

## From Local Products to Competitive Advantage: Stakeholder Roles in Alcoholic Beverage Branding in Bali's Hospitality Industry

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**Abstract:** Balinese Arak (an alcoholic beverage) faces structural challenges in governance, market positioning, and brand consolidation despite legalization under Bali Governor Regulation No. 1 of 2020 and production exceeding 4,000 liters per month. Fragmented pricing, inconsistent quality, and weak brand governance limit its competitiveness in Bali's hospitality industry, dominated by imported wines and international spirits. This study examines how stakeholder collaboration and governance mechanisms strengthen branding and competitive positioning of Balinese Arak as a heritage-based tourism product. This study employed a qualitative approach, through in-depth interviews and focus group discussions with artisans, cooperatives, government officials, and tourism actors in Karangasem Regency (a key production center) in Bali. The findings reveal that regulatory support, cooperative institutionalization, product standardization, and collaborative branding convert cultural legitimacy into competitive advantage. Branding functions as a governance-driven process integrating quality assurance, adaptive innovation, and cross-sector collaboration. They has enhancing market credibility, and hospitality integration for long-term sustainability within Bali's tourism economy.

**Keywords:** Balinese arak; brand governance; stakeholder collaboration; competitive advantage; hospitality industry

### 1. Introduction

Bali is widely recognized as one of Indonesia's leading international tourism destinations, with tourism forming a major pillar of the regional economy and a hospitality infrastructure, comprising hotels, restaurants, beach clubs,

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and bars, serving large numbers of domestic and international visitors each year (Williady et al., 2022; Yoga & Yudiarta, 2021). Within this tourism ecosystem, alcoholic beverages constitute an important component of leisure consumption and lifestyle experiences offered to tourists. The local alcoholic beverage industry in Bali demonstrates growing market dynamics, characterized by product diversification strategies, expanded distribution channels, and increasing integration into the tourism sector through bars and restaurants (Astuti et al., 2020; Yani & Wirawan, 2025). As tourism-driven consumption patterns evolve, locally produced beverages such as Arak Bali increasingly operate within a competitive hospitality market.

In Bali's hospitality market, alcohol consumption remains dominated by imported European wines and international brands, reflecting national trends (Sandi, 2021) and tourists' perceptions of local products such as Hatten Wine (Rais, 2017). These brands benefit from established branding systems, standardized quality control, and premium pricing that strengthen their positioning in hotels, fine-dining restaurants, and upscale bars (Salimah et al., 2025). In contrast, Arak Bali, despite its strong local identity, struggles to secure a consistent and competitive market position (Yani & Wirawan, 2025). The observations indicate price variability across outlets, inconsistent quality perceptions, and weak brand articulation, limiting its ability to compete with global brands. This situation creates a structural imbalance in which culturally rich local products remain commercially under-positioned relative to standardized spirits. Tourism competitiveness depends not only on product availability but also on governance that enhances coordination, quality standards, and strategic positioning, ultimately supporting revenue and employment (Purwono et al., 2024). Thus, Arak Bali's limited competitiveness reflects both branding and governance challenges affecting regional performance.

Pricing structures illustrate Arak Bali's ambiguous market positioning. Since its legalization under Governor Regulation No. 1/2020, legal production has surged, reaching over 4,000 liters monthly (Wahyuni Sari, 2023; Wiramatika & Sumardani, 2025). However, this growth lacks consistent brand recognition. Data from Koperasi Poetera Desa Wisata (Wisata, 2026), a cooperative that consolidates local Arak producers and facilitates repackaging and distribution to broader domestic and international markets, reveal significant price fragmentation: standard bottles (Arak Jaka/Holy Tirtha) cost IDR 250,000-400,000, mid-range (Bumbung Gold/Arak Kelapa) IDR 375,000-450,000, and premium artisanal brands (Iwak Arumery/Ameritha) reach IDR 850,000. This variability signals weak brand governance and inconsistent quality standards, complicating competition with international spirits. Without a unified branding strategy to clarify whether Arak Bali is a low-cost local beverage or a premium

heritage spirit, production volume alone fails to secure a competitive advantage. Such fragmented value positioning creates market confusion, hindering penetration into the premium hospitality sector.

From a branding perspective, the challenge faced by Arak Bali lies not in the absence of cultural value, but in translating this cultural richness into a coherent and credible brand identity (Untari & Satria, 2025). Without structured branding strategies, the cultural narratives, craftsmanship, and local wisdom embodied in Arak remain under-communicated to broader audiences, particularly within the tourism and hospitality sectors. Recent developments show that reinterpretation through contemporary consumption spaces, such as bars, hotels, and culinary tourism experiences, has begun to reposition Arak Bali as a culturally distinctive spirit (Wiramatika & Sumardani, 2025). This shift highlights the importance of branding as a mediating process that connects heritage, governance, and market recognition, rather than merely focusing on product attributes or consumption patterns (Wijaya et al., 2022). However, existing studies tend to discuss Arak Bali primarily from cultural preservation or regulatory perspectives, leaving a limited analytical exploration of how stakeholder-driven branding strategies can systematically transform cultural legitimacy into measurable competitive advantage within the tourism market.

