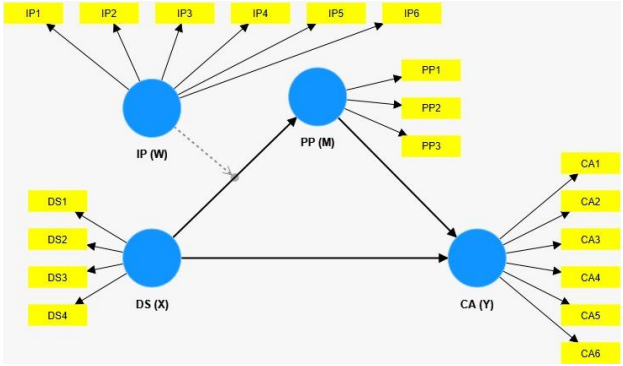
between differentiation strategy and product positioning. The stronger the competitive pressure, the greater the need for firms to transform differentiation into sharper, more relevant, and more easily recognized product positioning.

The Relationship between Product Positioning and Competitive Advantage

Product positioning is a strategic element that directly affects a company's ability to achieve competitive advantage. When a product has a clear, consistent, and memorable position in consumers' minds, the firm can highlight superior value that differentiates it from competitors. Strong product positioning not only helps consumers understand the product's main characteristics and benefits, but also encourages the formation of perceptions of quality, superiority, and brand trust. Research by Rua, Santos, and Silva (2022) shows that effective product positioning strengthens competitive advantage because it helps firms communicate value propositions that are relevant and difficult for competitors to imitate. Meanwhile, a study by Kusnanto and Azhari (2023) explains that proper product positioning can increase brand attractiveness, strengthen image, and affirm product uniqueness as the basis of competitive advantage. Waruwu and Nugraha (2021) also reveal that firms with strong product positioning have a greater opportunity to retain customers and create loyalty, which is a key indicator in building long-term competitive advantage. Product positioning is not merely a marketing communication tool, but a core strategy that allows companies to achieve and sustain competitive advantage through differentiation of perception, value relevance, and brand consistency in consumers' minds.

The Relationship between Differentiation Strategy and Competitive Advantage

Differentiation strategy is one of the main approaches used by companies to create competitive advantage that is difficult for competitors to imitate. By offering unique value whether through product quality, special features, service innovation, or customer experience companies can build an exclusive perception in consumers' minds. Effective differentiation not only increases customer interest, but also strengthens brand image and creates added value that distinguishes the product from direct competitors. Research by Syairozi and Norisanti (2018) shows that well-managed differentiation improves competitive advantage because it provides a strong and market-relevant product identity. Rahman and Hermawan (2020) emphasize that firms with high levels of innovation and consistent differentiation have a greater ability to maintain their market position through quality superiority and higher perceived value. Putra and Suaryana (2021) also reveal that differentiation significantly affects competitive advantage, especially when companies are able to offer product characteristics that are difficult to imitate and aligned with consumer needs. Overall, these studies reinforce the view that differentiation strategy makes a direct contribution to competitive advantage through the creation of uniqueness, added value, and favorable customer perceptions.



Source: Processed Data (2025)

Figure 3.

Based on the literature review and the model developed, five hypotheses are proposed in this study, namely:

H1: Differentiation strategy has a significant effect on product positioning.
H2: Competitive intensity has a significant effect on product positioning.
H3: Competitive intensity moderates the effect of differentiation strategy on product positioning.
H4: Product positioning has a significant effect on competitive advantage.
H5: Differentiation strategy has a significant effect on competitive advantage.

METHODS

This study uses a quantitative approach to test a moderation–mediation model that analyzes the effect of differentiation strategy on competitive advantage through product positioning as a mediating variable, with competitive intensity acting as a moderating variable. The research was conducted on consumers of O Coffee Kandis in Kandis District, Siak Regency, Riau Province, with the population criterion being consumers who had visited the shop at least twice. A sample of 190 respondents was selected through purposive sampling to ensure data representativeness and relevance to the research objectives.

