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The Effect of Product Diversification and Company Size on Company Profitability Case Study on UD Setya Abadi D.M

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Abstract:
Purpose:
Product diversification is how a business can develop types of products both related to the central business and as substitutes and contemporary products. According to Ansoff (1957), diversification is related to product and quantity changes. This research aims to prove whether product diversification and company size increase profits so that business actors can decide on the proper steps in future business steps.

Methodology:
The method used in this research is multiple linear regression using the SPSS for Windows version 26 application. In this research, there are two independent variables and one dependent variable. The independent variable comprises product diversification and company size, while the dependent variable is company profitability.

Findings:
According to the data processing results using the multiple linear regression method, company profitability was positively influenced by product diversification and company size.

Implication:
Product diversification is carried out by adding product variants from a company and by requiring innovation that can differentiate one's product from other companies' products, which can place one's product above competitors' products.

INTRODUCTION

Competition in the business world is now getting tighter, one of which is the frozen food business. In the frozen food business, business actors compete to provide innovations in processed food by freezing. It causes business actors to aggressively diversify their products to meet consumer needs, expand market share, and increase profitability.

Product diversification is how a business can develop types of products both related to the central business and as substitutes and contemporary products. According to Ansoff (1957), diversification is related to product and quantity changes. Of course, in terms of diversifying, you must have updated skills, processing techniques, and facilities. Remember that there are considerations, advantages, and disadvantages in diversifying products.

The problem often faced by business actors is how to bring about a positive increase in profitability. To maintain the Company's survival in the long term, companies need to pay attention to the level of profitability because profitability ratios can show whether a business, both small and large, has positive prospects in the future. Therefore, according to Kasmir (2016), a business actor, in its implementation management, is required to achieve profits that are on target and sustainable (Ukuran et al., 2019).

The public considers that the presence of product diversification will undoubtedly bring a positive escalation to profitability. However, several studies reveal something else. According to Satoto (2009), diversification negatively correlates with profitability. In contrast, other researchers, such as Chakraborty et al. (2007), found a

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positive influence on company performance and profits even in an inconsistent environment due to economic problems.

Therefore, with systematic reporting through SIINAS, accessible data with appropriate data processing will be able to detect whether product diversification positively correlates with increasing company profitability.

With the implementation of product diversification carried out by UD, Setya Abadi, the researcher, carried out this research, which aims to determine whether product diversification and company size are considered to provide an increase in profits or not so that business actors can decide on the proper steps in future business steps.

Based on the background above, this research aims to explain (1) how product diversification affects company profitability and (2) how company size influences company profitability.

Product Diversification. Product diversification is the addition of types of goods produced by a company. Product diversification is determined based on market share growth. Product diversification is not only about pure innovation from a company but also from observations that already exist in the market, which are then implemented by a company but still have their characteristics (Sriayuni et al., 2022).

Product diversification is a strategy for companies to explore markets that the Company has yet to reach. The existence of product diversification is based on uncertainty about existing products, such as uncertainty, depreciation, or lack of demand in the market environment involved (Sibarani & Shanti, 2023). Of course, product diversification will expand the Company's market coverage and determine what market demand is currently in demand. Product diversification will also make a company more innovative and open to consumer needs and current developments because a business does not only depend on one or two products (Okmayura et al., 2022).

Several studies on product diversification reveal that product diversification positively affects increasing company turnover (Hermawati et al., 2018). It can also be seen in the processed food business that in the frozen food business they can make processed food last for months by freezing, such as kebabs, Maryam bread, churros, and tortillas, which can last a long time by freezing. Therefore, H1 is that product diversification affects company profitability.

Company Size. Company size is the size of a company. Company size is identified from how many assets the business actor owns, including the intensity of production and sales from year to year. According to Fransisca and Widjaja (2019), increasing sales can increase profitability.

The general understanding of company size can be seen in the Company's total assets on the balance sheet at the end of each period. According to Pervan and Visic (2012), companies that have grown large have several advantages. One of them is having market power, which can be implemented to determine and determine the product's value to be higher, thereby getting more turnover. Apart from that, large companies also have the advantage of economies of scale, where companies tend to have many assets to produce products in large quantities daily (Ukuran et al., 2019).

The larger the company size, the more excellent the opportunity to obtain funds from internal and external parties. Easier accessibility can give companies more flexibility to obtain funds quickly. If the funds obtained are managed well, this can increase the Company's value by attracting investors' attention to investing in the Company (Mahanani & Kartika, 2022). From the results of previous research, H2 shows that company size affects company profitability.

Company Profitability. Profitability is the profit that a company can generate. According to Sartono (2001), profitability is the ability of a company to gain profits at certain levels of marketing, assets, and share capital. Profitability is the primary indicator in maintaining a company's long-term survival because the profitability level shows good prospects for the future of a company. Because of this, in its implementation, management is required to achieve profits according to the Company's targets, not just profit (Lorenza et al., 2020).

By achieving the profit targets set by the Company, these indicators can show that the Company's overall operations are good (Muharramah & Hakim, 2021). Based on existing literature, according to Rudangga and

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Sudiartha (2016), profitability significantly influences the Company. However, according to Tarima et al. (2016), profitability does not significantly influence the company. Company profitability can have a positive effect if company management is managed well.

The high profitability ratio produced by the Company will attract the attention of investors who want to invest funds. In line with previous research, according to Chynthiawati and Jonnardi (2022), the higher the investors' interest in investing, the higher the Company's share price, which ultimately increases the Company's value.