In line with the sustainability and quality of Arak Bali; in 2020, the Governor of Bali introduced Governor Regulation No. 1/ 2020 governing the production and distribution aiming to improve quality control and market readiness. Following up to this effort the Minister of Education and Culture, Research, and Technology officially recognized Balinese Arak as an Intangible Cultural Heritage (Wibawana, 2022). Strengthening the Balinese Arak brand requires the participation of various stakeholders (Harini et al., 2018; Harrison et al., 2015; Lundgren & McMakin, 2009). However, regulatory recognition alone is insufficient to build a strong brand identity without coordinated stakeholder involvement. Fragmented governance and inconsistent regulatory implementation continue to hinder the articulation of Arak Bali as a credible and competitive heritage-based brand, as effective branding requires clear positioning and coordinated stakeholder involvement (Karta et al., 2020, 2021).

The involvement of all stakeholders is needed in the branding strategy of Balinese Arak, so that it becomes more well known abroad (Bagus et al., 2021). Thus, a critical gap emerges between formal cultural recognition and effective market positioning, raising the question of how governance mechanisms, collaborative innovation, and inclusive stakeholder engagement can be aligned to strengthen Arak Bali's competitive standing.

From a branding perspective, legal and regulatory challenges directly affect consumer trust and brand authenticity. Although Arak Bali contributes

to local economic development and Indonesia's broader economic recovery (Candranegara et al., 2021), the circulation of counterfeit or mixed Arak undermines its credibility as a cultural product and weakens its symbolic value in both domestic and international markets (Candranegara et. al. 2021; Wijaya et al., 2022). As a traditional beverage with distinctive cultural characteristics and intellectual property value, Arak Bali requires branding strategies that integrate quality assurance, cultural protection, and artisan welfare. Strengthening brand governance through inclusive stakeholder participation is therefore essential to safeguard authenticity, enhance market recognition, and position Arak Bali as a sustainable heritage-based product within the tourism sector (Bern et al., 2016; Nuriyani & Dewi, 2023; Zhang et al., 2022). This study focuses on Karangasem Regency, widely recognized as one of the main centers of traditional Balinese Arak production, where community-based distillation practices remain actively preserved. Karangasem Regency is home to 1,975 Arak artisans. The raw materials for Arak, including palm sap, coconut sap, and snake fruit, grow abundantly in this region. Making Arak Salak is also an innovative solution to the excess Salak fruits harvest, preventing it from going to waste. The local Arak-making skills, passed down through generations, make this profession a cherished profession that preserves the environment and the abundant plants in Karangasem. Accordingly, this study examines the roles and contributions of key stakeholders in sustaining Arak Bali's presence and reinforcing its brand as an inclusive and culturally grounded business.

## 2. Literature Review dan Theoretical Framework

Besides Arak, beverages such as *tuak* and *brem* are produced through similar fermentation processes and form part of Balinese culture. *Tuak*, derived from the sap of sugar, coconut, and lontar palms, is fermented for 2–3 days before distillation into Arak (Pranadewi, 2021; Wijaya et al., 2024). Balinese *brem* is often compared to Japanese *sake* due to similarities in ingredients, production, and flavor. A collaborative study by Udayana University and Obihiro University, Japan, found that a local Balinese yeast strain shares genetic similarities with Japanese baker's yeast (Sujaya et al., 2011). Consequently, Japanese tourists frequently refer to *brem* as "Bali Sake," enhancing its souvenir and hospitality potential.

### 2.1 The Role of Stakeholders and Governance Regulation

Stakeholders play a vital role in governing Arak Bali's production and promotion, shaping its brand strength and market competitiveness. Research classifies stakeholders into primary, secondary, and key groups, including communities, NGOs, MSMEs, government agencies, private

actors, and consumers (Lundgren & McMakin, 2009; Abidin et al., 2024). Effective stakeholder engagement in inclusive business and community-based tourism enhances performance and supports long-term MSME sustainability (Lundgren & McMakin, 2009; Manzanegue-Lizano et al., 2019; Mursalin et al., 2022). As small industries, MSMEs are central to government-led small-scale economic development, and their sustainability and financial performance are strengthened by collaboration, supportive policies, and adaptive organizational culture (Agustina et al., 2014; Das et al., 2020). Coordinated stakeholder efforts are therefore essential to sustain and elevate Arak Bali as cultural heritage and a competitive tourism asset.

Indonesian government officials, acting as governing stakeholders, adhere to five core governance principles: transparency, accountability, responsibility, independence, and fairness (Hartarto, 2021) (National Committee on Governance Policy, 2021). Transparency, accountability, and responsible governance underpin long-term sustainability, demonstrating governance quality as a determinant of organizational and institutional endurance (Setyahadi & Narsa, 2020). For Arak Bali, strengthening these dimensions supports sustainable production, regulatory compliance, and tourism competitiveness. However, stakeholder coordination remains constrained by the absence of a central change agent (Benn et al., 2016; Mertha et al., 2019; Simanjourang et al., 2020; Hartarto, 2021). In heritage tourism, collaborative governance aligns provincial policies with community initiatives and local economic actors (Basyar et al., 2025), requiring structured multi-actor coordination among government, cooperatives, producers, and hospitality businesses. Evidence shows primary, secondary, and regulatory stakeholders influence carbon disclosure, eco-innovation, and green innovation in MSMEs (Almeida, 2020; Nuriyani & Dewi, 2023), while MSMEs support small-scale economic development (Agustina et al., 2014). Sustainability innovation further links to increased firm competitiveness (Hermundsdottir & Aspelund, 2021).

