

# Marketing, Product, and Pricing Strategies of Beverage Firms Facing Indonesia Sugar Tax

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## Abstract

The excise policy on packaged sweetened beverages (MBDK) has been adopted globally as a public health instrument to suppress sugar consumption and encourage product reformulation. In Indonesia, the discourse on the implementation of this policy is strengthening as the prevalence of non-communicable diseases increases. Although many international studies have examined the impact of these policies on the consumer side, there is a significant research gap on the anticipatory strategic response from industry, especially in the context of developing countries. This study aims to qualitatively explore the strategic response of beverage companies in Indonesia to the MBDK excise implementation plan, focusing on the adaptation of marketing, product, and price strategies, as well as the challenges faced. This study uses a qualitative approach with multiple case study designs. Data was collected through in-depth interviews with key managers, analysis of company and media documents, and non-participant observations. Data analysis was carried out thematically using *the Resource Based View* (RBV) theoretical framework to interpret the findings. The results of the study identified a shift in industrial attitudes from rejection to anticipatory readiness, viewing excise as inevitable. Key strategic responses include: (1) product innovation and reformulation to reduce sugar content; (2) planning a *pass-through* pricing strategy that imposes excise on consumers and price differentiation to encourage healthier choices; and (3) a shift in marketing communication that emphasizes a "low-sugar" narrative. The main challenges faced are the limitations of R&D capabilities, especially for local companies, and the uncertainty of policy design from the government. Theoretically, the study integrates several frameworks to explain pre-regulatory corporate adaptation. Managerially, these findings underscore the importance of proactive investment in R&D. For policymakers, the study indicates that the industry is ready to adapt and suggests *tiered levy* designs to maximize policy effectiveness in driving product reformulation and achieving public health goals. This study is one of the first studies to explore the response of the beverage industry's strategy to excise policies in developing countries (Indonesia), thus filling the literature gap that has been dominated by studies in developed countries.

**Keyword:** *Sweetened Beverage Excise, Industry Strategic Response, Product Reformulation, Health Policy, Marketing Strategy*

## 1. Introduction

The global consumption of *sugar-sweetened beverages* (SSBs) has been a major focus in public health discourse over the past two decades. The increase in consumption of these products is significantly correlated with an escalation in the prevalence of *non-communicable diseases* (NCDs), such as obesity, type 2 diabetes mellitus, and cardiovascular disease. The *World Health Organization* (WHO) has identified excessive sugar consumption, particularly from sweetened beverages, as one of the major risk factors driving the global health crisis (Ge et al., 2025). Data show that MBDK does not provide significant nutritional benefits but contributes greatly to daily calorie intake, which ultimately increases the risk of various chronic health problems (Maesarah et al., 2020). This phenomenon is not only occurring in developed countries, but is also a serious threat in *Low and Middle Income Countries* (LMICs), including Indonesia, where unhealthy dietary changes are occurring massively.

In response to this public health challenge, a number of countries and jurisdictions—now more than 108 worldwide—have adopted fiscal policies in the form of excise duties on MBDK (Wright et al., 2017). This policy, often referred to as a "*sugar tax*", is recommended by the WHO as a "*best buy*" intervention to suppress the consumption of unhealthy products and promote public health. The main objectives of the MBDK excise are twofold: (1) to increase the selling price of products to suppress consumer demand (*demand-side*), and (2) to encourage producers to reformulate products to reduce sugar content (*supply-side*) (Peñalvo, 2024). Evaluation studies in countries such as Mexico, the United Kingdom, and South Africa show the success of this policy in lowering the purchase volume of MBDK and encouraging healthier product innovation (Rebolledo et al., 2025). In Mexico, the implementation of a 1 peso per liter excise in 2014 succeeded in significantly reducing MBDK purchases, especially in low-income households. Meanwhile, in the UK, the *tiered levy* scheme introduced in 2018 proved to be very effective in encouraging product reformulation, where the market share of high-sugar beverages declined dramatically after the policy was implemented.

In Indonesia, the urgency of implementing similar policies is increasingly urgent. The country is facing an ever-increasing burden of NCDs; the prevalence of diabetes in adults continues to rise, and recent data shows a 70-fold surge in childhood diabetes cases in 2023 compared to the previous decade. MBDK consumption increased by up to 15 times from about 5 million liters in 1996 to 405 million liters in 2014 (Cisdi, 2022). Recognizing this threat, the Indonesian government has officially incorporated the extensification plan of excisable goods for MBDK into the state budget posture and national policy discourse. However, its implementation still faces various challenges, including debates about the economic impact on industry and the purchasing power of the community (Ng et al., 2021).

Although the effectiveness of the MBDK excise in terms of health impacts and consumer behavior has been widely documented globally, the focus of existing studies tends to ignore another crucial perspective: the strategic response from the industry side (Rasoolinejad, 2019). The success of a fiscal policy is determined not only by how consumers react to price increases, but also by how companies—as the main targets of regulation—adapt to and respond to these external pressures. The company is not passive; They are actively developing various strategies to mitigate the negative impact of regulation on their profitability and market share. These responses include product reformulation to reduce or replace sugar, adjustment of pricing strategies (*tax pass-through*), diversification of product portfolios into

healthier categories, to political lobbying efforts and *public relations* campaigns to weaken or delay policies.

However, there is a significant gap in literature when this context is drawn to Indonesia. Until now, empirical studies that in-depth examine how beverage companies in Indonesia prepare or respond to the discourse on the implementation of the MBDK excise are still very limited. Public and academic discourse in Indonesia focuses more on the potential impact of excise on public health, state revenue, and consumer purchasing power. Very little research has delved into it from a corporate perspective to understand strategic changes in terms of marketing, product innovation, and pricing structure. This gap is crucial because without a deep understanding of the industrial adaptation strategy, the effectiveness of the excise policy to be designed can be threatened. Unanticipated industry responses, such as aggressive promotion of alternative products that are not healthier or a shift of focus to market segments that are not reached by policies, can blunt the expected positive impact.

To bridge the research gap, the study adopted the *Resource Based View* (RBV) theoretical framework as the primary analytical lens. RBV argues that a company's continued competitive advantage comes from its unique, valuable, *rare, inimitable, non-substitutable* (VRIO) internal resources. In the context of regulatory pressures such as the MBDK excise, RBVs help explain why and how different companies will respond heterogeneously. Companies with strong research and development (R&D) capabilities may choose a product reformulation strategy. Meanwhile, companies with *brand equity* and an extensive distribution network may focus more on marketing strategies and price adjustments to maintain consumer loyalty. As such, RBV provides a solid framework for analysing how beverage companies in Indonesia will mobilize their internal assets and capabilities—both *tangible* and intangible—to adapt to the changing business landscape due to fiscal policy.

