

Navigating Uncertainty: Evaluating the Pandemic's Impact on Warunk Upnormal's Expansion Strategy

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ABSTRACT

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The COVID-19 pandemic presented significant challenges to the food and beverage industry, impacting consumption patterns and economic dynamics. This research aims to evaluate the impact of the COVID-19 pandemic on the expansion strategy of Warunk Upnormal, one of the leading restaurant chains in Indonesia. This research employs a case study approach to explore the impact of the COVID-19 pandemic on the food and beverage industry in Indonesia. The pandemic led to a 40% decline in sales, necessitating adaptations like transitioning to take-away-only operations. While foot traffic gradually recovered post-pandemic, changing consumer preferences prompted the closure of multiple outlets. Financial strains exacerbated by the franchise model underscored the delicate balance between profitability and operational sustainability. Similarly, other startups like Kopi Kenangan faced challenges despite alternative business strategies. Roy Mandey of the Indonesian Retailers Association emphasizes the importance of adaptability and innovation in navigating volatile market conditions. Sustained innovation and a deep understanding of evolving consumer preferences will be crucial for future success in the post-pandemic landscape.

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INTRODUCTION

Warunk Upnormal is a well-known food brand in Indonesia. With its various branches, Warunk Upnormal offers the sale of typical coffee shop products to be sold more exclusively. Warunk Upnormal itself is an outlet owned by PT Citrasaprima Indonesia Berjaya (CRP Group). This outlet was first established in 2014 and was founded by Rex Marino. Warunk Upnormal itself is actually not the first business line of CRP Group. Before having Warunk Upnormal, CRP Group also had its first business line, namely Nasi Goreng Mafia Rempah Mafia. Furthermore, in 2015, CRP Group also established Bakso Boedjangan as their new business line. The various types of product lines then made CRP Group receive several awards. In 2015, CRP Group received an award as one of the potential global business destinations in EY Global's AE program. Franchise Indonesia magazine also awarded CRP Group as the company with the best public relations program. The awards kept coming until 2019, both for the parent company, CRP Group, and its business lines such as Warunk Upnormal and Bakso Boedjangan. However, slowly the business continued to experience challenges until by the end of 2023 it had to close several outlets.

Positive Response from the Youth Segment

In 2014, Sarita Sutedja, founder of Warunk Upnormal, saw a fact that many people with young age spend quite a lot of time in coffee shops. They became coffee shops to discuss and meet with friends while enjoying some of the products sold. Unfortunately, new problems arise when they need some facilities related to electronic devices such as mobile phone chargers, wifi, and other facilities. Departing from this observation, Sarita and other founders had a plan to provide a gathering place that could solve this problem. They established a place where young people can gather with internet access and electricity for electronic devices. Not only that, Sarita also provided a premium place with a food menu usually available in coffee shops. As a result, CRP Group established the first Warunk Upnormal in 2014 in Bandung, West Java where the first outlet had an area

of 4 x 12 metres. The unique characteristics of Warunk Upnormal received an overwhelming response from consumers from the youth segment. The strategic location and conducive place make Warunk Upnormal always full with costumers. Even in 2016 and 2017, visitors could have difficulty finding a parking space. As of 2018, the business has expanded rapidly, with 80 outlets across Indonesia.

Looking at the Shape of Business Line Expansion

In expanding its business, Warunk Upnormal relies on the franchise system. A franchise is a cooperation in the field of business with a profit-sharing mechanism by including management rights and marketing rights of a product. This franchise mechanism is commonly used in various companies that already have a brand for a product and then allow third parties to use the name or product in their business activities with returns in the form of compensation. Quoted from *Bisnis.com*, at Warunk Upnormal, third parties can join the franchise mechanism based on three packages, namely small coffee outlets, sub-urban city, and big city. In the small coffee outlet, third parties need to spend around IDR 800 million to IDR 1 billion. In addition, third parties must have an area of at least 150 square metres. The third party also needs to ensure that the location is strategic with the population in the city above 500,000. The cost of this package includes contract fees for 6 years. Furthermore, in the sub-urban city package, third parties need to spend from Rp 1.5 billion to Rp 3.5 billion. The building area that must be owned is at least 300 square metres and is in a strategic location. In addition, the location must also be able to accommodate at least 10 cars in the parking area. The cost of this package includes the contract fee for 10 years.