Government regulation is essential in managing alcoholic beverages. In the United States, strict alcohol control policies regulate supply, distribution, taxation, pricing, retail sales, and minimum age limits, as detailed by Lint et al. (1984). In contrast, Indonesian policies remain insufficiently formulated and are often influenced by ideological and religious considerations (Roestamy & Ibnu, 2022). This gap highlights the need for specific legal protections recognizing the cultural significance of traditional alcoholic beverages. Balanced intellectual property rights (IPR) protection can support positive development while reducing negative impacts. Studies conclude that traditional Indonesian alcoholic beverages possess three distinct characteristics suitable for protection as intangible cultural heritage (public property) or, more appropriately, as

indications of origin (local community property) (Roestamy & Ibnu, 2022; Serfiyani et al., 2020). Therefore, regulatory frameworks should align with the concept of indications of origin. Comprehensive legislation across production, distribution, and consumption is required to address uncontrolled circulation and related social issues, including alcoholism and crime (Krisdwiantoro, 2023; Lestari, 2016; Safety & Act, 2021).

The research points out gaps in current laws, especially concerning regulations for small-scale alcohol producers. These regulatory issues highlight the need for a unified legal strategy. Such an approach must balance cultural preservation, economic growth, and public health, while also supporting Arak Bali's development as a legitimate local product (Harris, 2016; Pangesti, 2021).

## ***2.2 Brand, Positioning and Competitive Advantage of Product***

Various strategies can be applied to enhance brand building, and a prominent brand image is a crucial component of brand equity (Kumaresan & Samyoss, 2024; Zufikar, 2023). Although Arak Bali has been traditionally made for generations, without legacy and recognition that affirms its quality and legal status, its development is challenging. Well-defined brand positioning is an effective key element in strategy implementation (Eskiev, 2023; Janiszewska & Insch, 2012). Seminal research further contends that achieving a strong brand position is contingent upon being the first to establish a presence in the consumer's mind, surpassing the mere act of market entry (Daye, 1969; Ries, Al; Trout, 2001). Studies on luxury brand products (Chong, 2021; Ellis, 2009; Ghasemi, 2014) consistently reveal that simplicity, consistency, and authenticity are fundamental to effective brand positioning. Arak Bali, being a manifestation of local wisdom and cultural heritage, inherently boasts a high degree of authenticity.

From a Resource-Based View (RBV) perspective, aesthetic-based innovation constitutes a rare and inimitable strategic resource that strengthens sustainable competitive advantage (Liwafa et al., 2026). Thus, Arak Bali's cultural authenticity and aesthetic reinterpretation function as valuable, rare, and difficult-to-imitate assets generating long-term differentiation in the hospitality market. Beyond firm-level advantage, competitiveness also operates at national and industry levels (Farhikhteh, Shirzad; Farhikhteh, 2016). At the national level, competitiveness is broader than firm-level advantage, as a country's welfare depends on its global position. Porter theories: "Why are certain companies based in certain countries able to innovate consistently?" (Porter, 1991). The Theory of Determinants of National Competitive Advantage outlines that there are four factors determining competitive advantage: internal conditions, company strategy, structure and rivalry, supporting and related industries, and

demand conditions. These four determining factors are known as the diamond of national advantage, which creates a national environment where companies are born and learn how to compete.

Competitive advantage further involves strategic management of brand value (Dalwadi, 2006), and significantly affects business outcomes (Abba, 2024). According to Rangkuti (2005) and Karta et al. (2019), competitive advantage comprises two elements: potential and positional advantage, including human resources quality, distribution networks, production capacity, and control. A review by Hermundsdottir & Aspelund (2021) identifies value creation, cost reduction, and nonfinancial assets as key variables. Empirical findings confirm that business strategy enhances competitive advantage and performance, with innovation mediating this relationship (Farida & Setiawan, 2022).

Competitive advantage mediates innovation and organizational performance, converting strategic initiatives into measurable outcomes (Novitasari & Agustia, 2023). Accordingly, regulatory alignment, aesthetic innovation, and stakeholder collaboration in Arak Bali must yield competitive advantage to enhance hospitality integration and market performance. It improves profits, financial and work performance, and buyer decisions (Irawan & Sudarmiati, 2024).