METHODS

Location and Time of Research. The research was conducted at the UD Setya Abadi D.M Company in the Tambaksari District, Surabaya. The type of data used in this research is secondary data. The time for conducting the research was from August 2023 to December 2023. The criteria for selecting this research were product diversification and company size, and four products were taken as research samples from UD Setya Abadi D.M.

Data Types and Sources. The type of data used in this research is quantitative data with secondary data sources. The data source was obtained from the financial reports of the UD Setya Abadi company, which were obtained directly at the research location. (Almumtazah et al., 2021)

Data Collection Methods. The method used to collect data for this research uses a documentation study method of company financial reports for the last three years. (Muhartini et al., 2021)

Data Analysis Method. The analytical method used in this research is the multiple linear regression method. In this research, there are two independent variables and one dependent variable. The independent variable comprises product diversification and company size, while the dependent variable is company profitability. By using this method, we can determine whether there is a significant influence partially or simultaneously. Priyatno (2023). Data processing in this research used Microsoft Excel 2010 and SPSS for Windows version 26.

RESULTS AND DISCUSSION

Based on calculations using SPSS for Windows version 26, the following multiple linear regression equation is obtained:

Table 1. Results of Multiple Linear Analysis

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2543885.875	3727959.194		-.682	.501
	x1	418100.500	71380.919	.627	5.857	.000
	x2	.030	.009	.363	3.390	.002
a. Dependent Variable: y						

Source: SPSS Data Processing

Based on table 1 above, the following equation is obtained:

$Y = \beta 0 + \beta_1 X_1 + \beta_2 X_2$

$Y = -2543885.875 + 418100.500X_1 + 0.030X_2$

Y = Company profitability level

$\beta 0$ = Constant

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X_1 = Product diversification

X_2 = Company size

The regression equation can be explained as follows:

1) Constant = -2543885.875, meaning the average profitability from the period before product diversification and company size was -2543885.875
2) β_1X_1 = 418100,500, meaning that the average profitability of the period after product diversification X1 is 418100,500
3) β_2X_2 = 0.30, meaning that the average profitability of the period after increasing company size is X2 is 0.30

Testing the proposed hypothesis will use a t-test using SPSS, which aims to test the coefficients obtained in previous calculations.

Table 2. Results of t-Test Analysis

No	Variable	Sig.
1	(Constant)	.501
2	X_1	.000
3	X_2	.002

Source: SPSS Data Processing

The t value in Table 2 has a significance value of X1 of 0.000. The sig value is <0.05, so it can be concluded that there is a positive influence between the independent variable (X) and the dependent variable (Y); that is, it can be said that product diversification has a positive effect on the Company's profitability, furthermore, for the significance value.

Hypothesis testing that has been proposed will be tested again using the F-test using the SPSS for Windows version 26 program, which aims to test the coefficients obtained from previous calculations.

Table 3. ANOVA F Test Results

ANOVAa						
	Model	**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
	Regression	10606416240009.006	2	5303208120004.503	65.051	.000b
1	Residual	2201141786666.993	27	81523769876.555		
	Total	12807558026675.998	29			
a. Dependent Variable: y						
b. Predictors: (Constant), x2, x1						

Source: SPSS Data Processing

Based on SPSS for Windows version 26 data processing, the research produced table F with an F value (calculation) of 65.051. Based on the output table, F (table) is 3.34 for 30 samples. So, it can be concluded that F(calculated) > F(table) (65.051>3.34), so it can be seen statistically that the F test falls on the acceptance of Hypothesis 1 and Hypothesis 2.

Apart from the criteria above, there is a criterion that if the significance value is <0.05, it means that there is an influence from the independent variable on the fixed variable. Based on the calculations in the table, a sig value of 0.000 means that there is acceptance of hypothesis 1 and hypothesis 2, meaning that there is a positive influence of product diversification and company size on company profitability.

The effect of product diversification and company size on company profitability: The results of SPSS data processing calculations show that H1 is accepted and positively influences company profitability. It shows that product diversification in a company will increase profitability by diversifying innovative products in line with market desires.

Product diversification ultimately also influences a company's competitive advantage to become a company that is superior to competing companies. Of course, before product diversification, the Company must conduct market research to ensure that the products produced follow market desires.

Company size is the amount of equity in a company. The results of SPSS data processing show that H2 is accepted and positively affects company profitability. Ownership of adequate assets, capital, and transportation in a company also significantly affects profitability. When a company has product diversification and already has customers, the Company must also facilitate this by providing transportation and capital for the Company's turnover.

A company that has started to develop will, of course, face a surge in production, requiring additional production space to meet sales targets. Based on this explanation, why does company size positively affect company profitability?

CONCLUSION

Based on the data that has been obtained, product diversification and increasing company size have a positive influence on company profitability. Based on the secondary data examined and the hypothesis outlined, the results showed that H1 and H2 were accepted.

Product diversification is carried out by adding product variants from a company and by requiring innovation that can differentiate one's product from other companies' products, which can place one's product above competitors' products.

Company size also means that a growing company that can facilitate the production of its products will positively impact the Company's profitability with an organized and directed strategy and management system. Company size positively affects company profitability and is more than just a large building. Research.

Acknowledgments. Based on the research results and conclusions, product diversification should be further improved to compete with competitors and expand the market. Increasing factory profitability is also supported by facilities and infrastructure supporting production activities at the Company. In addition, companies should conduct research regularly to ensure that product diversification meets consumer wants and needs.

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