Finally, in the big city package, the investment cost that must be provided reaches Rp 3.5 billion to Rp 5 billion. The third party also needs to provide a building with a minimum area of 450 square metres in the form of a shophouse, vacant land or stand alone. In addition, the third party also needs to ensure the availability of a car park for 15 cars. Just like the previous package, the cost of this package includes the contract fee for 10 years. With each package breakdown, there is also an estimated break-even point for each package. Break-even point (BEP) is the equilibrium point where the revenue received covers the capital expenditure. This condition indicates the break-even level where there is no profit or loss from the investment made (Fauzi et al., 2024; Seto et al., 2023). Based on the available packages, the small coffee outlet package will reach BEP in 24 months. While in the suburban city and big city packages, the BEP period will be at 36 months.

Impact of the Pandemic on Consumption Patterns

In Warunk Upnormal's many successes, the pandemic came in early 2020. As is known, the pandemic hit the Indonesian economy, including the food and beverage sector. Based on data published by BPS, people's purchasing power has weakened since the contraction in the second quarter of 2020. At that time, the growth rate of household consumption expenditure contracted to -5.52%. This growth rate then began to improve in the following quarters although until the second quarter of 2021, it could never reach the same point as before the pandemic.

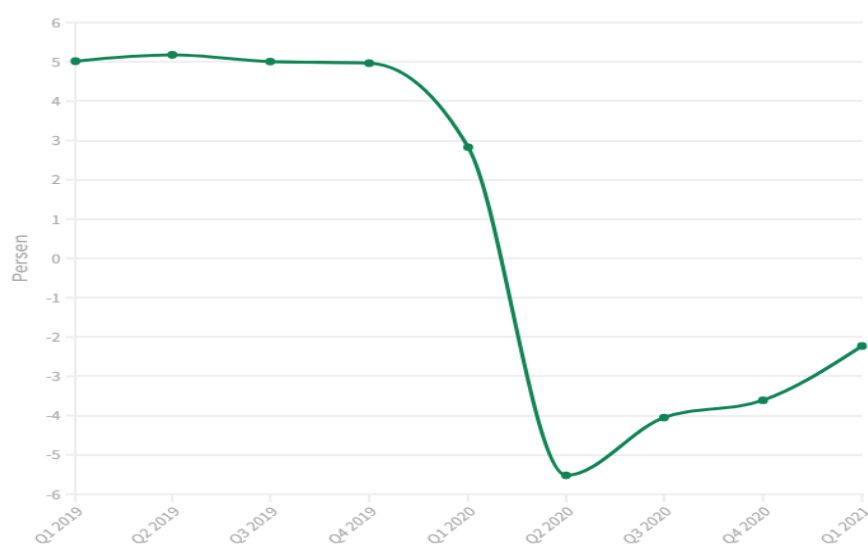


Figure 1. Growth Rate of Household Consumption Expenditure

When talking specifically about the food and beverage sector, this decline can also be seen from the GDP growth rate of the food and beverage sector which fell by 6.3% in 2020 when compared to the previous year (Evita, 2023; U. M. Halida, 2021). This decline puts the GDP growth rate of the food and beverage sector at 1.58%. Warunk Upnormal also feels the impact of this pandemic. During a visit by *Bisnis.com*, Dedi P, Store Manager of Warunk Upnormal Indofood Tower, said that there was a decline in sales during the pandemic. This decline reached 40 per cent when compared to before the pandemic conditions. This is inseparable from their target consumers who are dominated by Indofood employees who can work from home during the pandemic.

With these pandemic conditions, Warunk Upnormal Indofood Tower also took a policy only to accept take away orders. With this mechanism, Warunk Upnormal ensures that they can still carry out activities during the pandemic. However, the level of profit obtained from this period cannot be said to be good. The lifting of social restrictions at the end of 2022 is a breath of fresh air for Warunk Upnormal. Dedi stated that lately the visitors have been coming back. Even so, Dedi said that visitors at the outlet were less busy than before the pandemic.