### ***2.3 Brand Management of Local Wisdom-Based Products***

Brand management refers to a strategic process through which a product is positioned, interpreted, and recognized by the public based on a set of meanings, values, and perceived quality (Garachkovska et al., 2021; Мирошник, 2021). In this perspective, a brand is not merely a visual identity or promotional tool, but an intangible asset that represents collective perceptions and trust (Jovanović et al., 2020). Effective brand management involves shaping consistent associations, maintaining credibility, and ensuring that the product's identity aligns with its core values. For products rooted in local wisdom, brand management must go beyond market orientation and incorporate cultural meaning, social acceptance, and legitimacy, as these factors significantly influence the acceptance and diffusion of innovations within society (Geels et al., 2016; Karta et al., 2021).

Brand management in the context of local wisdom-based products is closely linked to cultural authenticity and the preservation of traditional values, as cultural branding theory shows that embedding local identity and heritage is central to perceived authenticity and consumer trust (Dwihandoko, 2025; Gustiawan, 2025; Prayuda et al., 2025). Such products derive their distinctiveness from historical narratives, communal practices, and symbolic meanings embedded in local culture, for example through stories of origin, traditional

production methods, and culturally significant motifs used in batik, textiles, crafts, and foods (Prayuda et al., 2025; Putri & Salsabela, 2025). Therefore, branding strategies cannot be separated from cultural legitimacy, because the strength of the brand depends on public recognition of its authenticity and cultural roots; studies on cultural and heritage branding show that brands grounded in verified local narratives and community-endorsed symbols gain higher authenticity perceptions, loyalty, and willingness to pay a premium (Gustiawan, 2025; Zafar et al., 2025). Managing the brand of a local product requires balancing adaptation to market demands while maintaining the original cultural identity that differentiates it from mass-produced commodities.

Brand management of local wisdom-based products is also shaped by governance structures and stakeholder involvement, as shown in models of social co-governance and destination brand co-construction where governments, firms, and social institutions jointly influence brand outcomes (Mu & Zhu, 2023; Sun et al., 2023). Regulatory frameworks, institutional support, and collaboration among key actors play a crucial role in enhancing brand credibility and consumer trust, since legal compliance, certifications, and effective regulatory and institutional arrangements function as assurances that build trust and perceived quality (Wu et al., 2021). In this sense, brand management is not solely driven by producers, but co-constructed through interactions between government, community, industry actors, and consumers, consistent with stakeholder-driven and co-creation perspectives in corporate and destination branding (Iglesias & Ind, 2020).

Strong network ties and knowledge integration strengthen competitive advantage through collaboration and resource optimization (Juniariani & Agustia, 2024). Brand management therefore requires concrete marketing capabilities to convert innovation and entrepreneurship into measurable outcomes. Research on *batik* SMEs in Ciayumajakuning shows marketing capability mediates the link between entrepreneurial orientation and marketing performance (Rois et al., 2025). Collaborative knowledge integration aligns traditional production with modern hospitality expectations, strengthening competitive positioning without undermining cultural authenticity. With governance ensuring legality, quality, and cultural protection, brand management transforms traditional products into competitive hospitality assets (Mahrinasari et al., 2024).

### 3. Methodology

This study employs a qualitative research design to gain an in-depth understanding of the role of governance and stakeholder collaboration in shaping the branding strategy of Arak Bali and transforming it into a potential competitive advantage in the hospitality industry. The qualitative approach is

utilized to explore the social, cultural, and economic contexts underlying the management and branding process of Arak Bali through the direct experiences, perceptions, and interpretations of the actors involved. This approach allows the study to capture context-specific insights related to local wisdom, governance practices, and collaborative dynamics among stakeholders.

The population in this study includes stakeholders involved in the Balinese Arak value chain, ranging from artisans and cooperatives to hospitality-related actors and government institutions. The research participants consisted of Arak artisans, cooperative managers, MSME actors, local government employees, and other actors directly involved in the production, regulation, and distribution of Balinese Arak. Participants were selected using a purposive sampling technique, targeting individuals considered to have relevant knowledge and direct involvement in the governance and branding development of Balinese Arak. The research focused on Karangasem Regency because this region is the main center of Balinese Arak production and continues to preserve traditional, community-based production methods.

Furthermore, Karangasem was the first region to implement Bali Governor Regulation Number 1 of 2020 concerning the governance of fermented and distilled beverages, making it an appropriate setting to examine the implications of governance arrangements on Arak production and branding practices. Data collection was conducted through qualitative methods, including focus group discussions (FGDs) and in-depth interviews with key informants. These informants included the head of the Duda Village Arak MSME Community, the head of the Karangasem Arak Artisan Community, a representative of the Bali Provincial Department of Industry and Trade, and the founder of *Arak Iwak* as a product innovator. FGDs were conducted to explore collective perspectives and interactional dynamics among stakeholders, while in-depth interviews were used to obtain detailed narratives regarding governance processes, collaboration, and branding strategies.

Data analysis was carried out using a thematic qualitative analysis approach. Interview and FGD transcripts were systematically coded to identify recurring patterns, themes, and relationships related to governance practices, stakeholder collaboration, branding strategies, and perceived competitive advantages of Balinese Arak. To enhance the credibility and trustworthiness of the findings, this study employed triangulation of sources and methods, by comparing information obtained from different informants and data collection techniques. Additional validation was conducted through discussions with academics and local government representatives to ensure that the interpretation of the findings reflected actual field conditions. This triangulation process helped reduce potential interpretive bias and strengthened the credibility of the

research results. Through this qualitative approach, the study provides context-sensitive insights into how governance arrangements, cultural legitimacy, social commitment, and local government support shape the branding and development of Balinese Arak.

