



Business Model Innovation Strategy for Creative Industry in Indonesia

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ABSTRACT: Indonesia's creative economy sector has been a promising GDP source based on its steadily increasing performance since 2010. Around 70% of the businesses in this sector are said to be Micro, Small, and Medium Enterprises (MSMEs). Just like any other business, MSMEs also faces challenges not only from internal but also an external factor, hence it is crucial for an MSME's survival to have resilience in facing problems and uncertainties. One way to assure a business' resilience is by developing a competitive advantage that could be achieved with a good business model that can develop according to the internal and external situation through periodical evaluation and innovation. stellar/coronae as one of the MSMEs in the creative industry also faces challenges in the form of the appearance of a lot of new entrants and competitors, causing the current market they are operating in to turn into a red ocean. By using the blue ocean strategy, stellar/coronae looks for opportunities in creating a new market instead of competing in the existing red ocean by outperforming the competitors. This strategy of business model innovation is commenced with an external analysis of the business model environment to see possible opportunities and threats, followed by an internal analysis of the strength, weaknesses, opportunities, and threats evaluation of the current business model. The result of these two explorations is then combined using the four actions-framework to see what could be eliminated, reduced, raised, and created from the existing business model. The end product will be in the form of a business model where stellar/coronae not competing with the red ocean any longer but providing a new value proposition in the blue ocean.

KEYWORDS: Business model innovation, Business model innovation strategy, Business model canvas, Blue ocean strategy, Creative industry, Four actions framework

I. INTRODUCTION

The creative economy in Indonesia has been flourishing for the past few years and is deemed to be a promising source of GDP for the foreseeable future. Based on the Creative Economy Statistics report released by the Ministry of Tourism in 2020, the GDP from the creative economy sector has been steadily increasing since 2010. Focus Economy Outlook 2020 mentions that the creative economy sector contributed as much as 1.100 trillion to Indonesia's GDP in 2020. Aside from the notable GDP contribution, this sector has also taken its part in labor distribution with around 19.2 million people working in this sector, which is 15,21% alone of the National Labor count. It also has a bigger labor growth of 4,02%, compared to the nation's 2,02%. Around 70% of the businesses in this sector are said to be Micro, Small, and Medium Enterprises (MSMEs) [1], and they are spread over seventeen subsectors of the creative economy. Those subsectors are application, architecture, visual communication design, product design, interior design, photography, music, craft, culinary, fashion, publishing, film-animation-video, advertising, interactive game, performing arts, fine art, and TV-radio.

Just like any other business, these MSMEs also face not only internal but also external challenges. In addition to tackling each of their own weaknesses in operating their business, external aspects such as political, economic, social, and also technological factors either could be an opportunity or threat for the MSMEs in doing their business, especially in an unstable situation caused by the pandemic in the recent years. This is why it's important to understand the environment where their business operates in order to adapt the business model accordingly to external forces [2]. To be able to adapt, an evaluation regarding the business environment and also a prior evaluation needs to be done to the existing model. From the gathered data, opportunities could be listed as options to improve the business model. These options could be in the form of new product development, opening a new channel of distribution, or even initiating a collaboration with other MSMEs [2].

stellar/coronae, a local brand based in Bandung, Indonesia, is part of the craft subsector in the creative economy, and also one of the many MSMEs facing numerous challenges in its business operations. They were founded in 2017 by one illustrator and one florist. This small business specializes in making creations from dried, pressed, and preserved flowers, and currently has three running product lines: gifts, bridal, and accessories. This research will be focusing on the gift product line where stellar/coronae is creating a

customized gift, able to be personalized with writings, photos, and even illustrations. Not only for regular occasions such as birthdays, graduations, and anniversaries, they also provide thematic and seasonal gifts such as for Valentine’s Day or Christmas.

II. LITERATURE REVIEW

One way to gain resilience is by having a competitive advantage, and it could be achieved by having a good business model [3]. A business model could be described as how an organization creates, delivers, and captures value [2]. To see this creation and delivery of value in a more detailed manner, a framework called Business Model Canvas could help business owners understand the big picture of the creation-delivery-and value-capturing activities better.

