



Validation of Business Model Innovation for Digitized Product and Service-Based Activities in the Core Business (A Case Study in the Microenterprise 'Buwah')

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ABSTRACT: The contemporary beverage sector within the Small and Medium-sized Enterprises (SMEs) domain is currently a favored industry among millennial entrepreneurs. According to the Indonesian Creative Economy Agency, the creative industry sector has the potential to contribute to national growth for business players in Indonesia. The issue faced by Buwah SMEs is a drastic decrease in revenue over the past two months, despite the promising start of their sales outlet openings. The primary objective of this research endeavor is to elucidate the business model of Buwah SMEs through the utilization of the business model validation methodology. This research seeks to delineate and validate the assumptions underpinning the innovation of product and service business models of Buwah SMEs, prioritizing those requiring immediate validation. Furthermore, the research aims to delineate strategies for business expansion predicated on digitalization, particularly in the core activities of Buwah SMEs. This research adheres to a descriptive approach with a qualitative orientation. Data collection methodologies encompass three core techniques: observation, interviews, and documentation. The research findings reveal the validation of four (4) specific blocks within the Business Model Canvas. These validations encompass hypothesis 1 within the customer segment block, hypotheses 2 and 3 within the Value Propositions block, hypothesis 5 within the customer relationship block, and hypothesis 9 within the revenue streams block. Future research recommendations include a comprehensive exploration of the Business Model Canvas blocks that have not been examined in this study, as this research only focuses on four blocks. Based on the research findings, practical recommendations have been formulated, which Buwah may judiciously consider for prospective business development endeavors.

KEYWORDS: Business Model validation, Entrepreneur, MSME.

INTRODUCTION

The creative industry sector in Indonesia has the potential to generate national growth for business actors in Indonesia. According to the 2020 Creative Economy Agency Performance Report, the development of the creative industry is marked by an increase in GDP every year, where in the last 4 (four) years, the creative industry has been able to make an increasing contribution to Gross Domestic Product (GDP) [1]. The increase in GDP figures is influenced by 16 subsectors in the Creative Industries in Indonesia, namely, crafts, culinary, music, architecture, visual communication design, interior design, film, animation, product design application and game developers, publishing, fashion, advertising, television and radio, fine arts, performing arts. Based on the 16 sections above, the one that has had the biggest impact on increasing GDP figures is the culinary sector. The contemporary beverage business is currently being looked at by many Indonesian people. Apart from the popular factor, the manufacturing process is simple so it often attracts the hearts of business people who have just entered the world of Food and Beverage (F&B) [2]. The Solok City Government is currently focusing on developing the creative economy and processed food, such as weaving or batik, wants to penetrate the national market, and for processed food the focus is on food safety and hygiene. Many product promotions are carried out through social media, galleries and exhibitions, the Solok City Government also runs several programs to introduce facilities, promotion access and marketing of Solok City MSME products to a wider market. The Municipal Government of Solok City also helps through the E-UMKM Manjua application, where every business actor can promote their products, there you can immediately note what the product is, the quantity, and how long it expires, all products can be placed there (Padek.jawapos.com, 2022). The development of MSMEs has not increased and is unable to survive, especially during the recent pandemic, most of them still use conventional or traditional methods. MSMEs must follow the development of information technology which is getting stronger day by day, so that MSMEs inevitably have to try hard to keep up with it so that they are able to survive and develop with the use of information technology. The problem currently being experienced by UMKM Buwah is the drastic decline in turnover in the last



two months, even though at the beginning of the opening of the outlet, UMKM Buah sales were very high and the Founder of UMKM Buah had made several additional product innovations but there was no effect on sales or the level of visits from customers. The decline in turnover and profits which continued to fall and occurred very significantly shocked the Founder of Buah, who felt that he would go bankrupt if he did not implement a strategy in his business and therefore the researcher conducted a short, unstructured interview with the Founder of Buah. From the results of a short interview with the Founder of Buah, it can be concluded that the competition in the city of Solok is quite tough because there are many similar business actors and the number of people is small. This makes observations by going around the city looking at similar business actors to determine whether or not there are many similar businesses from the findings. In the field, it turns out that it is true that there are many contemporary beverage businesses in the city, especially since many people want to try the contemporary beverage business because it is relatively easy to open one. In innovation, Buah UMKM has created a croffel food menu to increase sales but according to the Founder himself, it is not very significant, then he also made product development by presenting a milkshake menu made from powder and it turns out it also did not increase sales. Researchers feel that the innovation carried out by UMKM Buah did not carry out market research first because they did not know how to research the market and how to validate the business model. The founder himself revealed that lack of understanding in managing raw material purchases also resulted in frequent excess purchases of raw materials each month resulting in reduced profits. Innovation in digitizing MSMEs in Solok is still lacking so researchers will use digital innovation in developing Buah MSME businesses. For example, we will optimize cashless payments and online orders so that services are more practical so that customers find it more comfortable and easy to shop. Utilization of social media in marketing and branding.