## 4. Results and Discussion

### 4.1 Result

Although Balinese Arak is produced in several regions such as Buleleng, Bangli, and Karangasem, production practices and levels of commercialization vary across these areas. Some regions maintain small-scale traditional distillation primarily for local consumption, while others have begun to develop cooperative-based production and branding initiatives. In this study, the analysis focuses specifically on Karangasem Regency, which is recognized as one of the main centers of Arak production in Bali.

The arak industry in Karangasem Regency includes 1,975 artisans, eight cooperatives, and seven companies producing local arak brands. The government aims to establish a Joint Production House (Rumah Produksi Bersama/RPB) for these producers, which would enable them to obtain an Industrial Business Permit (IUI). This initiative also supports the Ministry of Cooperatives' program for down streaming cooperative members' products. Among the many Balinese Arak brands, several are notable for their distinct characteristics, including Arak Baliku, Balista, Bumbung, Buana, Arak Jeruk Cempaka (AWAN), Sajeng Tamian, Nikki, Dhadi-San, Holy Tirta, and Iwak Arumery. These products feature additional flavor variants such as vanilla, orange, coffee, savory blends, caramel, spices, honey, and various fruits. However, these brands still require professional product development to meet global market standards.

Some brands have already penetrated the tourism and hospitality sectors and hold official excise stamps. The Governor of Bali is actively negotiating with customs authorities to establish fair and supportive excise tariffs for the benefit of local artisans. Governor Regulation No. 1 of 2020 legally protects Balinese Arak as a distilled beverage. This regulation enhances tourist confidence in consuming Balinese Arak by ensuring better hygiene and sanitation standards, and it allows Arak MSMEs to market their products legally and more widely through cooperatives. In practice, this regulatory framework has also encouraged stronger collaboration among stakeholders, including local government agencies, artisan cooperatives, village-owned enterprises (BUMDES), and private distributors in supporting the branding and commercialization of local Arak products within the tourism sector.

With the enactment of regional government regulations, Arak Bali has not only regained its status as a source of local pride but has also begun to reach

a broader market. The Bali Provincial Government recorded that approximately 52 Arak Bali products produced by MSMEs have already been used in various hotels and restaurants. Among these products, several brands such as Balista, Arak Baliku, and Arak Jeruk Cempaka (AWAN) have gradually entered the tourism and hospitality sectors, particularly through bars, restaurants, and cocktail menus in hotels. This phenomenon reflects the growing utilization of Arak Bali within the tourism industry, where it is increasingly used as a mixed beverage ingredient and can be found in various bars and restaurants across Bali (Astuti et al., 2020).

Qualitative findings also show that several Balinese Arak brands have begun to penetrate the tourism and hospitality sectors and have obtained official excise stamps, indicating growing institutional recognition. Informants from artisan cooperatives and local government institutions emphasized that Governor Regulation No. 1 of 2020 plays a crucial role in providing legal protection for Balinese Arak as a distilled beverage. This regulation has increased tourist confidence in consuming Balinese Arak by ensuring improved hygiene and sanitation standards, while also enabling Arak MSMEs to market their products legally and more widely through cooperative-based distribution systems. Field observations also indicate that Arak products from Karangasem have gradually been introduced into hospitality establishments such as hotels and bars, particularly as ingredients for cocktail beverages, reflecting the growing recognition of Arak as a local spirit that complement Bali's tourism experience. In several cases, Arak products from Karangasem have been introduced to hospitality stakeholders in Bali as part of initiatives to expand the market for local alcoholic beverages among international tourists.

Several Balinese Arak brands have shown considerable improvements in packaging in recent years, reflecting growing efforts to enhance product presentation for tourism and premium markets. Brands such as Dewi Sri Arak Bali, Arak Budi Pekerti, Karusotju (Karu), IWAK Arumery, and Arak Bali Karna Premium are examples of premium packaging initiatives. Dewi Sri uses a range of bottle sizes from small to large, with attractive labels that highlight its premium and pure taste, making it popular as a souvenir among tourists. Arak Budi Pekerti incorporates cultural storytelling, featuring visual elements inspired by Balinese culture, including a depiction of a joyful "drunken Buddha" adorned with traditional clothing and tattoos, emphasizing its cultural identity. Karusotju (Karu) uses slim, modern glass bottles to project an artisanal and premium image, with variants such as Karu 18, Karu 38, and Barrel-Aged. IWAK Arumery presents its products in thick glass bottles with aesthetically designed labels, offering fruit- and spice-based variants like Berries, Ameritha, and Mangoestin, often highlighted in prestigious events such as the G20 summit.

Arak Bali Karna Premium employs high-quality glass bottles for its Black and White variants, reinforcing a luxurious and high-class impression.