Primary data were collected through questionnaires distributed directly to respondents using a 1–5 Likert scale (1 = strongly disagree, 5 = strongly agree). The questionnaire measured four main constructs: differentiation strategy (8 indicators), product positioning (6 indicators), competitive intensity (5 indicators), and competitive advantage (7 indicators). These indicators were developed based on Porter's (1985) generic strategy theory, the product positioning concept of Kotler and Keller (2022), and adaptations from previously validated empirical research.

Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS version 4.0 through staged analysis. The first stage, the measurement model (outer model), included convergent validity (outer loading > 0.7, AVE > 0.5), reliability (Cronbach's Alpha > 0.7, Composite Reliability > 0.7), and discriminant validity (Fornell-Larcker criterion, HTMT < 0.85). The second stage, the structural model (inner model), evaluated R^2 (predictive power > 0.25), effect size f^2 (0.02 small, 0.15 medium, 0.35 large), and predictive relevance Q^2 (> 0).

Specific hypothesis testing focused on three main analyses. First, mediation testing used bootstrapping with 5,000 subsamples to measure the indirect effect (path a × b) of differentiation strategy through product positioning on competitive advantage, with significance criteria of $p < 0.05$, T-value > 1.96, and confidence intervals that do not include zero. Second, moderation testing analyzed the interaction variable of differentiation strategy × competitive intensity on product positioning, with criteria of an interaction coefficient > 0.1 and a significant increase in ΔR^2. Third, moderated-mediation testing evaluated the conditional mediation effect at low (mean - 1 SD), medium (mean), and high (mean + 1 SD) levels of competitive intensity through the index of moderated mediation.

PLS-SEM was selected because of its ability to analyze complex causal relationships with a moderate sample size (n = 190), test conditional indirect effects, and generate findings that can be generalized for the development of local coffee shop marketing strategies amid increasingly intense industry competition.

RESULTS AND DISCUSSION

Results

After the data were collected, the next step was to analyze the data and test the research findings obtained. The tests conducted in this study include: Validity Test. The validity of the variables in this study was tested through the evaluation of convergent validity and discriminant

validity, which are two key components in measurement model (outer model) analysis using the PLS-SEM approach. This process ensures that the questionnaire items accurately and appropriately represent the theoretical constructs. Convergent validity measures the extent to which the indicators of a construct are strongly correlated with one another and point to the same construct. This test uses two main criteria:

Outer loading ≥ 0.70 as the recommended threshold, where indicators with values below this standard should be eliminated, unless such deletion would instead significantly reduce the construct's AVE or reliability (Hair et al., 2021; Sarstedt et al., 2017). Average Variance Extracted (AVE) ≥ 0.50, indicating that the construct is able to explain more than 50% of the variance of its indicators.

Table 3. Outer Loading 1

	Competitive Advantage	Differentiation Strategy	Competitive Intensity	Product Position
KB1	0,731			
KB2	0,775			
KB3	0,749			
KB4	0,655			
KB5	0,845			
KB6	0,831			
SD1		0,832		
SD2		0,765		
SD3		0,722		
SD4		0,674		
IP1			0,846	
IP2			0,868	
IP3			0,834	
IP4			0,847	
IP5			0,884	
IP6			0,851	
PP1				0,853
PP2				0,856
PP3				0,832

Source: Processed Data (2025)

Based on these requirements, the testing of research variables or instruments such as Competitive Intensity (CI) and Product Positioning met the convergent validity requirement because the outer loading values of each indicator were ≥ 0.70. However, within Competitive Advantage (CA) and Differentiation Strategy (DS), there was one indicator in each construct with a value < 0.70, namely KB4 with 0.655 and SD4 with 0.674. Therefore, in accordance with the applicable provisions in convergent validity testing, both indicators were removed from the model to improve the overall quality of variable measurement (see Table 3).

Table 4. Outer Loading 2

	Competitive Advantage	Differentiation Strategy	Competitive Intensity	Product Position
KB1	0,765			
KB2	0,796			
KB3	0,766			
KB5	0,820			
KB6	0,849			
SD1		0,855		
SD2		0,821		
SD3		0,696		
IP1			0,847	
IP2			0,868	
IP3			0,833	
IP4			0,847	
IP5			0,884	
IP6			0,851	
PP1				0,854
PP2				0,857
PP3				0,830

Source: Processed Data (2025)

After removing indicators KB4 and SD4, which had outer loading values < 0.70, the measurement model was reanalyzed. The results showed that the Differentiation Strategy (DS) variable still had one indicator with a value < 0.70, namely SD3 with 0.696. Therefore, in accordance with the applicable provisions in convergent validity testing, that indicator was also removed from the model to improve the overall quality of variable measurement (see Table 4).

