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The Influence of Differentiation Strategy on Consumer Satisfaction at Koar (Street Coffee) in Medan City

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Abstract: *The increasing number of coffee shops in Medan City has intensified competition and encouraged businesses to develop distinctive products, services, atmospheres, and brand identities. This study aims to examine the influence of differentiation strategy on consumer satisfaction at KOAR Street Coffee in Medan City. A quantitative approach with an explanatory research design was employed. Data were collected through questionnaires distributed to KOAR consumers selected using purposive sampling. The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS. The analysis included the evaluation of the measurement model through convergent validity, discriminant validity, and construct reliability tests, as well as the evaluation of the structural model through* R^2, Q^2, f^2, *model-fit, and bootstrapping tests. The results indicate that differentiation strategy has a positive and statistically significant effect on consumer satisfaction, with a path coefficient of 0.956 and a p-value of* $p < 0.001$. *The model explains 91.4% of the variance in consumer satisfaction, as indicated by an* R^2*value of 0.914. Furthermore, the* Q^2*value of 0.798 indicates that the structural model has predictive relevance for consumer satisfaction. These findings suggest that product uniqueness, service quality, innovation, atmosphere, and a distinctive brand identity can strengthen consumer satisfaction at KOAR Street Coffee. Therefore, KOAR should maintain continuous innovation, improve service efficiency, and consistently develop its open-space coffee-shop concept to create distinctive value for consumers. In accordance with Islamic marketing principles, the differentiation strategy should also be implemented through honest communication, halal and tayyib product quality, fair pricing, trustworthy service, and the avoidance of misleading information.*

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Introduction

The Indonesian coffee industry continues to grow as consumer consumption increases and coffee becomes a lifestyle staple. Increasing competition forces each coffee shop to offer unique features to attract and retain customers. One strategy that can be implemented is differentiation, which involves creating superiority through products, services, atmosphere, and business image, thereby providing added value compared to competitors. The success of this strategy is expected to increase customer satisfaction, a key factor in fostering customer loyalty (Kotler & Keller, 2016).

The proliferation of coffee shops in Medan City demonstrates increasing competition, offering a variety of concepts. One such business with a distinct concept is KOAR (Kopi Trotoar), which promotes an open-space, mobility-based coffee shop. Despite offering premium coffee at affordable prices, consumer complaints persist, such as long queues during peak hours and limited seating. This situation suggests that the differentiation strategy employed may not be optimal for customer satisfaction (Heryadi et al., 2020).

This research is crucial because customer satisfaction is a key factor in maintaining business sustainability amidst the increasingly competitive coffee industry. The results are expected to serve as evaluation material for KOAR in developing more effective differentiation strategies and provide additional empirical evidence regarding the relationship between differentiation strategy and customer satisfaction in the coffee shop industry (Homburg et al., 2018).

The novelty of this research lies in its object, KOAR (Kopi Trotoar), which promotes the concept of an open-air mobile coffee shop. Unlike previous research that focused on service quality, price, or product quality in conventional cafes, this study focuses on the influence of differentiation strategies on customer satisfaction in non-conventional coffee businesses.

Previous research has shown that product differentiation has a positive effect on customer satisfaction (Balele et al., 2023), while other studies have focused more on service quality, price, and product quality as the main factors influencing customer satisfaction However, there is limited research examining the effect of differentiation strategies on mobile-focused coffee shops like KOAR. Therefore, this study aims to address this gap.

Research Methods

StudyThis study uses a quantitative approach with a causal research type (explanatory research) that aims to analyze the influence of Good Corporate Governance (GCG), internal control, and the whistleblowing system on fraud in Islamic banking. The study was conducted on Islamic banks registered with the Financial Services Authority (OJK) during the 2020–2024 period using secondary data sourced from annual reports and audited financial statements published through the official website of the Financial Services Authority (OJK) and the websites of each bank. The study population was all Islamic banks registered with the OJK during the observation period, while the sample was determined using a purposive sampling technique, namely based on the criteria of Islamic banks registered consecutively with the OJK, publishing audited annual reports, and providing data on Good Corporate Governance, internal control, and the whistleblowing system in full during the 2020–2024 period.