This research is specifically designed to fill the empirical gap by exploring qualitatively the strategic responses taken by beverage companies in Indonesia in dealing with the implementation of the MBDK excise. By understanding the dynamics of adaptation from the industrial side, this study is expected to provide valuable input not only for the strategic management literature, but also for policymakers in designing more effective excise instruments and anticipating potential counter-productive strategies from the industry.

Based on the background and identification of research gaps that have been described, the objectives of this study are as follows: 1) Identify and analyze in depth the adaptation strategies carried out by beverage companies in Indonesia in response to the implementation plan of the packaged sweetened beverage excise policy (MBDK). 2) Specifically examine the changes and adjustments that occur in aspects of marketing strategy, product formulation and innovation, as well as pricing strategies after the excise policy is discussed and implemented. 3) Explore the key challenges faced by companies in the process of adapting to these health-based fiscal regulations. 4) Provide evidence-based strategic recommendations for industry players to be able to adapt sustainably, as well as for the government as a policymaker to design and implement an effective MBDK excise policy that is able to achieve public health goals in Indonesia.

## 2. Literature Review

This literature review aims to map the theoretical and empirical landscape relevant to beverage companies' strategic responses to the implementation of packaged sweetened beverage (MBDK) excise. By integrating various theoretical frameworks and examining previous studies, this section will identify key dimensions of corporate adaptation, highlight significant findings from the international context, and ultimately affirm the research gaps that underlie the urgency of this study in the Indonesian context.

### 2.1 Theoretical Framework Framing Industry Strategic Responses

To comprehensively understand how and why companies respond to regulatory pressures such as MBDK excise, this study adopts a multi-theoretical approach. Three main frameworks—Institutional Theory, Miles and Snow's Theory of Strategic Adaptation, and Resource-Based View (RBV)—are used complementarily to analyze this phenomenon from a variety of perspectives.

#### 2.1.1 Institutional Theory

Institutional Theory argues that organizations operate not only in a technical market environment, but also in a broader social and cultural environment that shapes expectations, norms, and rules of the game (Scott, 2013). This theory explains how external pressures—both formal and informal—encourage companies to adopt certain structures and practices in order to be considered legitimate (legitimate) by stakeholders, such as governments, consumers, and civil society (DiMaggio & Powell, 1983). In the context of the MBDK excise, by definition Institutional Theory is an approach that emphasizes the role of institutions in shaping economic behavior and social interaction. Institutional Theory is very relevant to explain why companies feel the need to respond to such policies. Institutional pressures can be categorized into three types:

1. **Coercive Pressure:** This pressure comes from formal regulation and political power. The MBDK excise is the most obvious form of coercive pressure, where the government explicitly forces companies to pay levies on their products, thereby directly affecting the cost structure and profitability. Failure to comply will result in legal and financial sanctions.
2. **Mimetic Pressure:** This pressure arises from uncertainty. When an industry faces significant environmental changes, such as new regulations, companies tend to copy strategies from other organizations that they consider more successful or legitimate. For example, if one large company succeeds with a product reformulation strategy, another company is likely to follow suit to reduce risk and uncertainty.
3. **Normative Pressure:** This pressure comes from professional and social norms. The increasing awareness of the global community on health issues and obesity is creating normative pressure for companies to act more responsibly. Companies may feel the need to adapt—for example by offering healthier products—not only because of regulatory pressures, but also to maintain a positive image and social legitimacy in the eyes of increasingly health-conscious consumers.

Thus, Institutional Theory provides a lens to understand that corporate responses to the MBDK excise are not merely economic calculations, but also an attempt to maintain or enhance legitimacy in a changing environment.

### 2.1.2 Strategic Adaptation Theory (*Miles & Snow Typology*)

If Institutional Theory explains *why* firms must adapt, the typology of strategies from (Barney, 1991) helps explain *how* they choose to adapt. This theory classifies companies into four strategic archetypes based on their response patterns to environmental change:

1. **Prospectors:** These organizations are actively looking for new market opportunities and experimenting with new products and services. In the context of MBDK excise, *prospector* companies are likely to be at the forefront of innovation, such as launching an entirely new healthy beverage product line, acquiring functional beverage brands, or investing heavily in alternative sweetener technologies.
2. **Defenders:** This organization focuses on maintaining their position in a stable market by emphasizing operational efficiency and cost control. Defense companies may respond to the MBDK excise with more defensive strategies, such as intensely political lobbying to reject or weaken policies, focus promotions on their existing flagship products, or perform only minimal reformulations to simply meet the lowest threshold.
3. **Analyzers:** These organizations are among *prospectors* and *defenders*. They carefully monitor market developments and replicate the proven innovations of *prospectors*, while still maintaining a stable product and customer base. The *analyzer company* will wait and see the effectiveness of the reformulation strategy or the launch of a new product by a competitor before adopting a similar strategy.
4. **Reactors:** This organization does not have a consistent proactive strategy. They tend to respond to environmental changes erratically and often too late. Reactor companies may be confused in dealing with MBDK excise, make inconsistent price changes, or fail to anticipate shifts in consumer preferences, which can ultimately erode their market share.

This typology is useful for predicting the heterogeneity of responses among companies in Indonesia, where some may act as innovators (*prospectors*), while others may focus more on market defense (*defenders*).

### 2.1.3 Resource Based View (RBV)

The Resource-Based View (RBV) complements the previous two theories by focusing the analysis on the company's internal factors. RBV argues that a company's sustainable competitive advantage does not come from external factors, but rather from its unique internal resources and capabilities (Barney, 1991). In order to be a source of competitive advantage, a resource must meet the criteria of VRIO: **Valuable**, **Rare**, **Inimitable**, and **Non-substitutable** (Collis & Montgomery, 1995)

In the context of the MBDK excise, RBV helps explain why companies with different resource profiles would choose a different adaptation path:

- **R&D and Innovation Capabilities:** Companies with strong research and development (R&D) departments (valuable and scarce resources) are more likely to

choose product reformulation strategies or develop new sweeteners. This capability is difficult for competitors to replicate in a short period of time (Yoshioka-Kobayashi et al., 2020).