Table 5. Outer Loading 3

	Competitive Advantage	Differentiation Strategy	Competitive Intensity	Product Position
KB1	0,764			
KB2	0,796			
KB3	0,766			
KB5	0,821			
KB6	0,850			
SD1		0,928		
SD2		0,844		
IP1			0,847	
IP2			0,868	
IP3			0,833	
IP4			0,847	
IP5			0,884	
IP6			0,851	
PP1				0,854
PP2				0,857
PP3				0,831

Source: Processed Data (2025)

After removing indicator SD3, which had an outer loading value < 0.70, the measurement model was reanalyzed. The results show that all remaining indicators in the Differentiation Strategy (DS) variable have outer loading values ≥ 0.70, thereby satisfying the convergent validity requirement (see Table 5). The next convergent validity test was carried out by examining the AVE (Average Variance Extracted) value. An AVE value of ≥ 0.50 is considered to meet convergent validity (Sarstedt et al., 2017).

Table 6. R Square

Variabel	R-square
CA	0,634
PP	0,664

Source: Processed Data (2025)

The structural model shows that differentiation strategy and competitive intensity together explain 66.4% of O Coffee Kandis consumers' perceptions of product positioning (R^2 = 0.664), while the remaining 33.6% is influenced by factors outside the model. For competitive advantage, the research variables are able to predict 63.4% (R^2 = 0.634), with the remaining 36.6% influenced by other external elements. According to the criteria of Hair et al. (2019), both R^2 values fall into the moderate category (0.50–0.75), indicating that the model has sufficiently strong explanatory power for PLS-SEM studies in marketing management.

Table 7. F Square

Variabel	f-square
DS -> CA	0,034
DS -> PP	0,029
IP -> CA	0,241
IP -> PP	1,600
IP x DS -> CA	0,041
IP x DS -> PP	0,007
IP x PP -> CA	0,001
PP -> CA	0,060

Source: Processed Data (2025)

The f^2 analysis in Table 7 describes the practical contribution of each independent variable to the dependent variable, beyond mere statistical significance. Competitive intensity (CI) dominates with a very large effect on product positioning (PP), namely f^2 = 1.600, meaning that a one-unit change in CI can alter 160% of the variation in O Coffee Kandis consumers' positioning perceptions. The effect of CI on competitive advantage (CA) is also fairly strong, with f^2 = 0.241, confirming the role of competition as a primary driver. In contrast, differentiation strategy (DS) contributes only a small effect, namely f^2 = 0.034 for the path DS→CA and f^2 = 0.029 for DS→PP. Product positioning toward CA also shows a weak effect, with f^2 = 0.060. Although all paths are statistically significant, the practical impact of DS is limited in this model. Following Hair et al. (2019), the effect of CI falls into the large category (> 0.35), whereas the effects of DS and PP are small (0.02–0.15). This means that local competitive pressure acts as the main driver of O Coffee Kandis's positioning.

Table 8. Construct Reliability and Validity

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
KB	0,861	0,876	0,899	0,640

SD	0,737	0,803	0,880	0,787
IP	0,927	0,930	0,942	0,731
PP	0,803	0,807	0,884	0,717

Source: Processed Data (2025)

The analysis results show that all constructs have Cronbach's Alpha and Composite Reliability values (rho_a and rho_c) above the minimum threshold of 0.70, indicating good reliability. In addition, the Average Variance Extracted (AVE) values for all constructs are above 0.50, which indicates that convergent validity has been achieved. Therefore, it can be concluded that the research constructs meet the reliability and validity criteria, so the measurement model is considered suitable for use in the next stage of analysis.