In contrast, many traditional or small-scale Arak products still use less standardized packaging, particularly for local consumption or as homemade souvenirs. Arak “Lopak” or “Arak Warung” is typically sold in plastic bottles or jerigen containers with no information about alcohol content or production date. Small-scale local brands often use simple paper labels without excise seals or safety caps. Similarly, traditional “Jemblung” Arak is sold in large glass bottles directly from artisans, without modern labeling, mainly for ceremonial or local use.

This analysis shows a clear distinction between premium brands targeting tourism and export markets with professionally designed glass bottles and culturally informed labels, and traditional local Arak that continues to circulate in simple or improvised packaging. These differences directly affect the competitiveness of Balinese Arak, as professionally packaged and branded products can command higher prices, gain access to hotels, restaurants, and bars, and enhance consumer perception, while traditional Arak remains limited to local distribution.

From an economic perspective, the Arak industry provides significant income opportunities for rural communities in Karangasem. Traditional distillation practices using palm sap (*nira*) demonstrate that a small-scale distillation unit can process approximately 160 liters of fermented raw material and produce around 24 liters of Arak with an alcohol content of about 30%. Before the development of formal branding and cooperative-based marketing, locally produced Arak was commonly sold at approximately IDR 30,000 per 600 ml. After being packaged and distributed through village cooperatives or BUMDES, the retail price increased to around IDR 90,000 per 600 ml, illustrating the tangible impact of packaging, branding, and cooperative marketing on enhancing competitiveness.

Packaging development has become an important strategy to strengthen the branding and market positioning of Balinese Arak. The Bali Provincial Government has encouraged producers to improve packaging quality and adopt designs that reflect Balinese cultural identity. One initiative includes a provincial competition aimed at developing innovative packaging designs to enhance product image and support Arak Bali’s positioning within the tourism market (Bali, 2021). In addition, the Governor of Bali has urged producers to incorporate Balinese script into product labels as a way to strengthen cultural authenticity and differentiate Arak Bali from other alcoholic beverages (JawaPos, 2021).

By improving packaging, labeling, and branding, Balinese Arak can compete more effectively with imported alcoholic beverages, maintain local identity, and strengthen its competitive advantage in both domestic and international markets. Enhancing packaging quality therefore not only protects product integrity during transportation and storage but also strengthens market competitiveness by improving consumer perception, brand value, and the potential for wider hospitality sector penetration. These initiatives respond to existing challenges in packaging practices, as Balinese Arak is often marketed using simple plastic or glass bottles that are prone to damage during distribution and may affect product quality during storage (Prawira et al., 2024). Enhancing packaging quality therefore not only protects product integrity during transportation and storage but also improves consumer perception and brand value, which are critical factors for increasing the competitiveness of Balinese Arak in hospitality settings such as hotels, restaurants, and bars.

Buleleng Regency is another region that also produces alcoholic beverages. However, the raw materials are not palm's sap, coconut sap, or snake fruit. Grapes of various varieties grow abundantly in this region, so the most produced alcoholic beverages are wine. Bali has a thriving local wine industry with international quality, centered in Buleleng Regency. Major brands include Hatten Wines (pioneer), Sababay Winery, Isola Wine, Two Islands, and Plaga.

## 4.2 Discussion

This discussion is structured into three analytical stages based on qualitative findings from interviews and focus group discussions. The first analyzes stakeholders' strategic roles in strengthening Balinese Arak's cultural legacy. The second examines how culturally rooted branding, product innovation, and stakeholder collaboration build its competitive advantage in tourism and hospitality. The third is economic value and local livelihood impact of Balinese Arak.

### 4.2.1 Strengthening the Legacy of Balinese Arak

Efforts to strengthen the cultural heritage of Balinese Arak involve not only preserving traditional practices but also transforming cultural values into competitive economic assets. Qualitative findings from interviews and focus group discussions (FGDs) show that artisans, academics, and policymakers view Balinese Arak as a symbol of cultural identity reflecting the philosophy of harmony within Balinese society.

Regulatory support, particularly Bali Governor Regulation No. 1 of 2020, has increased producer awareness and compliance with quality and safety standards. The policy encourages artisan cooperatives and strengthens

production monitoring to prevent counterfeit circulation that could damage reputation (Wijaya et al., 2024; Wijaya et al., 2022). Governance therefore reinforces legality while supporting economic sustainability and heritage protection. FGD results indicate that legal protection alone is insufficient; strengthening cultural narratives through storytelling and public education is equally important. Academics and hoteliers propose positioning Balinese Arak as a “cultural beverage” that conveys Balinese values through sensory experience. Hotels in Ubud and Karangasem have incorporated Arak into cocktail menus and culinary pairings using narratives such as “Arak Api dari Duda” and “Spirit of the Mountain,” demonstrating adaptive innovation rooted in tradition (Figure 1).



Figure 1. The Traditional and Modern Distillation Process of Balinese Arak in Karangasem Regency, Bali (Source: Karta, 2024).