- **Brand Equity:** Companies with a very strong brand and high consumer loyalty (an intangible resource that is difficult to replicate) may be able to pass on the tax burden to consumers (*tax pass-through*) without significantly losing market share (Jacob et al., 2023). They can rely on the strength of the brand to retain customers even when prices go up.
- **Distribution and Logistics Networks:** Companies with extensive and efficient distribution networks (tangible resources) can leverage this advantage to ensure new or reformulated products can reach the market quickly, or even to carry out different pricing strategies in different regions (Sarangi, 2018).
- **Financial Power and Lobbying:** Large corporations with abundant financial resources may choose to allocate funds to public relations campaigns and intensive political lobbying to influence policy design or delay (Brulle & Downie, 2022).

Thus, RBV provides an analytical framework for understanding that the choice of adaptation strategy (e.g., becoming a *prospector* or *defender*) is not a random choice, but rather is largely determined by the unique bundle of resources and capabilities that each company has.

## 2.2 Industry's Strategic Response to the MBDK Excise: A Global Empirical Overview

The international literature has documented various strategic responses made by the beverage industry in reaction to the imposition of the MBDK excise. This response can be categorized into marketing *mix adaptation* and corporate political activities.

### 2.2.1 Product Adaptation: Reformulation and Innovation

One of the most significant and expected industry responses by policymakers is product reformulation. A qualitative study in the UK by (Cobiac et al., 2024) found that the tiered Soft Drinks Industry Levy (SDIL) is a key driver for companies to massively reformulate their products to reduce sugar content and avoid tax thresholds. This success is confirmed by UK government data showing a 46% decrease in the average sugar content in soft drinks between 2015 and 2020 (Jawad et al., 2023). However, the decision to reformulate is not uniform. Cobiac et al., (2024) also note that companies with very strong brands and synonymous with a particular flavor (e.g., Coca-Cola Classic) tend to be reluctant to reformulate their flagship products for fear of rejection from loyal consumers. In addition to reformulation, the company is also responding by launching new low- or no-sugar products and acquiring health-focused brands to diversify their portfolios.

### 2.2.2 Price Adaptation: Tax Pass-Through Strategy

Pricing strategies are another immediate response. In general, companies tend to pass on some or all of the excise burden to consumers through price increases, a phenomenon known as *tax pass-through* (Benedek et al., 2020). A comprehensive meta-analysis found that the average *pass-through* rate globally is around 82%, meaning most of the tax burden is indeed borne by consumers, in line with policy objectives to suppress demand. However, this

strategy can be more complex. Some studies point to the existence of a *pass-through differential*, where companies raise prices higher on smaller packaging or in modern retail stores compared to traditional markets. This strategy aims to minimize the impact on the most price-sensitive consumer segments (Richards et al., 2014).

### 2.2.3 Adaptation of Promotion and Marketing

Companies are not only changing products and prices, but also their communication strategies. In response to excise, many companies increased advertising and promotion budgets for products that were not taxed, such as mineral water, juice, or "zero sugar" variants (Keller & Guyt, 2023) found that the imposition of excise duty in the UK caused companies to reduce advertising for taxable products. In addition, there is also a "surrogate marketing" tactic, where the packaging of low-sugar products is designed very similar to the iconic high-sugar products to maintain brand visibility. Companies also often launch *corporate social responsibility* (CSR) campaigns that focus on promoting an active and healthy lifestyle, a strategy to distract from the role of their products in health issues and to build an image as part of the solution (Potvin Kent et al., 2020).

### 2.2.4 Corporate Political Activity (CPA)

Beyond market adaptation, beverage companies are actively engaged in political activities to oppose, weaken, or delay the implementation of the MBDK excise. A study in Europe by identified that direct lobbying to policymakers is the most commonly used tactic. The main narrative carried by the industry usually centers on negative economic impacts, such as potential job losses, declining sugarcane farmers' incomes, and regressive burdens on low-income communities. In addition to lobbying, other strategies include funding research whose results cast doubt on the effectiveness of excise, forming coalitions with other business associations, and launching media campaigns to shape public opinion against the policy. This activity shows that companies are not only acting as economic players but also as powerful political actors (Williams et al., 2022).

## 3. Material and Method

### 3.1 Research Design

This study adopts a qualitative approach with a *multiple-case study* design that is exploratory and phenomenological. The qualitative approach was chosen because of its ability to delve deeply into the complexity of social phenomena in their natural context (Creswell & Poth, 2018). Given that the purpose of the research is to comprehensively understand the company's strategic response a process that is loaded with internal perceptions, motivations, and dynamics this approach is considered superior to quantitative approaches that tend to generalize. The **exploratory** nature of this study is relevant due to the limited empirical literature on industry adaptation to the excise discourse on packaged sweetened beverages (MBDK) in the Indonesian context, so this study aims to build an initial understanding and identify key variables.

The **multiple case study** design is used to enable in-depth analysis of each unit (case) of the company, while facilitating *cross-case analysis* to identify patterns, differences, and similarities in strategic responses. Each beverage company studied is considered a unique case.

By comparing several cases, this study can produce more robust findings and are not limited to the context of a single company.

In addition, this research also touches **on phenomenological** aspects by trying to understand the meaning and experiences of key decision-makers (managers/executives) in dealing with regulatory pressures. The focus is on how they interpret the challenges and opportunities arising from excise policy, as well as how those interpretations shape strategic decisions regarding marketing, products, and pricing.

### 3.2 Research Subject and Location

The unit of analysis in this study is medium to large-scale beverage companies, both multinational and local companies, that produce and/or distribute MBDK in Indonesia. The selection of research subjects was carried out by *purposive sampling* technique, where companies were selected based on the criteria of relevance and potential exposure by excise policies. These criteria include: (1) having a significant portfolio of MBDK products in the Indonesian market; (2) actively operating at the national level; and (3) represent diverse industry segments (e.g., carbonated beverages, ready-to-drink teas, packaged juices). The following is a profile of the participants in this study.

**Table 1.** Research Participant Profiles

Participant Code	Position	Company Type	Enterprise Scale	Main Product Fields	Long Years of Experience (±)
P1	Strategy Manager	Multinational (MNC)	Big	Carbonated Drinks	10 years
P2	Marketing Manager	Local	Big	Ready-to-drink tea	12 years
P3	Head of R&D	Multinational (MNC)	Big	Carbonated Drinks & Juices	15 years
P4	Product Manager	Local	Intermediate	Traditional Tea & Beverage	8 years
P5	Financial Manager	Local	Big	Packaged Soft Drinks	11 years old

The research locations are focused on cities that are the centers of industry, distribution, and corporate decision-making in Indonesia, namely Jakarta, Bogor, Bekasi, and Surabaya. The selection of this location is strategic because it is in this region that most of the head office, key production facilities, and strategic management teams of the target company are located.