Data collection was conducted using the documentation method, namely collecting, recording, and reviewing published annual reports and financial reports to obtain data on the variables of Good Corporate Governance, internal control, whistleblowing system, and fraud. The data obtained were analyzed using IBM SPSS Statistics 26 through descriptive statistical analysis to describe the characteristics of the data, followed bywithnormality test, classical assumption test including multicollinearity test, autocorrelation test, and heteroscedasticity test to ensure the regression model meets statistical assumptions. Furthermore, hypothesis testing was conducted using multiple linear regression analysis, supported by the coefficient of determination (R^2) test to measure the model's ability to explain the dependent variable, the F test to test the influence of independent variables simultaneously, and the t test to test the influence of each independent variable on fraud partially.

Results and Discussion

Structural Model Evaluation (Inner Model)

Structural models, also known as internal models, are assessed to ensure their accuracy and reliability. Several indicators, such as the following, can be used to visualize the stages of structural model evaluation analysis:

1. Q2 Predictive Relevance

Q^2 Predictive Relevance is a measure used to assess the predictive ability of a structural model in PLS-SEM, specifically to measure how well the independent variables in the model are able to predict the dependent variable. The Q^2 value is calculated through a blindfolding procedure and is used as an indicator of whether the model has predictive relevance. The interpretation is simple: if the Q^2 value is greater than zero (> 0), then the model is considered to have predictive relevance, which means the exogenous constructs in the model are able to adequately explain variations in the endogenous constructs. Conversely, if the Q^2 value is equal to or less than zero, the model is considered to have poor predictive ability for endogenous variables.

Table 1. Predictive Relevance

	SSO	SSE	Q^2 (=1-SSE/SSO)
Consumer Satisfaction (Y)	960,000	194,077	0.798
Differentiation Strategy (X)	1152,000	1152,000	

Based on Table 1, the predictive relevance (Q^2) test shows that the research model has excellent predictive ability for the variable Consumer Satisfaction (Y). With a Q^2 value of 0.798, the model is able to explain almost 80% of the variation in consumer satisfaction. This finding indicates that the company's differentiation strategy significantly contributes to predicting consumer satisfaction levels.

In contrast, the Differentiation Strategy variable (X) shows a Q^2 value of 0.000, which

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is entirely reasonable since this variable acts as an exogenous construct that is not predicted by other variables in the model. This value does not indicate weakness, but rather confirms that X is used to influence and predict Y, not the other way around.

2. Model Fit Testing

Model fit testing in PLS-SEM is conducted to assess the extent to which the designed model fits the data obtained, thus indicating whether the model is suitable for use as a whole. In SmartPLS, model fit assessment is typically conducted by considering three main indicators: the Standardized Root Mean Square Residual (SRMR), the Normed Fit Index (NFI), and the Chi-Square.

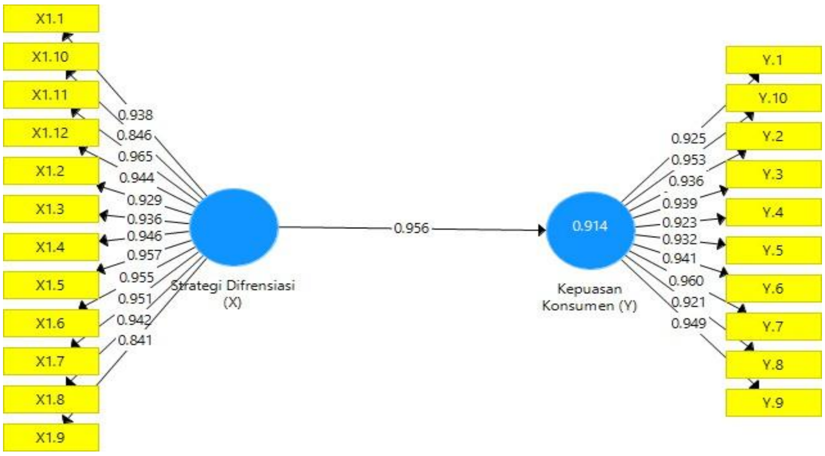

Figure 1. Structural Equation Modeling (SEM-PLS) Test Results

The SRMR value is used to measure the average difference between the observed and predicted covariance matrices of the model. SRMR values ≤ 0.08 indicate a good level of model fit, while values ≤ 0.10 are still acceptable in exploratory research. The NFI is used to compare the estimated model with the null model, where values close to 1 indicate a high fit; generally values ≥ 0.90 are considered good, although values ≥ 0.80 are still acceptable in the early stages of model development.