‘Warunk’ that Don't Come Back

After the pandemic passed, the economy slowly recovered. However, there have been some changes in people's consumption patterns. One of them is the change in taste and health concerns. Some products that were popular before the pandemic can only sometimes ensure their place as consumers' choice (Puja et al., 2021; ROCHANA, 2020). One of them is Warunk Upnormal. Quoted from *Detik.com* that several Warunk Upnormal branches are closed. Some of the closed branches are spread in several regions throughout Indonesia such as Gresik, Bogor, Mojokerto, Makassar, Purwokerto, Seturan, Gejayan, Buah Batu, Kopo, Cinere, Cimindi, Cirebon, Lampung, Jambi, Semarang, Banjarmasin, Pekanbaru, Tegal, Jatinangor and Sumenep.

One of the employees from Warunk Upnormal Gresik interviewed by *Detik.com* stated that the branch has been closed since March 2021 due to the pandemic. He said that the pandemic made the level of visits to Warunk Upnormal drop dramatically. Responding to this, a Professor of the Faculty of Economics and Business, Universitas Indonesia, Rhenald Kasali, stated that the closure of outlets from this business line was due to a lack of income. Moreover, considering that the cooperation mechanism is in the form of a franchise where the third party as a partner needs to pay dearly to get the franchise rights. He also emphasised that the franchise mechanism seemed to provide benefits. However, when the business is run, the level of profit from the business is not profitable enough; even to cover daily operations may not be sufficient. This is what then makes partners terminate the franchise contract halfway through.

Glancing at Neighbour's Business Strategy

Apart from Warunk Upnormal, several other food and beverage startups also flourished in the period leading up to the pandemic. One of them is Kopi Kenangan. Unlike Warunk Upnormal, Kopi Kenangan does not use a franchise mechanism. Edward Tirtanata explained that Kopi Kenangan wanted to use something other than a franchise scheme to guarantee product quality. The franchise business is considered to erode quality and impact consumer confidence in product quality. Even with high operational standards, franchise partners can commit fraud, the impact of which is not only on the branch concerned. With a different strategy, Kopi Kenangan's situation is similar. Some Kopi Kenangan outlets needed more customers. Some of them even had to be closed. In response, Roy Mandey, Chairman of the Indonesian Retailers Association, stated that the closure of the food and beverage industry results from businesses that need to be more adaptive and resilient.

Roy stated that start-ups like Kopi Kenangan will not necessarily always be successful just because of their start-up status. The rapid changes in saturation and dynamics in the food and beverage market demand that every business player in this sector continue to be creative. This is because consumers can get bored with the same food options for a long time. Roy regrets the sense of comfort that start-ups have that keeps them from moving and innovating. They are fixated on fast growth at the expense of quality.

This research aims to evaluate the impact of the COVID-19 pandemic on the expansion strategy of Warunk Upnormal, one of the leading restaurant chains in Indonesia. By analyzing changes in strategic and operational decisions taken during times of uncertainty, the study aims to provide in-depth insights into how the pandemic is affecting sustainability and business growth in the culinary industry. This research will also explore the adaptation measures implemented by Warunk Upnormal to survive and thrive amid the challenges caused by this global crisis. The results of this research are expected to make a significant contribution to business people in the culinary industry in understanding the dynamics that occur during crises and uncertainties. By evaluating the strategies used by Warunk Upnormal, this study will provide practical guidance on effective steps in managing business expansion in the midst of uncertain situations. In addition,

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this research is also expected to enrich academic literature in the field of strategic management and assist other companies in planning more resilient strategies to face future crises.