### 3.3 Data Collection Procedures and Instruments

Data collection is carried out through three main methods to ensure the richness and depth of information, as summarized in Table 2.

**Table 2.** Data Collection Matrix

<b>Research Objectives</b>	<b>Primary Data Sources</b>	<b>Secondary Data Sources</b>	<b>Types of Information Sought</b>
<b>1. Identify common adaptation strategies</b>	In-depth interviews with Marketing/Strategy Managers	Company annual reports, press releases, releases	Perception of excise policy, the company's strategic direction, and the initial response that has been or will be carried out.
<b>2. Analyze specific adaptations (Marketing, Product, Pricing)</b>	In-depth interview with Product/Marketing Manager	Product catalogs, promotional materials, price analysis in retail, market research reports	Details of product reformulation, low-sugar innovation, change in marketing communication strategy, adjustment of price scheme ( <i>pass-through</i> ).
<b>3. Exploring adaptation challenges</b>	In-depth interviews with all participants	Government policy documents, opinion articles from industry associations	Internal (R&D capabilities, costs) and external (regulation, consumer reactions, competition) barriers.
<b>4. Non-Participant Observation</b>	Field	Supermarket, minimarket	Direct observation of product placement, promotion, and price variations of MBDK at the point of sale.

1. **In-depth Interviews:** The main instrument is a semi-structured interview guideline. The guidelines are designed to be flexible to allow researchers to dig into participants' answers in depth, while still focusing on key areas derived from the research objectives and *the Resource Based View* (RBV) theoretical framework. Questions include perceptions of policies, strategic decision-making processes, internal capabilities (R&D, brand), and adaptation details on products, pricing, and marketing. Each interview session is planned to last 60-90 minutes, recorded using an audio recorder (with the participant's permission), and transcribed verbatim.
2. **Document Analysis:** Secondary data is collected to triangulate and provide context to the interview findings. The documents analyzed include:
  - **Company Documents:** Annual reports, *sustainability reports*, press releases, and official promotional materials.
  - **Public Documents:** News in business and industry media, reports from market research institutions, and publications from industry associations.
  - **Policy Document:** Draft government regulations, academic manuscripts, and minutes of hearings related to the MBDK excise plan.
3. **Non-Participant Observation:** Observations were carried out on a limited basis at points of sale (supermarkets, minimarkets) to observe the product placement strategies, promotions, and price variations of MBDK products from the companies studied.

### 3.4 Data Analysis

The data analysis in this study uses an interactive thematic analysis framework developed by Miles, Huberman, and Saldaña (2014). This analysis process consists of three flows of activities that take place simultaneously and repeatedly:

1. **Data Condensation:** This stage begins as soon as the first data is collected. Interview transcripts and field notes are read over and over again to be sharpened, simplified, and transformed. This process involves *coding*, which is labeling or categorizing data segments that are relevant to the research question. The initial coding is open *coding*, then grouped into larger categories (*axial coding*) to form the main themes. In the process of coding and analyzing data, the researcher uses NVivo version 12 software for qualitative data management and analysis.
2. **Data Display:** Once the data has condensed, the next step is to present the information in an organized and concise format, such as a matrix, flowchart, or 10comparison diagram. For example, a matrix will be created to compare adaptation strategies (*product, price, marketing*) among the companies that are the case. The presentation of this data helps researchers to see patterns, relationships between themes, and differences between cases more systematically, making it easier to draw conclusions.
3. **Conclusion Drawing and Verification:** At this stage, the researcher begins to interpret the meaning of the patterns that appear in the data that has been presented. Initial conclusions are drawn and tested continuously against the existing data. These findings are then further analyzed and interpreted through the lens of **Resource Based View (RBV)** theory to explain *why* certain companies choose specific adaptation strategies based on their unique resources and capabilities. Verification is done by going back to raw data and conducting *peer discussions (peer debriefing)* to challenge biased interpretations.

### 3.5 Data Validity and Validity

To ensure the quality and *trustworthiness* of these qualitative research findings, several strategies were adopted based on the framework (Lincoln et al., 1985):

1. **Credibility:** To ensure that the research findings are in accordance with the reality experienced by the participants, **triangulation** is carried out, namely by comparing data from various sources (interviews, documents, observations) and methods. In addition, 10member checking *will be* implemented, where a summary of findings or direct citations will be reconfirmed to participants to ensure the accuracy of the researcher's interpretation.
2. **Transferability:** To allow the reader to assess the extent to which these findings can be applied to other contexts, this study will present a **thick description**. This description will include the context of the research, the characteristics of the company and participants, and the detailed data collection process.
3. **Dependability:** To demonstrate the consistency and stability of the research process, an **audit trail will** be maintained. It includes complete documentation of every step of the research, from initial design, data collection, transcription, to data analysis and interpretation.
4. **Confirmability:** To ensure that findings are based on data and not researcher bias, triangulation strategies and audit trails are key. In addition, the researcher will practice **reflexivity** by consciously recording his assumptions, biases, and roles in the research process in a reflective journal.

### 3.6 Research Ethics

This research upholds the principles of research ethics to protect the rights and welfare of participants. The ethical procedures to be followed include:

1. **Informed Consent:** Before the interview is conducted, each participant will be given an explanation sheet detailing the purpose of the research, the procedures to be followed, the potential benefits and risks, and the guarantee of confidentiality. Participants will be required to sign an consent form as proof of their willingness to participate voluntarily.
2. **Confidentiality and Anonymity:** The participant's personal identity and company name (if requested) will be kept confidential. In the publication of research results, *pseudonyms* will be used to refer to individuals and organizations. All raw data (audio recordings, transcripts) will be stored securely on password-protected devices and can only be accessed by the research team.

**Principles of *Beneficence and Non-maleficence*:** This study is designed not to cause risks or losses to participants. Participants have the right to refuse to answer certain questions or withdraw from the study at any time without consequence.