Table 2. Model Fit Test Results

	Model Saturated	Model Estimasi
SRMR	0,030	0,030
d_ULS	0,234	0,234
d_G	1,267	1,267
Chi-Square	582,196	582,196
NFI	0,863	0,863

The Goodness of Fit evaluation results indicate that the research model has met the overall feasibility criteria. The SRMR value of 0.030 is well below the threshold of 0.08, indicating that the difference between the observed covariance and the model-predicted covariance is very small. The d_ULS (0.234) and d_G (1.267) measures are also low and consistent between the saturated and estimated models, indicating no significant mismatch in the model structure. The Chi-Square value of 582.196 is only informative because PLS-SEM does not place much emphasis on the chi-square significance test. Meanwhile, the Normed Fit Index (NFI) of 0.863 has exceeded the standard of 0.80, indicating that the model fit is quite

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good although it has not yet reached the "very good" category (≥0.90).

Coefficient of Determination (R2)

Based on data processing carried out using the SmartPLS program, the R Square value was obtained as follows:

Table 3. R Square Results

	R Square	Adjusted R Square
Kepuasan Konsumen (Y)	0,914	0,913

These results indicate that the implementation of a Differentiation Strategy, for example through product uniqueness, special services, or innovation, can explain almost all changes that occur in the level of Consumer Satisfaction. In other words, the increase or decrease in consumer satisfaction is greatly influenced by how well the differentiation strategy is implemented. The research model has very high predictive power. The R^2 value of 0.914 and Adjusted R^2 of 0.913 confirm that Differentiation Strategy is a major determinant of Consumer Satisfaction, so that managing this strategy is the key to success in increasing customer satisfaction.

Hypothesis Testing (T-Statistical Test)

After assessing the inner model, the next step is to examine the proposed relationships between the latent constructs in this study. The hypothesis testing technique for this study uses T-statistics and P-values. The hypothesis is considered accepted if the T-statistic is greater than 1.96 and the P-value is less than 0.05. The following are the results of the direct influence path coefficients:

Table 4. Path Coefficients

	Sampel Asli (O)	T Statistik (|O/STDEV|)	P Values	Hasil
Strategi Difrensiasi (X) -> Kepuasan Konsumen (Y)	0,956	155,546	0,000	Diterima

Based on the results in table 4 Path Coefficients, it was found that the differentiation strategy (X) has a positive effect on consumer satisfaction (Y) with a path coefficient value of 0.956 and is significant because the p-value is 0.000 < 0.05. This means that the better the implementation of the differentiation strategy carried out by the company, the higher the level of consumer satisfaction.

Hypothesis Testing (Bootstrapping)

The purpose of hypothesis testing is to identify significant impacts between research constructs. In hypothesis testing, if the t-statistic value is greater than 1.96, the results are considered significant. However, if the t-statistic value is less than 1.96, the results are considered insignificant (Ghozali & Latan, 2015). The following are the results of the hypothesis test using the bootstrapping method in this study.

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Table 5. Hypothesis Test Results

Hipotesis	Path Cofficient	p-Value	95% Interval Kepercayaan Path Coeffocient		F square
			Batas Bawah	Batas Atas	
Strategi Diferensiasi_(X)_ -> Kepuasan Konsumen_(Y)_	0,956	0,000	0,965	0,968	10,668

Based on the results in Table 5, it is revealed that the Differentiation Strategy has a positive and significant effect on Consumer Satisfaction with a path coefficient value of 0.956 and a p-value of 0.000 < 0.10. This indicates that every increase in the implementation of a differentiation strategy, such as creating unique product designs, maintaining consistent quality, and carrying out continuous innovation, will significantly increase the level of consumer satisfaction.

Within the 95% confidence interval, the effect of Differentiation Strategy on Consumer Satisfaction ranges from 0.965 to 0.968, indicating that the results of this study are highly reliable. The f-square value of 10.668 indicates that the contribution of Differentiation Strategy to Consumer Satisfaction is at a very strong level in the structural model. In other words, differentiation is not merely an additional factor, but a primary driver of increased consumer satisfaction.

Discussion

Based on the data processing results, all indicators in both research variables have met the criteria for convergent and discriminant validity, as well as construct reliability. This is evidenced by the high factor loading values, the Fornell–Larcker and cross-loading results that show clear differences between variables, and the Cronbach's Alpha and Composite Reliability values that are well above the minimum threshold. Thus, the research instrument can be confirmed as feasible and consistent for use in measuring the constructs of Differentiation Strategy and Consumer Satisfaction.