Model Fit Test

The model fit test is used to assess the suitability of the model with empirical data. The evaluation was conducted using SRMR, Chi-Square, and NFI. The model is considered fit when the SRMR value is < 0.10 (Garson, 2016; Santoso & Rahardjo, 2021; Wiyono, 2020). In addition, a Chi-Square value > 3.000 indicates good model fit, while NFI is considered good when it approaches 1, with the criteria > 0.90 (good), 0.80–0.90 (adequate), and < 0.80 (poor fit) (Wiyono, 2020).

Table 9. Model Fit

	Saturated model	Estimated model
SRMR	0,080	0,080
Chi-square	488,490	489,444
NFI	0,777	0,776

Source: Processed Data (2025)

The test results show that the SRMR values in the saturated and estimated models are both 0.080, so the model is considered fit because it is below the threshold of 0.10. The Chi-Square value in the saturated model is 488.490 and in the estimated model is 489.444, with a relatively small difference, indicating good fit between the model and the data. Meanwhile, the NFI values of 0.777 and 0.776 are below 0.80, indicating that the model falls into the poor-fit category, although it can still be accepted in PLS-SEM analysis when supported by other fit indicators.

Table 10. Hypothesis Testing Results

Hipotesis	Original sample (O)	T statistics (|O/STDEV|)	P values	Information
SD -> KB	0,121	2,504	0,012	Accepted
SD -> PP	0,105	2,236	0,025	Accepted
IP -> KB	0,509	6,533	0,000	Accepted
IP -> PP	0,777	22,085	0,000	Accepted
IP x SD -> KB	-0,127	2,947	0,003	Accepted
IP x SD -> PP	0,047	1,014	0,311	Rejected
IP x PP -> KB	0,019	0,482	0,630	Rejected
PP -> KB	0,257	3,199	0,001	Accepted

Source: Processed Data (2025)

Differentiation Strategy > Product Positioning

Differentiation strategy has a positive and significant effect on product positioning, as indicated by a coefficient value of 0.105, T-statistics of 2.236, and P-values of 0.025. These findings indicate that the proper implementation of a differentiation strategy can strengthen

product positioning in the market; thus, the first hypothesis is accepted. Theoretically, O Coffee's effort to present product uniqueness provides a basis for consumers to form specific perceptions. However, the contribution of this variable is relatively small ($f^2 = 0.029$) because in today's coffee shop industry competition is very high (with 180 new cafés recorded in Riau in 2024), so product differentiation is often perceived by consumers as a common standard rather than an exclusive advantage. This result is supported by Ilham et al. (2025), who found that differentiation strengthens product positioning. In contrast, this finding differs from Soegoto (2018), who noted that differentiation in physical features does not always guarantee strong product positioning if it is not supported by perceptions of emotional value.

Competitive Intensity -> Product Positioning

Competitive intensity has a positive and significant effect on product positioning, with a coefficient value of 0.777, T-statistics of 22.085, and P-values of 0.000. This shows that increasingly intense competition encourages firms to build stronger product positioning; therefore, the second hypothesis is accepted. Competitive intensity is the strongest determinant factor in shaping product positioning ($\beta = 0.777$; $p < 0.001$). Saturated market conditions force consumers to categorize more sharply when comparing O Coffee with competitors such as VJ Coffee. Here, the external pressure created by the abundance of café choices actually compels consumers to be more selective in placing a brand in their minds. This result is in line with Rua, Santos, and Silva (2022), who showed that in highly competitive industries, product positioning is strongly formed through consumers' defensive responses to an abundance of choices.

Competitive Intensity x Differentiation Strategy -> Product Positioning

Testing of the third hypothesis related to the moderating effect shows that the interaction between competitive intensity and differentiation strategy does not have a significant effect on product positioning. A coefficient value of 0.047, T-statistics of 1.014, and P-values of 0.311 indicate that competitive intensity neither strengthens nor weakens the effect of differentiation strategy on product positioning. Therefore, the third hypothesis is rejected. This finding reveals that generic differentiation strategies are not effective in local MSME coffee shops because competition directly shapes product positioning ($\beta = 0.777$) without first passing through differentiation ($\beta = 0.047$). A deeper analysis shows that in a highly crowded coffee shop market, positioning is influenced more by the overall brand concept or consumers' emotional experience (customer experience) than by mere differentiation of technical product features that are easy to imitate. Competition in Kandis functions as an independent variable that directly shapes perception, not as an interaction enhancer. This finding differs from Riswanto et al. (2021), who found that increasing competitive intensity actually drives the effectiveness of strategy in shaping more adaptive product positioning.