## 4. Result

Thematic analysis of data collected from in-depth interviews with key managers, analysis of company documents, and non-participant observations identified three main themes that represent the strategic response of beverage companies in Indonesia to the discourse on the implementation of the excise on packaged sweetened beverages (MBDK). The three themes are: (1) Anticipatory Perception and Initial Response of the Industry; (2) Strategic Adaptation to Marketing Mix Focusing on Products, Prices, and Promotions; and (3) Internal and External Challenges in the Adaptation Process. These findings are presented descriptively below, supported by direct quotes from participants to provide a rich and authentic picture.

### 4.1 Initial Perception and Response: From Subtle Rejection to Anticipatory Readiness

The first findings show an evolution in the industry's perception and attitude towards the MBDK excise discourse. While this discourse was initially met with resistance and lobbying through industry associations, recent data from interviews indicate a significant shift towards pragmatic acceptance and anticipatory readiness. Participants consistently view excise policy as no longer an "if" that will happen, but rather a "when" it will be implemented.

A Strategy Manager from a large multinational (P1) describes this shift as a strategic imperative:

"In the past, maybe five or six years ago, our focus with the association was to highlight the negative impact on the industry, on the workforce, and so on. But now, we see a global trend. Almost all major countries already have *a sugar tax*. So, refusing constantly is a strategy that won't work. Our paradigm is now shifting from reactive to proactive. We see this no longer as a pure threat, but as an accelerator for innovation that we should have done." (P1, Strategy Manager, Multinational Company A)

This perception, however, is not uniform at all levels of the company. Multinational corporations (MNCs) that have experience in dealing with similar regulations in other countries show a more mature level of readiness. They already have *a global playbook* or

framework that can be adapted to the Indonesian context. In contrast, local companies, while also adopting an anticipatory attitude, show greater concerns regarding resources and capabilities to adapt.

This was expressed by a Marketing Manager from a leading local company (P2):

"We are aware that this (excise) will definitely come. We can't avoid it. But honestly, we were worried. MNC has R&D centers everywhere, they can easily change the formula because they have already done it in the UK or Mexico. For us, this is a big challenge. The cost of research is not cheap, and we have to make sure our very loyal consumers with an original taste can accept change." (P2, Marketing Manager, Local Company B)

The initial responses identified from the document analysis (annual report and press release) were aligned with the interview findings. Large companies have explicitly begun to list "changes in fiscal regulations" as one of the business risks in their annual reports. At the same time, they began to highlight their "low-sugar" or "healthier" product portfolios in sustainability *reports* as evidence of a proactive commitment to public health, a move that could be interpreted as an effort to build a positive image before regulations are implemented.

## 4.2 Strategic Adaptation to the Marketing Mix: Product, Price, and Promotion

The central theme of the study's findings is the identification of a series of concrete strategic adaptations to the three core elements of the marketing mix: product, price, and promotion (marketing). The company is no longer waiting, but has actively made adjustments as a measure to mitigate the impact of excise.

### 4.2.1 Product Strategy: Reformulation and Innovation as Key Pillars

The most fundamental and most talked about adaptation by the participants is at the product level. This strategy can be broken down into two main paths: reformulation of existing products and innovation of new products.

**Reformulation of Existing Products:** Almost all of the companies studied, especially the big players, have been or are in the process of reformulating their flagship products to reduce sugar content. The goal is clear: to anticipate a *tiered levy* scheme like the one implemented in the UK, where products with a sugar content below a certain threshold will be exempt from excise.

A Head of the Research and Development (R&D) Department of a multinational company (P3) explains the complexity of this process:

"The reformulation project has been running for more than two years for our main brands. The biggest challenge is not just reducing sugar, but maintaining *the mouthfeel* and flavor profile that consumers have known for decades. We tested dozens of natural sweetener combinations such as stevia and artificial sweeteners to get the closest taste to the original. It's a huge R&D investment, both in terms of time and cost." (P3, Head of R&D, Multinational Company A)

**Innovation and Portfolio Diversification:** In addition to reformulating old products, an equally important strategy is to launch new product variants that are designed to be low or sugar-free from the beginning. This is evident from observations in retail, where the "*Zero Sugar*", "*Less Sugar*", or "*Light*" variants of well-known brands now occupy an increasingly

significant shelf space. This strategy allows companies to offer consumers choice and gradually shift sales volume from high-sugar products to excise-free products.

A Product Manager from a local company (P4) highlights a slightly different approach, which is more driven by limitations:

"For our legendary products, we were very careful to reformulate for fear of losing loyal customers. So, our main strategy is to launch a new product line. We make tea products with lower levels of sweetness and promote them as 'smarter choices'. It's safer than changing our inherited recipes". (P4, Product Manager, Local Company C).

#### **4.2.2 Pricing Strategy: Tax Pass-Through Calculation and Portfolio Differentiation**

In terms of pricing, the findings show that the dominant strategy to be taken is *full pass-through*, which is to impose all or most of the excise burden on the end consumer. Financial and strategy managers openly admit that absorbing excise costs will erode profitability margins in an unsustainable way.

A Financial Manager (P5) from a large local company explains their calculations:

"There is no other choice. The margin in the FMCG industry is already very thin. That excise will be a new cost component that must be included in our pricing structure. We have simulated every scenario. How many percent of excise can we absorb, and how much do we have to charge to the selling price. Most likely, more than 90% of the excise burden will be passed on to consumers". (P5, Financial Manager, Local Company B)

However, a pricing strategy is not as simple as raising the price evenly. Companies design them more sophisticatedly through price differentiation in their portfolios. Products resulting from reformulation or low/sugar-free innovations will be positioned as a more affordable alternative because they are not subject to excise. This creates a tiered pricing structure that indirectly "encourages" consumers to switch to healthier products.

In addition, a plan to adapt the size of the packaging or known as *shrinkflation* was also identified. By reducing the volume per pack (e.g. from 330ml to 250ml) but maintaining the same selling price, companies can effectively raise the price per unit volume without being noticeable, while reducing the absolute amount of sugar per serving.

#### **4.2.3 Marketing and Communication Strategy: A Narrative Shift Toward "Health"**

Adaptation to marketing and communication strategies is a complement to product and price changes. It was identified that there was a clear narrative shift from messages that focused on "freshness", "togetherness", and "enjoyment" to a narrative that more emphasized the aspects of "healthier choices", "low sugar", and "no worries".