In addition to Arak, the presence of Balinese *Brem* also strengthens Bali’s image as a center of unique traditional fermentation. Research identifies local yeast strains, including *Saccharomyces cerevisiae* and *Wickerhamomyces anomalus*, capable of surviving high ethanol concentrations, indicating scientific potential for standardized fermentation (Lenka et al., 2021; Sujaya, 2011). Artisan cooperatives use this knowledge to improve taste consistency and safety. Integrating modern science with local wisdom reflects adaptive heritage, whereby cultural values are transformed within a modern economy (Harrison et al., 2015).

Stakeholders further emphasized that sustainable commercialization depends on ethical production standards and coordinated brand governance across the value chain. Discussions highlighted traceability, fair artisan pricing, export readiness, and long-term reputation management rather than ritual symbolism. These elements position Balinese Arak as a heritage-based product capable of competing in tourism and international markets.

#### 4.2.2 *Branding Strategy and Competitive Advantage of Balinese Arak as Local Wisdom*

The branding strategy of Balinese Arak as a local wisdom-based product emphasizes transforming cultural values, quality control, and stakeholder collaboration into sustainable competitive advantage. Interviews with Mr Lobar (2024), he is the expert of traditional Arak artisan in Karangasem stated that Arak cooperative and tourism distributors indicate that strong branding must highlight local identity, cultural narratives, and standardized production quality.

Balinese Arak possesses strong differentiation compared to imported alcoholic beverages due to its cultural authenticity. Branding therefore emphasizes not only taste or alcohol content but also the social and spiritual narratives embedded in its production. FGD participants from the hotel industry described it as a “spirit with a story” that conveys Balinese identity and philosophy. Story-driven branding rooted in philosophical meanings such as purity, solidarity, and balance functions as experiential branding, particularly appealing to cultural and ecotourism markets seeking authentic encounters.

Product innovation further strengthens competitive positioning through modern packaging, improved hygiene, and diversification via tropical fruit infusions and local flower flavors. Cooperatives such as Arak Duda and Arak Iwak apply value co-creation with hotel baristas to develop signature cocktails, integrating tradition with contemporary mixology.

Qualitative evidence from Dayu (2024) the owner of Arak Iwak, interviewed the French tourists who sampled Iwak Arak-based cocktails further confirms the product’s international appeal (Figure 2). The tourists described the beverage as unique, flavorful, and surprisingly refined. Several tourists emphasized the smooth texture combined with a warm alcoholic sensation, while others highlighted distinctive spice and hibiscus notes that created a memorable sensory experience. One tourist referred to the drink as “very structured yet complex,” while another described it as an “original discovery” that they hoped to find in France. These responses indicate that Balinese Arak, when properly branded and presented through modern mixology, possesses strong experiential value and cross-cultural market acceptance.

Such collaborative innovation expands market reach and elevates perceived value among premium consumers. By bridging tradition and modern hospitality standards, Arak Bali strengthens its competitiveness within tourism. Place-based branding also reinforces identity. Labels such as “Arak Karangasem” or “Arak Sidemen” emphasize geographical origin and terroir authenticity. Academics link this approach to the concept of Geographical Indication (GI), protecting identity while supporting export potential and culture-based tourism development (Harini et al., 2018; Harrison et al., 2015).

Brem Bali complements this strategy by reinforcing Bali's image as a center of traditional fermentation. Known among Japanese tourists as "Bali's sake" due to similar fermentation characteristics (Sujaya, 2011). Brem and Arak are often combined in tasting sessions, creating a culturally cohesive beverage portfolio.

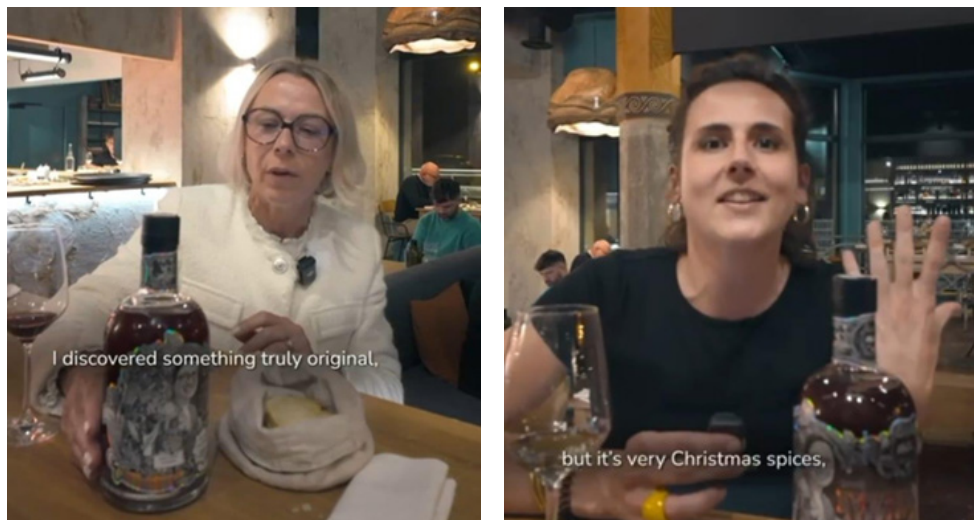


Figure 2. Testimony of France Guest in IWAK Bar (Source: Dayu's - Arak Iwak documentation, 2024).