METHOD

This research employs a case study approach to explore the impact of the COVID-19 pandemic on the food and beverage industry in Indonesia, focusing specifically on Warung Upnormal. Using a qualitative research design, data will be collected through in-depth interviews, document analysis, and observation. The subjects of this study include management and staff of Warung Upnormal and other startups like Kopi Kenangan, consumers of Warung Upnormal, and representatives from the Indonesian Retailers Association (APRINDO). Data collection techniques involve conducting interviews with management and staff to gain insights into adaptation strategies, analyzing financial reports and industry publications, and observing operations and consumer behavior at selected outlets. The collected data will be analyzed using thematic analysis, involving transcription, coding, and thematic interpretation to explore the relationships between identified themes. To ensure validity and reliability, data triangulation will be implemented by combining multiple data sources, and findings will be cross-checked with key informants. The research procedure includes preparation, data collection, data analysis, and reporting stages. This comprehensive approach aims to provide a detailed understanding of the pandemic's impact on Warung Upnormal and other startups in the food and beverage sector in Indonesia, highlighting the necessary adaptation strategies for future challenges.

RESULTS AND DISCUSSION

The onset of the COVID-19 pandemic in early 2020 had profound repercussions on various sectors, including the food and beverage industry, which witnessed a significant decline in consumer spending (Andayana, 2020; Cahya et al., 2021). Data from BPS revealed a contraction in household consumption expenditure, reflecting weakened purchasing power. Despite some recovery in subsequent quarters, consumption levels remained below pre-pandemic levels, indicative of enduring economic challenges. When analyzing the food and beverage sector specifically, the GDP growth rate plummeted by 6.3% in 2020 compared to the previous year, underscoring the industry's vulnerability to external shocks. This downturn, with a GDP growth rate of only 1.58%, underscored the severe impact of the pandemic on consumption habits and market dynamics.

Amidst the pandemic-induced economic downturn, food and beverage startups like Kopi Kenangan faced their own set of challenges. Unlike Warung Upnormal, Kopi Kenangan eschewed the franchise model in favor of maintaining direct control over product quality. However, despite stringent operational standards, some outlets struggled to attract customers and, in some cases, faced closure. Roy Mandey, Chairman of the Indonesian Retailers Association, emphasized the importance of adaptability and resilience in navigating volatile market conditions. He cautioned against complacency among startups, highlighting the imperative of ongoing innovation to remain competitive. Warung Upnormal also experienced a decline in sales during the pandemic, particularly as its target consumer base, predominantly Indofood employees, transitioned to remote work arrangements.

Adaptation and Post-Pandemic Challenges

While the lifting of social restrictions offered a glimmer of hope for Warung Upnormal and similar establishments, shifts in consumer preferences post-pandemic posed new challenges. Concerns over health and changing taste preferences prompted some consumers to reevaluate their dining choices, leading to the closure of several Warung Upnormal branches across Indonesia. The closure of these outlets, as explained by Professor Rhenald Kasali from Universitas Indonesia, stemmed from financial strain exacerbated by the franchise model's stringent requirements. Despite the perceived benefits of franchising, insufficient profitability and operational challenges rendered many outlets economically unviable, prompting franchise partners to terminate contracts prematurely (Fauji & Puspasari, 2021; Rachmawati et al., 2024).

In conclusion, while the pandemic disrupted consumption patterns and posed formidable challenges for food and beverage startups like Warung Upnormal, the resilience and adaptability displayed by these businesses are commendable. Moving forward, sustained innovation, strategic agility, and a deep understanding of evolving consumer preferences will be essential to weathering future uncertainties and ensuring long-term viability in the dynamic food industry landscape.

Shift in Consumer Behavior Due to the Pandemic

The COVID-19 pandemic significantly altered consumer behavior in the food and beverage industry, particularly affecting businesses like Warunk Upnormal. Data collected through interviews and observations reveal that the traditional preference for in-person dining was greatly impacted as social distancing measures and health concerns drove a shift towards takeout and delivery services. Warunk Upnormal, which thrived on offering a physical space for social interaction, saw a decline in foot traffic, leading to a substantial decrease in revenue.

The study found that while Warunk Upnormal attempted to adapt by promoting takeout options, the brand's identity as a premium, in-person dining experience limited its ability to pivot effectively. Consumers' growing preference for convenience and health safety over the social aspects of dining out caused many of Warunk Upnormal's outlets to struggle, with some eventually closing down.