The Marketing Manager (P2) explains these changes:

"Our communication is now *multi-layered*. For classic products, we retain the emotional message. But for the new variant that is *zero sugar*, we are very aggressive in communicating its functional benefits: 'The same great taste, without sugar'. We use health influencers, collaborate with sporting events, and ensure the 'Low Sugar' label on the packaging stands out. We are educating the market slowly". (P2, Marketing Manager, Local Company B)

Observations at the point of sale and analysis of digital promotional materials confirm these findings. In-store promotions often place low-sugar products in more strategic locations

(for example, near the checkout or at the end of the aisle). Digital advertising is also increasingly targeting the health-conscious consumer segment. Companies consciously build an image as part of the solution, not part of the problem, a strategic position to deal with public criticism that may arise after the implementation of excise.

The following Table 3 summarizes the main findings related to strategic adaptation to the marketing mix.

**Table 3.** Summary of Product Adaptation, Pricing, and Marketing Strategies

<b>Strategic Dimension</b>	<b>Key Strategy Description</b>	<b>Examples of Identified Tactics</b>	<b>Key Quotes That Represent</b>
<b>Product</b>	Reduce the sugar content in existing products and launch new, healthier products to avoid/reduce the burden of excise.	- Reformulation of mainstay product recipes.- Use of alternative sweeteners (stevia, sucralose).- Launch of "Zero Sugar" or "Less Sugar" variants.- Diversification into other healthy beverage categories (mineral water, juice without added sugar).	"Our paradigm is now shifting from reactive to proactive... It's an accelerator for innovation. (P1)"
<b>Price</b>	Charging excise fees to consumers ( <i>pass-through</i> ) while creating a tiered pricing structure to encourage consumption switching.	- Planning for retail selling price increases.- Price differentiation between high-sugar and low-sugar products.- Adjustment of packaging size ( <i>shrinkflation</i> ).- Promotion scheme for <i>bundling low-sugar products</i> .	"There is no other choice... More than 90% of the excise burden will be passed on to consumers. (P5)"
<b>Marketing</b>	Shifting the narrative of communication from pure pleasure towards "smarter and healthier choices" to build a positive image and educate the market.	- Redesign of packaging with prominent "Low Sugar" labels.- Advertising campaigns focused on functional benefits.- Digital marketing targeting the health-conscious segment.- Placement of low-sugar products in strategic locations in retail.	"We are educating the market slowly... by communicating its functional benefits. (P2)"

### 4.3 Internal and External Challenges in the Adaptation Process

Although the company has shown anticipatory readiness, this adaptation process has not gone smoothly. The participants identified a significant set of challenges, both from within the organization (internal) and from the external environment.

#### 4.3.1 Internal Challenges: Capabilities, Cost, and Taste Acceptances

The most commonly cited internal challenge is limited resources and capabilities, especially for local players.

**R&D and Cost Capabilities:** As mentioned earlier, R&D capabilities are the main differentiator. Local companies often do not have the facilities, expertise, and budget comparable to MNCs to conduct complex formulation research.

"We don't have an R&D lab like the big players. We do more *trial and error* with raw material suppliers. The cost of buying alternative sweeteners like pure stevia is much more expensive than regular sugar. This directly impacted our production cost structure, even before the excise itself was implemented". (P4, Product Manager, Local Company C)

**Taste Acceptance by Consumers:** The biggest technical challenge is maintaining the authentic taste of the product. Sugar not only provides a sweet taste, but also a texture (*mouthfeel*) and functions as a natural preservative. Replacing it with another sweetener often leaves an *aftertaste* that consumers don't like. Failure to maintain flavor consistency is high-risk causing consumers to turn to competing brands.

"It's a big gamble. The marketing team wanted to launch a low-sugar version soon, but our R&D team was still struggling to remove the 'weird taste' from the sweetener. If we take the wrong step, the brand image that we have built for decades can be damaged". (P2, Marketing Manager, Local Company B).

#### 4.3.2 External Challenges: Regulatory Uncertainty and Consumer Behavior

On the external side, the main challenges center on policy uncertainty and predictions of market reactions.

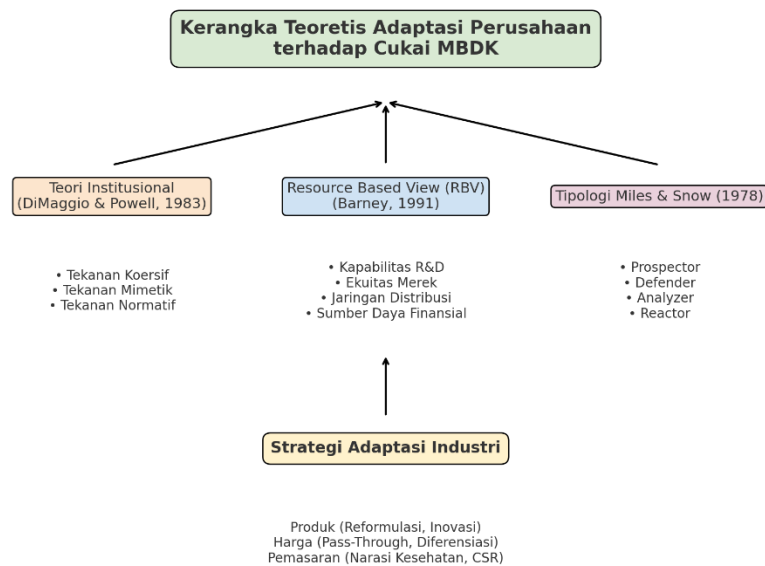
**Policy Design Uncertainty:** Until the time of the interview, there was no certainty regarding the final design of the MBDK excise policy in Indonesia. Uncertainty about the mechanism (whether volumetric, *ad valorem*, or tiered), the amount of tariffs, and what products will be excluded, are major obstacles to precise strategic planning.

"We create several business scenarios based on excise models in other countries. But that's all just an assumption. We need certainty from the government. What is the excise per liter? Or based on grams of sugar? This greatly affects our reformulation strategy and pricing. This uncertainty makes it difficult for us to make long-term investment decisions". (P1, Strategy Manager, Multinational Company A)

**Consumer Reaction and Purchasing Power:** The second biggest concern is how consumers will react to the inevitable price increases. Amid challenging economic conditions and sensitive purchasing power, significant price increases can lead to a drastic decrease in sales volume. There are also concerns that consumers may not switch to low-sugar products from the same brand, but instead to unregulated informal beverage products (e.g., sweet iced tea sold in stalls) that are much cheaper, so that the public health goals of this policy are not being achieved.