Furthermore, the structural model evaluation indicates that the research model has good overall feasibility. The coefficient of determination (R^2) value of 0.914 indicates that the Differentiation Strategy variable is able to explain 91.4% of the variation in Consumer Satisfaction, which is in the very strong category. The predictive relevance (Q^2) test result of 0.798 further confirms that this model has excellent predictive ability for the dependent variable. Based on these test results, the following discussion focuses on interpreting the relationship between Differentiation Strategy and Consumer Satisfaction as well as the theoretical and practical implications of the research findings.

The Influence of Differentiation Strategy on Consumer Satisfaction

This study confirms that differentiation strategy has a very important role in increasing consumer satisfaction because companies that are able to create uniqueness through product

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design, maintained quality, continuous innovation, and superior after-sales service will provide a more meaningful experience for customers.

Differentiation isn't just about visual differences or features; it also encompasses how a company builds an identity and value proposition that's difficult for competitors to replicate. When consumers perceive distinct and unique value, they feel more valued, significantly increasing their satisfaction. The findings of this study align with various expert studies conducted in 2018, which emphasized the importance of differentiation in increasing customer satisfaction.

For example, Suhartanto & Triyuni (2018), in their research on the Indonesian tourism industry, showed that product and service uniqueness is a key driver of tourist satisfaction, where unique and exclusive experiences make them more likely to feel satisfied and intend to return. Liu & Lee (2018) confirmed the same thing in the Asian retail industry, finding that service differentiation, such as personalized shopping experiences and design innovation, directly impacts customer satisfaction and loyalty, especially in highly competitive markets.

Similar findings were also revealed by Hapsari el at (2018) in the aviation industry, which showed that service differentiation and unique customer experiences contribute significantly to satisfaction and repurchase intentions. Meanwhile, Homburg, Jozić, and Kuehnl (2018) added that brand differentiation can create a perception of added value that influences consumer satisfaction and fosters long-term relationships with customers. In line with the opinions of these experts, Kotler and Keller (2018) emphasize that differentiation is the core of competitive advantage that can be realized through product development with unique features, attractive designs, the latest technology, and after-sales services that provide comfort and a sense of security. When differentiation is carried out consistently, consumers will feel they are getting greater value than the costs incurred, thereby increasing satisfaction.

Thus, this study strengthens the empirical evidence across industries that consistent and relevant differentiation provides a positive experience that shapes consumer satisfaction. These findings also provide important practical implications, where companies are advised to maintain product innovation to always be relevant to consumer trends and needs, improve the quality of both pre-sales and after-sales services to create a satisfying overall experience, build a strong and distinct brand image through effective communication and a distinctive visual identity, and create an emotional experience that makes consumers feel personally connected to the brand.

Implementing these measures not only increases customer satisfaction but also encourages long-term loyalty and word-of-mouth recommendations. Overall, the results of this study emphasize that differentiation strategy is an important foundation in building customer satisfaction, and this finding is consistent with the results of research by Suhartanto and Triyuni (2018), Liu and Lee (2018), Hapsari et al. (2018), and Homburg et al. (2018), all of which emphasize that product and service uniqueness is key to a company's success in creating customer satisfaction across various industries.

Conclusion and Recommendation

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Based on the results of data analysis and discussion regarding the influence of Good Corporate Governance (GCG), Internal Control, and the Whistleblowing System (WBS) on fraud prevention in Islamic banks registered with the Financial Services Authority (OJK) for the 2020–2024 period, it can be concluded that Good Corporate Governance (GCG) has a positive and significant effect on fraud prevention, indicating that the better the implementation of corporate governance, the more effective the monitoring and detection mechanisms are in uncovering and preventing fraudulent practices. Internal control also has a positive and significant effect on fraud prevention, so that the implementation of an effective internal control system can minimize the opportunity for fraud in banking operations. In addition, the whistleblowing system has a positive and significant effect on fraud prevention, indicating that the more effective the violation reporting system implemented, the higher the organization's ability to detect and prevent fraud. Simultaneously, Good Corporate Governance, internal control, and the whistleblowing system have a positive and significant effect on fraud prevention, so that these three factors together play an important role in increasing the effectiveness of supervision, strengthening the control system, and reducing the potential for fraud in Islamic banks during the study period.

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