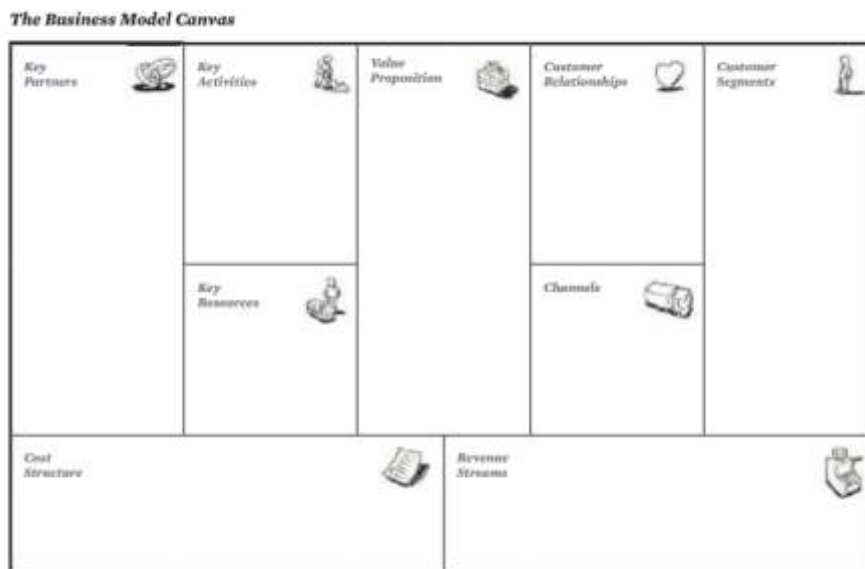


Figure 1. Business model canvas (Osterwalder & Pigneur, 2010)

The business model then needs to be evaluated periodically and assessed, where the result can be used to formulate strategies and innovations for a better business model. Business model innovation should be challenging the previous practices to design models catering to unsatisfied, new, or hidden customer needs [2]. The understanding of the business model environment supported by the evaluation of the existing business model’s Strengths, Weaknesses, Opportunities, and Threats (SWOT) is important to be the foundation for said innovation.

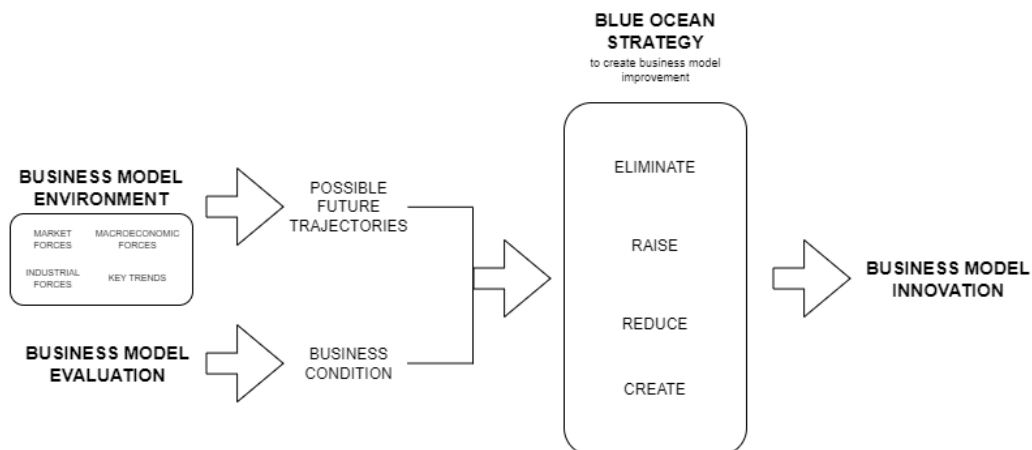


Figure 2. Conceptual framework (Osterwalder & Pigneur, 2010)

Figure 2 shows the step-by-step of how a business model innovation could be generated using the blue ocean strategy. First, an external and internal analysis regarding the business is done to get possible future trajectories and also the current business condition. The external analysis is done using a business model environment, where the market forces, industry forces, key trends, and macroeconomic forces are all explored in order to identify factors that could influence where the business is going. Meanwhile, the internal analysis is using business model evaluation to explore the current business model's SWOT.

The Blue Ocean Strategy by Kim and Mauborgne [4] helps to pose questions for existing value propositions and also explore new customer segments. Instead of competing in the red ocean to beat and outperform the other competitors, a company focuses on making the competition irrelevant by making innovation value for both the customers and the company [4] by raising value and reducing costs simultaneously. Through this, a business could create a new market in which the business fundamentals are changed and provide new values for customers [4]. In creating this blue ocean strategy, four questions are asked to challenge the previous business model, known as the four actions framework, and accompanied by the ERRC (eliminate, reduce, raise, create) grid as an analytical tool for applying each question to the existing business model.