## 5. Discussion

This study aims to analyze in depth the strategic response of beverage companies in Indonesia in facing the discourse on the implementation of excise on packaged sweetened beverages (MBDK). This section will interpret key findings, juxtapose them with relevant theoretical frameworks and empirical literature, outline theoretical and practical implications, and identify study limitations and future research directions.



**Figure 1.** Integration of theories (Institutional, RBV, Miles & Snow) in the company's adaptation model.

The findings of the study broadly show a shift in the industry paradigm from a reactive-defensive to a proactive-anticipatory attitude, which is manifested through a series of strategic adaptations to the marketing mix—particularly product, price, and communication—while facing the challenges of internal capabilities and external uncertainties.

### 5.1 Industrial Paradigm Shift: Confirmation of Institutional Pressures and Strategic Adaptation

The most fundamental finding of this study is the evolution of industry attitudes from rejection to anticipatory readiness. Participant statements (P1) mentioning the shift from "highlighting negative impacts" to viewing excise as an "accelerator for innovation" are strong empirical evidence of a mature adaptation process. This shift can be interpreted in depth through the lens of **Institutional Theory**. Initially, the industry's response focused on lobbying and denial reflected efforts to counter **coercive pressure** (government regulation). However, as global and domestic discourse strengthens, the industry begins to feel **mimetic** and **normative** pressures. Mimetic pressure arises from the need to emulate the strategies of other multinational companies that have successfully adapted to similar policies in global markets (for example, in the UK or Mexico). Meanwhile, **normative pressures**, stemming from rising public health awareness and demands for healthier products, force companies to adapt in order to maintain social legitimacy and brand image (DiMaggio & Powell, 1983).

These findings are in line with a study by Oh et al. (2022) that identified that although the food and beverage industry often uses economic arguments to oppose public health regulations, they will eventually adapt when regulatory pressures become inevitable. The shift identified in Indonesia shows that the industry has passed the initial rejection phase and entered a pragmatic adaptation phase, a pattern that was also observed in other countries prior to the implementation of excise policies.

Furthermore, if analyzed using **the Miles and Snow** typology, these findings show that large players, especially multinational companies, tend to adopt the posture as *Analyzers*. They don't completely become *Prospectors* who radically abandon the core business, but carefully analyze the market and mimic proven innovations (such as the "zero sugar" variant) while still maintaining their flagship product (*Defenders*). On the other hand, some local companies that are more cautious in reformulating their legacy products and more focused on launching new lines can be seen as a combination of more conservative *Defender* and *Analyzer* strategies. This response is in stark contrast to **the Reactor typology**, as the findings clearly show the existence of structured and anticipatory strategic planning, rather than just sporadic reactions.

## **5.2 Marketing Mix Adaptation: Validation of Resource Based View and Economic Rationality**

At the heart of the industry's strategic response lies in the adaptation of the marketing mix, which is consistently validated by **the Resource Based View (RBV)** theoretical framework. The findings of this study clearly show how unique internal resources and capabilities (valuable, scarce, and difficult to replicate) directly determine the choice and effectiveness of a company's adaptation strategy.

### **5.2.1 Product Strategy: R&D Capabilities as a Source of Competitive Advantage**

Product adaptation through reformulation and innovation is a key pillar of the industry's response. The finding that multinational companies (P3) have been running reformulation projects for years with massive R&D investments, while local companies (P4) face cost and expertise challenges, is a real manifestation of RBV. Superior R&D capabilities, access to alternative sweetener technologies, and global experience are crucial resources that provide a competitive advantage for MNCs in the face of regulatory pressures (Erickson & Carr, 2020). These findings confirm a global study showing that product reformulation is the industry's most common and significant response to sugar excise. For example, a study in the UK by Rogers et al. (2023) found that *the Soft Drinks Industry Levy (SDIL)* successfully drove a 28.8% reduction in sugar content in beverages through massive reformulation by manufacturers. Thus, the strategy adopted by the company in Indonesia is a reflection of global best practices adapted to the local context.

### **5.2.2 Pricing Strategy: Pass-Through Calculation and Driving Consumer Behavior**

The decision to pass the tax burden on consumers (*tax pass-through*) is an economically predictable response to protect profitability margins. The Financial Manager's statement (P5) that "more than 90% of the excise burden will be passed on to consumers" is in line with a meta-analysis by (Kinda & Barry, 2021), which found that the average MBDK *excise pass-through* rate globally is around 100% or even more in some cases. However, a more interesting finding is the price differentiation strategy, where the company plans to create a significant price gap between high-sugar and low-sugar products. This is not just a pricing strategy, but a mechanism to actively "*nudge*" consumers to switch to products that are not subject to excise. This strategy intelligently transforms regulatory threats into opportunities to reshape sales portfolios towards healthier and fiscally sustainable products.

### 5.2.3 Marketing Strategy: Shifting Narratives to Build Legitimacy

The shift in the communication narrative from "freshness" to "healthier choices" is a strategic step to align the company's image with evolving health norms (normative pressure). By proactively promoting low-sugar variants, companies are not only building a market for their future products but also *reframing*, positioning themselves as part of a solution to a public health crisis, rather than as the cause of the problem. This practice, often referred to as *health-washing* by critics, is a reputation management strategy commonly practiced by the industry in the face of health regulations (Grummon et al., 2019). These findings show that companies in Indonesia have studied and are now implementing sophisticated communication tactics that have been used by their global counterparts.

## 6. Conclusion, Implication, and Recommendation

### 6.1 Conclusion

This study comprehensively analyzes the strategic response of beverage companies in Indonesia in facing the inevitability of the implementation of the packaged sweetened beverage (MBDK) excise policy. Key findings show a significant paradigm shift among industry players, from a reactive-defensive attitude that initially rejects policy discourse, to a proactive-anticipatory attitude that views regulation as a business necessity and an accelerator of innovation. This shift is manifested in three interrelated pillars of strategic adaptation in the marketing mix. First, in the *product* dimension, the company is actively reformulating to reduce the sugar content in existing products, as well as launching new product innovations in the low or no sugar category. Second, on the *price* dimension, the strategy prepared centers on the full *pass-through*, which will be executed sophisticatedly through price differentiation to encourage consumers to switch to healthier alternatives, as well as the potential use of *shrinkflation tactics*. Third, in the *marketing and communication dimensions*, there has been a clear narrative shift from the emphasis on hedonistic aspects such as freshness, to the prominence of functional and health attributes such as "healthier choices" and "low sugar". This adaptation process, although planned, is recognized to face inherent challenges, especially related to internal research and development capabilities and the uncertainty of the final policy design of regulators.

