Kopi Luwak: A Niche Product in a Highly Monopolistic Market

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Most historical research defines a monopolistic competition model to focus on the constant elasticity of substitution which delivers a constant demand and markups. However, in the recent economic model, firms are able to develop a relationship with consumers and generate utility that is symmetric (Etro, 2017). Oligopolistic competition, however, is where markets consumers' demands are affected by price defining factors, either balanced or imbalanced. The focus of oligopoly is on price defining factors which departs from historical statistical analyses on imperfectly competitive markets with a small number of competitors (Colombo & Labrecciosa, 2020). This paper will analyze whether Kopi luwak in the coffee industry can be considered as monopolistic competition or oligopoly.

Civet coffee or known as Kopi Luwak is an uncommon, yet superior coffee based in Indonesia in which the production process involves an Asian palm civet, a local animal from Indonesia. What makes this Kopi Luwak unique and different from other coffees is that this coffee was made from civet's feces through the fermentation process inside its stomach. The internal fermentation brings a unique flavor that lessens the protein and reduces the bitterness of the coffee (Pratono & Radjamin, 2012). In order for this paper to identify which type of competition Luwak coffee is competing in, the two largest differences between monopolistic and oligopoly are the elasticity and the nicheness of the product. (Etro, 2017)

The first parameter is price elasticity which refers to the degree to which the effective desire for something changes as its price changes (Csereklyei, 2020). What makes Luwak Coffee so costly is its super-intensive production process. Unlike conventional ways, where farmers harvest coffee by collecting and picking out beans (Pratono & Radjamin, 2012). The super intensive production process is the reason why Luwak Coffee is able to penetrate a lucrative market and create price elasticity. The fact that Luwak Coffee has price elasticity means that it is in a monopolistic market

The second parameter is the nicheness of the product. The unique taste of the Kopi Luwak comes from the best, luscious coffee cherries that the civet has personally selected to consume. Through the fermentation process that occurs in the stomach of the civet, this will make people feel like they produce the best, high-quality coffee beans in the market (Pratono & Radjamin, 2012). The process of creating Luwak Coffee itself makes the product more unique and it gives a Niche effect towards their consumers. Nicheness is a variable that differentiates the product from the other ones in a highly competitive market in monopolistic competition.

Therefore, knowing that Luwak Coffee fulfills both of the parameters of price elasticity and the nicheness of the product. Luwak Coffee can be considered to be in a highly monopolistic

competition in the coffee market. It does not meet the parameter of oligopoly because oligopoly does not necessitate its product to differentiate others in the market due to how both heterogeneous and homogeneous the products are in oligopoly. Therefore, Kopi luwak should be considered to be in a monopolistic competition.

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