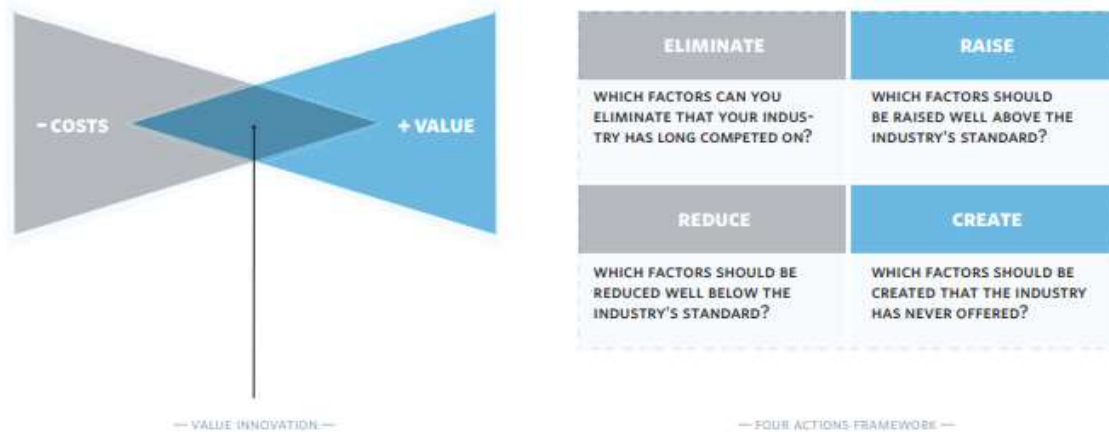


Figure 3. Conceptual framework (Osterwalder & Pigneur, 2010)

III. RESEARCH METHODOLOGY

This research will be done with a mixed method with an ethnography approach using a combination of in-depth interviews, field observation, surveys, and also Focus Group Discussion (FGD). The qualitative method is seen as the suitable technique as this research is not only trying to confirm a hypothesis and validity of a theory but also to seek further insight from the stakeholders. Meanwhile, the ethnography approach is deemed appropriate as the researcher works in stellar/coronae, thus being able to observe closely and get needed information and data regarding the environment and business practices of stellar/coronae.

IV. ANALYSIS AND RESULT

In this section, the analysis will be done by doing an external analysis of the business model environment first, and then followed by an internal analysis of the existing business model's evaluation. The result from these two analyses will be then combined and analyzed further to see possible improvements for the business model.

A. Business Model Environment

The business model environment analysis shows that there is a market segment of people who are interested in seasonal hampers, since it is common to send gifts during big occasions such as Eid, Christmas, or Valentine's Day. This is supported by the trend of sending hampers and seasonal gifts to families, friends, and colleagues. Another aspect found is that customers are willing to pay for extra personalization for the gifts they send to other people, and there is a trend of showing the gifts received on social media either as part of the post or as the main focus of the post. Meanwhile, from the observations towards competitors and new entrants in general, the entry barrier is low due to the fact that the suppliers are easily found in e-commerce and the making process is not hard to be imitated. This poses threat to stellar/coronae and in effect turns the market into a red ocean rapidly.



B. Business Model Evaluation

Meanwhile, from the business model evaluation, the following is the current business model and the SWOT analysis.

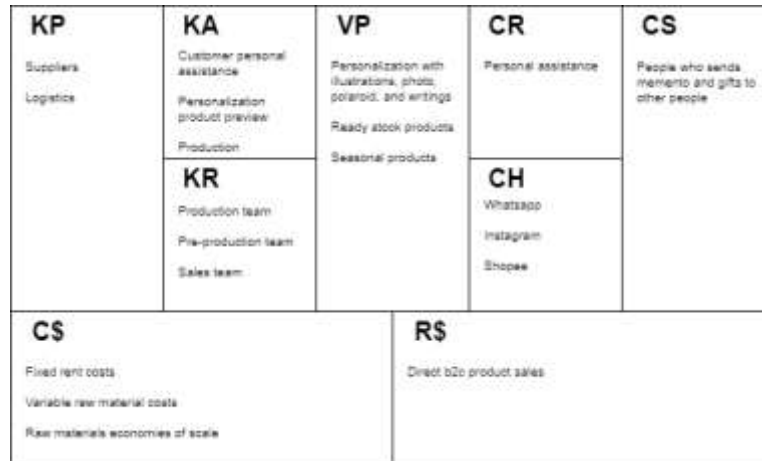


Figure 4. Current business model canvas

Table I. Business model evaluation assessment

Strength	<ul style="list-style-type: none"> - Personalization as a value proposition - Providing seasonal products - Providing personal assistance to the customer
Weakness	High cost before revenue due to stocking up on raw materials, especially to make ready stocks
Opportunity	<ul style="list-style-type: none"> - Customer segments of people who use seasonal gifts as seasonal decor - Furthering the display function of the gift as an actual display to be used in social media, for example as decorations for influencers or home-cafe creators - Increasing raw material economies of scale
Threat	Low entry barrier, resulting in a lot of new entrants with cheaper products entering the market, although with lower product quality too