Product Positioning -> Competitive Advantage

In the fourth hypothesis, the analysis results show that product positioning has a positive and significant effect on competitive advantage, as reflected by a coefficient value of 0.257, T-statistics of 3.199, and P-values of 0.001. These findings confirm that strong product positioning contributes to greater competitive advantage; therefore, the fourth hypothesis is accepted. This study emphasizes that differentiation will have a much stronger impact on competitive advantage when it is successfully translated into clear product positioning in consumers' minds. Without firmly embedded positioning, O Coffee's uniqueness is viewed only as an ordinary variation, lacking strategic value capable of withstanding competitors' attacks. Product positioning is the bridge that transforms technical uniqueness into customer

loyalty. This result is supported by Kusnanto and Azhari (2023), who affirm that proper product positioning is the main key to highlighting superior value in a crowded market.

Differentiation Strategy -> Competitive Advantage

Finally, the results of testing the fifth hypothesis show that differentiation strategy has a direct, positive, and significant effect on competitive advantage. This is evidenced by a coefficient value of 0.121, T-statistics of 2.504, and P-values of 0.012. Thus, the fifth hypothesis is accepted. Theoretically, uniqueness that is difficult to imitate becomes a firm's capital for maintaining market share stability. However, its practical contribution is relatively small ($f^2 = 0.034$) because innovations are often quickly imitated by competitors in the MSME environment. This finding is supported by Rahman and Hermawan (2020), who state that consistent differentiation strengthens competitiveness. However, this coefficient value is lower than Nugraha's (2020) finding of 0.712, indicating that in the local context of Kandis, the impact of differentiation is not as strong as in industries with high entry barriers.

Discussion

The Effect of Differentiation Strategy on Product Positioning and Competitive Advantage

The results show that differentiation strategy has a positive and significant effect on product positioning ($\beta = 0.105$; $p = 0.025$) and competitive advantage ($\beta = 0.121$; $p = 0.012$), although with small contributions ($f^2 = 0.029$ and 0.034). These findings explain that the implementation of differentiation through product uniqueness and service innovation at O Coffee Kandis does shape consumer perceptions, but its influence is limited because the local coffee shop market is already saturated with similar offerings. This occurs because differentiation alone is not sufficient to distinguish products amid intense competition, as shown by the R^2 for product positioning of 66.4%, which is dominated by competitive intensity ($f^2 = 1.600$).

These findings fill the research gap identified in studies by Rahmadani (2023) and Nugraha (2020), which only tested the direct effects of differentiation without considering the mediating role of product positioning. Unlike those two studies, which reported strong coefficients (0.678 and 0.712), this study shows that differentiation functions more as a supporting factor than as the main driver, thereby answering the first research question concerning the direct effect of differentiation strategy.

The Dominance of Competitive Intensity over Product Positioning

Competitive intensity is proven to be the strongest predictor of product positioning ($\beta = 0.777$; $p < 0.001$; $f^2 = 1.600$) and competitive advantage ($\beta = 0.509$; $p < 0.001$; $f^2 = 0.241$). What does this mean? The tighter the competition in Kandis (180 new cafés in 2024), the more sensitive consumers become in distinguishing O Coffee's position based on external factors such as the number of competitors and price dynamics. Why? Competitive pressure forces consumers to compare relatively, so product positioning is formed from market context rather than solely from the product's internal characteristics (Porter, 1985).

This finding contradicts the theoretical assumption that competition weakens differentiation; instead, it becomes the main catalyst for positioning. Its novelty lies in proving that competitive intensity functions as a direct predictor (not merely a moderator as hypothesized), thereby filling the methodological gap in Mutianto's (2024) study, which ignored the interaction of this variable.