Findings indicate that successful branding relies on three interrelated factors: cross-sector collaboration, cultural legitimacy, and targeted innovation. Collaboration aligns traditional producers with modern hospitality actors; cultural legitimacy ensures innovations respect local philosophy; targeted innovation sustains quality and safety. This reflects inclusive branding balancing culture and commerce (Lundgren & McMakin, 2009).

Branding thus functions not merely as promotion but as a strategic instrument for market expansion and global competitiveness. Within hospitality, Arak Bali operates as cultural diplomacy, presenting Balinese identity through gastronomy. Supported by governance and adaptive innovation, it holds potential as a heritage-based global beverage icon.

Beyond established brands, many artisan-produced Arak brands continue to emerge across Bali (Setini et al., 2024). Attractive packaging and professional presentation demonstrate evolving community-level branding capacity. Several brands have entered hospitality venues and export markets, positioning legalized Arak as a heritage-based premium product and potential "seventh spirit" export (Priantara, 2019).

Government regulation has accelerated this transformation by formalizing governance and distribution frameworks, shifting Arak from informal practice to regulated heritage industry (Gotama & Yustiawan, 2022; Wijaya et al., 2022). Regulation enhances credibility and market trust, enabling synergy between artisans, institutions, and inclusive governance to expand reach and economic value.

#### 4.2.3 *Economic Value and Local Livelihood Impact of Balinese Arak*

Previous studies highlighted that the development of Arak Bali was constrained by strict regulatory frameworks, including its classification as an alcoholic beverage and restrictions imposed by the negative investment list (Priantara, 2019). In addition, although Bali Governor Regulation No. 1 of 2020 was introduced to legitimize and manage Arak production, effective collaboration among government institutions, producers, and communities has remained a key challenge in strengthening the brand and improving market competitiveness (Widhiasthinia et al., 2020). However, the findings of this study indicate that recent policy reforms, together with the strengthening of producer cooperatives, have improved the economic conditions of local artisans in Karangasem Regency by integrating them into a more organized supply chain that supplies raw materials to several Arak industries in Bali. As a result, many producers reported increased per capita income after joining cooperative-based production and marketing systems, reflecting the positive economic impact of formal governance and collective market access.

The economic sustainability of the Arak industry is further supported by the abundance of local raw materials, including palm sap (*nira enau*), lontar sap, and fruits such as salak, which are widely available in rural areas of Karangasem and closely link production with local agricultural resources and community livelihoods (Pranatayana & Arcana, 2021). Informants also highlighted that the high quality of Arak produced in Karangasem has attracted growing interest from external markets, with several foreign investors exploring its potential as a raw material for alcoholic beverages such as sake and other distilled products. These developments demonstrate that the Balinese Arak industry not only contributes to rural income generation but also creates broader economic opportunities, particularly through its expanding role in tourism and hospitality markets (Wijaya et al., 2022; Wiramatika & Sumardani, 2025). In this context, the institutionalization of cooperatives, combined with market expansion and policy support, plays a crucial role in transforming traditional Arak production into a sustainable rural economic sector.

## Conclusion and Recommendations

This study concludes that the competitiveness and market positioning of Balinese Arak within Bali's hospitality and tourism industry is shaped by three interrelated elements: coherent brand governance, stakeholder collaboration, and adaptive market-oriented branding strategies. Cultural legitimacy remains important to ensure that traditional values are respected, while governance involving key stakeholders provides legal protection and supports economic sustainability.

Meanwhile, innovative and adaptive branding strategies enable Balinese Arak to enhance its competitiveness without losing its local identity. However, fragmented pricing structures, inconsistent quality perceptions, and uneven positioning across hospitality venues indicate the need for stronger coordination and standardization. Through the synergy of these three aspects, Balinese Arak has the potential to become a strategically positioned heritage-based spirit that strengthens Bali's image as a tourism destination, while also offering a model for integrating cultural products into the global hospitality and creative industry. Balinese Arak shows strong potential to be integrated into mixology menus and culinary tourism experiences. Thus, branding success is not solely determined by visual communication or promotion, but also by solid governance and collaboration among key actors within the Balinese Arak ecosystem.

Based on these findings, this study recommends strengthening cross-sector collaboration to ensure the long-term sustainability of the Balinese Arak industry. Policymakers should continue refining regulatory frameworks that balance cultural recognition, public health, and economic competitiveness. Attention should be given to stabilizing pricing mechanisms, improving quality assurance systems, and clarifying market segmentation to strengthen consumer trust and premium positioning. At the same time, stakeholders are encouraged to develop place-based and story-driven branding strategies that align with local identity while responding to global market expectations. Through participatory governance and coordinated branding strategies, Balinese Arak has strong potential to emerge as a sustainable cultural icon and a competitive asset within the hospitality and tourism sector.

## AI Use Statement

The author used generative AI tools solely for language support, including checking grammar, improving clarity of expression, maintaining consistency of terminology, and enhancing coherence between paragraphs. The author takes full responsibility for the content, interpretation, and final wording of the manuscript.

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