C. The Four Actions Framework and ERRC Grid

After getting the analysis results from the business model environment and the business model evaluation, there are a few things that could be combined to create an opportunity for the blue ocean. The trend of giving seasonal gifts and showing them off in the business model environment could be combined with the opportunity in furthering the display function of the gift product. If originally what is happening in the red ocean is businesses competing to sell seasonal gifts and products, then with the furthering the display function stellar/coronae could offer the seasonal gifts not as something to be purchased, but as something to be rented. It is well-known that seasonal gifts and decors are only used occasionally if not once a year, hence turning it into something akin to deadstock for the owners. Meanwhile, a new trend of seasonal décor could very possibly happen, making the previous decors obsolete. By providing the renting option, customers could have the current in-trend seasonal decors that they need, while reducing the cost borne when the decors are not used anymore. For the customer, the value is raised as they can have the seasonal décor they need at a cheaper price than buying one. For stellar/coronae, the cost is lowered as when the products are returned, these can be reassembled and repurposed into another product, hence raising the scale of the economy of existing raw materials. By adding this value proposition of renting them, stellar/coronae could maximize the personalization for each rent/subscription use, eliminating the ready stock value proposition



which is something that is competed in the red ocean, and providing a personalization that is usually limited in rented products. Below is the modified business model of stellar/coronae.

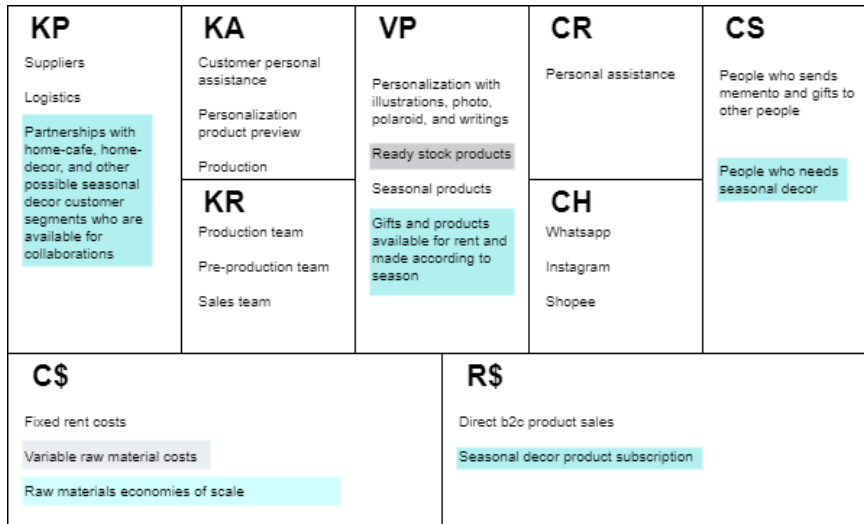


Figure 4. Modified business model canvas

The points changed in the existing model along with the affected business model blocks are:

Table II. ERRC Grid

Eliminate	Raise
ready stock products in order to focus on providing maximum personalization service for the subscription service	raw materials economies of scale, since after the products are returned then they could be repurposed for other products
Reduce	Create
variable raw material costs as the effect of eliminating ready-stock products	<ul style="list-style-type: none"> - new customer segments of people who need seasonal decors - the value proposition of the gifts and products available for rent/subscription - partnerships with the customer segments who need seasonal decor regularly such as home decor and home cafes, new revenue streams by providing seasonal decor product subscription

From this, stellar/coronae moved from selling regular and seasonal gifts and products, either ready stocks or personalized ones, to provide additional service of renting and subscription of said products. Instead of competing in the red ocean of selling gifts, stellar/coronae moves to a new market for people who needs them as temporary decor, hence the rent/subscription system.

D. Implementation

The implementation of this new business model should be accompanied by a market study first since in the blue ocean strategy the business approach a new market, different from the previous one. Aside from the market study, stellar/coronae should also do a few



internal assessments such as the team members and business capacity assessment to see how the change should be brought into the business. Risk assessment and a backup plan should also be done to explore possibilities of the worst-case scenario including the plan to lessen the effect of the risks taken should anything happen in the implementation. Finally, a periodical evaluation should be done to see whether the step-by-step changes are working well or if there are any changes need to be done to the implementation plan.

V. CONCLUSION

The beginning of the utilization of blue ocean strategy always started with the fact that the current market where the business is operating is already a red ocean, hence competing and trying to outperform the competitors will be very difficult. Instead, by performing the blue ocean strategy, a business could see opportunities that haven't been explored before. These opportunities are generated from a thorough analysis of the external aspects of the business model environment and the internal aspects of business model innovation. Through cross-referencing of the analysis results and the further application of the four actions framework, new opportunities are discovered, modifying the current business model through eliminating, reducing, raising, and creating aspects in each business model canvas block.

stellar/coronae which is threatened by the rising number of competitors and new entrants in the current red ocean market could develop a competitive advantage by doing a business model innovation using the blue ocean strategy. They shifted from selling to providing rent/subscription of the products, exposing a new market segment with new needs. If done with the right implementation steps, this shift could be a breakthrough in helping stellar/coronae and any MSMEs facing this threat out from the red ocean market.

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