Challenges with the Franchise Model

Warunk Upnormal's reliance on a franchise model also presented challenges during the pandemic. Analysis of financial data and interviews with franchisees revealed that the high costs associated with operating under the franchise agreement became unsustainable for many partners. With decreased revenue from lower customer turnout, franchisees found it difficult to cover operational costs, leading some to terminate their agreements prematurely (Andayani et al., 2022; M. E. Halida & Mabruroh, 2020).

Moreover, the standardized approach required by the franchise model limited the flexibility of individual outlets to adapt to local market conditions during the pandemic. Unlike independently owned outlets, franchisees were constrained by corporate guidelines, which may have hindered their ability to innovate and meet changing consumer demands effectively.

Comparative Analysis with Other Startups

The study also compared Warunk Upnormal's experiences with other food and beverage startups like Kopi Kenangan. Unlike Warunk Upnormal, Kopi Kenangan did not rely on a franchise model, opting instead to maintain full control over its operations. This approach allowed Kopi Kenangan to enforce consistent quality across all outlets and adapt more rapidly to the challenges posed by the pandemic. Despite this, the research found that Kopi Kenangan also faced difficulties, such as reduced customer visits and the closure of several outlets. However, Kopi Kenangan's centralized control and emphasis on innovation helped it to better navigate the pandemic's challenges compared to Warunk Upnormal.

Impact of Location and Consumer Demographics

The research highlighted that the location of Warunk Upnormal outlets and the demographics of their customer base played a crucial role in their ability to survive the pandemic. Outlets located in business districts or near office buildings, like the one in Indofood Tower, were particularly hard hit due to the widespread shift to remote work. This change drastically reduced the number of customers who would typically visit for lunch or after-work gatherings. Conversely, outlets in residential areas fared slightly better, as consumers preferred to stay closer to home. However, even in these locations, the overall decrease in disposable income and the cautious spending behavior of consumers during the pandemic contributed to a decline in sales.

Adaptation Strategies and Recommendations

The study identified several strategies that could have mitigated the impact of the pandemic on Warunk Upnormal. These include diversifying the product offering to include more delivery-friendly options, enhancing online ordering and delivery infrastructure, and revisiting the franchise model to allow greater operational flexibility for franchisees. Additionally, investing in digital marketing and loyalty programs could have helped maintain customer engagement during periods of restricted physical interaction. In conclusion, Warunk Upnormal's experience during the COVID-19 pandemic underscores the importance of adaptability and innovation in the food and beverage industry. Businesses that can quickly pivot to meet changing consumer needs and market conditions are better positioned to survive and thrive in the face of unprecedented challenges (Harto et al., 2023; Pudjiarti, 2023; Sanawiri & Iqbal, 2018).

CONCLUSION

The COVID-19 pandemic significantly impacted various sectors, including the food and beverage industry, which saw a substantial decline in consumer spending. Data from BPS indicated a contraction in household consumption expenditure, reflecting weakened purchasing power. Despite some recovery in later

quarters, consumption levels remained below pre-pandemic levels, highlighting ongoing economic challenges. The food and beverage sector's GDP growth rate dropped by 6.3% in 2020 compared to the previous year, demonstrating the industry's vulnerability to external shocks, with a growth rate of only 1.58%. Startups like Kopi Kenangan faced challenges, opting to maintain direct control over product quality instead of franchising, yet some outlets struggled and closed. Roy Mandey, Chairman of the Indonesian Retailers Association, emphasized the need for adaptability and innovation to remain competitive. Warung Upnormal, targeting Indofood employees, experienced a decline in sales as remote work became prevalent. The lifting of social restrictions provided some hope, but shifts in consumer preferences and health concerns led to further closures. Professor Rhenald Kasali from Universitas Indonesia explained that financial strain and stringent franchise requirements made many outlets unviable, leading to premature contract terminations. In summary, while the pandemic disrupted consumption patterns and presented significant challenges for food and beverage startups like Warung Upnormal, their resilience and adaptability are noteworthy. Sustained innovation, strategic agility, and understanding evolving consumer preferences will be crucial for future success in the dynamic food industry landscape.

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