The Failure of Moderation and the Novelty of the Moderation–Mediation Model

The moderation hypothesis of competitive intensity on the differentiation–product positioning path is rejected ($\beta = 0.047$; $p = 0.311$), indicating that competition does not

strengthen or weaken the relationship. This answers the third research question and reveals novelty: in a hyper-competitive coffee shop market, competition acts independently rather than as an interaction modifier. The structural model (R^2 = 63.4%–66.4%) is stronger than previous studies such as Tintara et al. (2020) with R^2 = 0.753 because it integrates moderation and mediation, which have been largely absent from the Indonesian literature.

Comparison with Theory and Previous Research

In accordance with Porter's generic strategy theory (1985), differentiation should create sustainable advantage; however, the small f^2 results confirm its limitations in commodity-based industries such as coffee shops (Kim & Mauborgne, 2019). Unlike Rahmadani (2023), who found differentiation to be dominant in Bandung, the Kandis context shows that local competition (VJ Coffee vs. O Coffee) is more decisive in shaping positioning (quality score 4.5 vs. 4.3). Ilham et al. (2025) support the partial mediation of product positioning, reinforcing the significant indirect effect found in this study.

Theoretical Implications

This study extends Porter's (1985) differentiation strategy theory by showing that differentiation does not automatically generate competitive advantage without the support of strong product positioning (partial mediation confirmed). The finding that competitive intensity does not moderate the differentiation–positioning path (H3 rejected, $\beta = 0.047$, $p = 0.311$) indicates the limitation of generic strategy effectiveness in the context of local Indonesian markets, where competition functions as a direct predictor of positioning ($\beta = 0.777$).

The PLS-SEM model with R^2 of 0.64 for product positioning and 0.45 for competitive advantage provides a new moderation–mediation framework for coffee shop MSME studies, complementing Kotler and Keller's (2022) positioning theory with empirical evidence from an emerging market.

Practical Implications

For O Coffee Kandis management, rapid responses to competitors (monitoring VJ Coffee/Lucky Coffee) should be prioritized over costly differentiation innovation. A practical strategy is to create a positioning of "the best price with near-premium quality" (price score 3.7 versus quality score 4.3). The large f^2 finding for CI→PP also suggests collaboration with Apkrindo Riau for market stabilization, thereby reducing the destructive effects of price competition.

Managerial Implications

The results of this study provide several managerial implications for coffee shop business actors in facing increasingly intense competition. First, business actors need to strengthen a clear and consistent product positioning strategy in consumers' minds. The findings show that positioning plays an important role in bridging differentiation strategy and the creation of competitive advantage. Therefore, differentiation should not be limited only to product variation, but must also be communicated effectively through brand concept, customer experience, and the image the coffee shop seeks to build.

Second, under conditions of intense competition, business actors need to actively monitor market dynamics and competitors' strategies. Understanding competitive conditions can help companies adjust their positioning strategy so that it remains relevant to consumer needs and preferences. Thus, coffee shops should not rely solely on product uniqueness, but should also build a distinct value perception relative to competitors.

Third, differentiation strategy needs to be directed toward aspects that are difficult for competitors to imitate, such as customer experience quality, place concept, and strong brand identity. Sustainable differentiation will help firms maintain their competitive position amid the increasing number of coffee shop business actors. By integrating differentiation strategy, clear positioning, and an understanding of competitive intensity, business actors can improve their ability to create competitive advantage on an ongoing basis.

CONCLUSION

This study concludes that differentiation strategy has been proven to shape perceptions of product positioning and competitive advantage among O Coffee Kandis consumers, although its influence is relatively limited amid tight market competition. More prominently, competitive intensity emerges as the main factor that encourages consumers to position coffee shop products differently, even surpassing the role of differentiation strategy itself, thereby confirming that competitive pressure is a stronger driver of positioning than internal innovation. Product positioning also acts as a bridge that partially links differentiation to competitive advantage; however, competitive intensity does not succeed in moderating that relationship, indicating that competition works independently in shaping consumer perceptions.

As a limitation, this study focuses on one coffee shop in Kandis with a local consumer sample, so generalization to other regions or national-scale coffee shops still requires further validation, in addition to the lack of longitudinal data to observe long-term competition dynamics. For future research, it is recommended to develop the model with additional moderating variables such as brand loyalty or digital technology, expand the sample to multiple coffee shops in Riau, and use a mixed-method approach to explore qualitative consumer perceptions amid the continuing growth of coffee shop trends.

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