These findings directly answer the research objectives by successfully identifying and analyzing in depth the adaptation strategies prepared by the industry. The study specifically maps concrete changes to product, pricing, and marketing strategies, while exploring the key challenges facing companies. Thus, this study succeeded in bridging the gap in the previously existing literature on corporate responses to health regulations in the Indonesian context. Instead of being passive, the industry is proving to be a strategic actor that is actively reshaping the market landscape in response to external pressures.

The scientific contribution of this research is multi-dimensional. *Theoretically*, this study enriches the strategic management literature by providing empirical validation and integration of *Resource Based View* (RBV) frameworks and Institutional Theory in the unique context of regulatory pre-implementation in developing countries. This study shows how internal capabilities (RBV) directly shape adaptation strategy choices in response to regulatory pressures and social norms (Institutional Theory). *Contextually*, this study is one of the first qualitative studies that provides an in-depth understanding of the industrial perspective in

Indonesia, a globally crucial MBDK market, thus enriching the international evidence base that tends to be dominated by the context of developed countries.

In *practical* terms, these findings offer crucial managerial implications, confirming that a reactive survival strategy is no longer adequate. Business sustainability in the age of health regulation demands proactive investment in healthier product innovation and portfolio diversification. For *policymakers*, this research provides invaluable strategic insights from the "other side of the table." The understanding that the industry is prepared in advance and even plans to use prices to push consumers to low-sugar products can reinforce the justification for implementing the policy immediately. More importantly, these findings strongly imply that the most effective excise design to achieve public health goals is a *tiered levy* scheme based on sugar content, as it is this design that provides the strongest economic incentive for industry to reformulate.

While it provides rich insights, this study paves the way for essential follow-up research. Future research agendas should focus on *post-implementation* longitudinal studies to validate and compare planned strategies with those actually implemented. A quantitative analysis of the actual *tax pass-through* rate, demand elasticity, and market share shifts would be a logical next step. In addition, studies that specifically examine the impact of adaptation policies and strategies on small- and medium-scale producers (SMEs) are needed to get a more holistic picture. Finally, research on the response of Indonesian consumer behavior to changes in prices and products will complement the understanding of the effectiveness of the MBDK excise policy as a whole.

## 6.2 Research Implications

Although the company has shown anticipatory readiness, this adaptation process has not gone smoothly. The participants identified a significant set of challenges, both from within the organization (internal) and from the external environment.

### 6.2.1 Implicasi's theorem

Theoretically, this study contributes by integrating three theoretical frameworks—Institutional Theory, RBV, and Miles & Snow Typology—to analyze strategic responses in the context of regulatory pre-implementation in developing countries. This study shows that this combination of theories provides a rich and multi-layered explanation: Institutional Theory explains *why* companies must adapt, RBV explains *what* determines their strategy choices (internal capabilities), and Miles & Snow helps categorize *how* The strategic posture was realized. More importantly, this study fills a significant gap in the literature by providing in-depth empirical evidence from Indonesia, a large and unique MBDK market, thus enriching a global understanding that has been dominated by studies from Western countries.

### 6.2.2 Managerial and Practical Implications

For industry practitioners, these findings offer a strategic roadmap. This study confirms that reactive and defensive strategies are no longer adequate. Successful adaptation depends on proactive investment in R&D capabilities, product portfolio diversification towards healthier choices, and transparent marketing communications. For local players, these findings highlight the urgency of collaborating or finding innovative solutions to address the gap in

R&D capabilities compared to MNCs. Price differentiation strategies and *shrinkflation* are also important tactics to consider in strategic planning.

### 6.2.3 Policy Implications

For governments and policymakers, these findings provide crucial insights from the "other side of the table". First, the understanding that the industry is ready in anticipation can strengthen the government's confidence to immediately implement policies. Second, the findings on the importance of product reformulation suggest that the most effective excise design is a **tiered levy scheme** that is based on sugar content (e.g., per gram of sugar per 100ml), rather than volumetric excise (per liter). This design will provide a strong financial incentive for companies to actively reduce sugar from their products, in line with the success in the UK (Pell et al., 2021). Third, the government needs to anticipate a 100% *pass-through* strategy and calculate its impact on inflation and the purchasing power of low-income people, as well as design a mechanism to use excise revenue for health subsidies or healthy food. Finally, industry concerns regarding regulatory uncertainty should be addressed immediately by providing a clear, transparent, and timetable for implementation (Hoffmann et al., 2008; van der Linden & Shirazi, 2023).

### 6.3 Recommendation

While this research provides in-depth insights, some limitations need to be acknowledged. First, as a qualitative study, these findings are not intended to be statistically generalized to the entire beverage industry in Indonesia. The focus on medium-large companies means that the perspective of small-scale producers or home industries has not been explored. Second, this study was conducted in a **pre-implementation context**, so that the findings were based on perceptions, plans, and anticipatory strategies, rather than on actual post-implementation behavior. It is possible that the actual strategy implemented later will be different from what was planned. Third, there is the potential for **social desirability bias**, where participants may present their company's response in a more positive and proactive light.

These limitations pave the way for future research. The most urgent research agenda is:

1. **Post-Implementation Longitudinal Study:** Conduct follow-up research after the MBDK excise is officially implemented to compare the planned strategy (findings of this study) with the strategy actually implemented and its impact.
2. **Quantitative Market Impact Analysis:** Quantitatively measure the actual *tax pass-through* rates across various retail channels, analyze the elasticity of demand prices for different types of MBDK, and model market share shifts between high-sugar and low-sugar products.
3. **Consumer Behavior Study:** Examining how Indonesian consumers respond to price increases and product changes. Do they switch to low-sugar variants, reduce consumption, or switch to unregulated alternatives (e.g., drinks from street vendors)?
4. **Focus on Small and Medium Enterprises (SMEs):** Conduct a specialized study that explores the challenges and adaptation strategies faced by small and medium-sized beverage producers, which are likely to have much more significant resource limitations.

5. **Cross-Sector Comparative Analysis:** Compare the beverage industry's response to other industries that also face similar regulations (e.g., the tobacco or plastics industry) to build a more general theory of corporate adaptation to health and environmental regulations in Indonesia.

By following up on this research agenda, a more comprehensive and holistic understanding of the impact of MBDK excise policies in Indonesia can be achieved, providing a stronger evidence base for future public health policies.

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