LITERATURE REVIEW

A. Business Model

A business model refers to the structure of rules and moral values that must be applied in carrying out business activities. This business model provides companies with strategic direction in both the long and short term. In addition, a business model is also a method used by companies to generate revenue in the context of the business environment in which they operate. In other words, a business model explains how an organization creates, provides, and extracts added value in its business processes (Hunger and Wheelen, 2012). [3]

B. Product Development

Technical activities such as product research, product changes, and product design are referred to as product development, according to Staton (1996). Product development is an effort to increase value by improving, perfecting and adding new value to existing products, with the aim of increasing customer satisfaction and reaching new markets (Galih Ligar, 2022). [4]

C. Business Model Validation

Business model validation is a series of actions taken to assess whether there is a match between the value of a product or service and the needs and interests of society or customers. Therefore, validating the business model is an important step to ensure that the value delivered through the product can be accepted by consumers who are the target market (Ligar, Galih, 2022). [5]

D. Decision

According to (Osterwalder and Bland, 2019), decision making is the stage of turning insight into action. In testing a business idea, actions involve testing and eliminating risks in the business idea, making decisions based on learnings, and making decisions to abandon, change, and/or test the business idea further. [6]

E. Hypothesis

Customer Segment	We believe that our customer segment is male or female who is already aware of health, aged 30-65 years, lives in the Solok city area, West Sumatra province with an average income of over 5 million and has a practical lifestyle.
Value Proposition	We believe that the value of our products is healthy drinks without added artificial sweeteners.
	We believe that the "Buwah" Health App which has a system feature for recording product consumption by users can make it easier to see the success of body goals.



Channel	We believe that sales channels consist of offline sales (Outlets) and online sales (Gofood).
Customer Relationships	We believe that the buy two get one free program will increase the number of customers who become members.
Key Activities	We believe that we can effectively manage all activities (product sales and marketing activities) needed to build a sustainable business model (generating significant profits).
Key Resources	We believe that we can manage Buwah's overall resources (HR, Physical Assets, Finance) optimally to build a sustainable business model (generating significant profits).
Key Partnership	We believe that we can manage all partners (raw material suppliers, online cashier service providers) optimally to build a sustainable business model (generating significant profits).
Revenue Streams	We believe consumers will buy through offline and online product sales.
Cost Structure	We believe that we can manage the overall costs of running this business efficiently to build a sustainable business model (generating significant profits).
Profit	We believe that Buwah can generate more turnover than the costs that will be incurred so that it can generate significant profits.

METHODOLOGY

This research is descriptive in nature with a qualitative approach. Qualitative research is a study of the conditions of scientific objects, where the researcher serves as the key instrument. Data collection techniques are applied using a combination of observation, interviews, documentation, and inductive or qualitative data analysis [10]. The methodology used in this research is qualitative. According to [10] research on the conditions of scientific objects, where the researcher serves as the key instrument, involves data collection techniques applied with a combination of observation, interviews, documentation, and inductive or qualitative data analysis. In this study, research findings are presented based on data collected and obtained from the field, following [11]. The reason the researcher chose inductive research is because this study will explain results based on data obtained from the field. The unit of analysis chosen by the researcher in this study is the organizational unit because the research subject is the UMKM named Buwah.

The researcher's involvement in this study is at a minimal level, where the researcher conducts the study in a natural setting with minimal involvement and in the normal workflow. In this research, the researcher conducts the study without interference, maintaining the normal workflow. This study is conducted in a natural environment where events occur normally or naturally without artificial manipulation. In selecting the research time, the researcher chose cross-sectional because the research is conducted at a single point in time. The cross-sectional method occurs when data collection is done in one period, followed by data processing, analysis, and drawing conclusions, according to [5].

The case study selected for this research is the SMEs named Buwah. Data collection involves interviews with the founder of Buwah and direct observation and documentation by the researcher to understand the follow-up from the findings of validating the business model innovation of products and services by SMEs Buwah. In the interview stage with the founder, data regarding the business model canvas of SMEs Buwah is obtained, followed by observation and interviews with customers. Afterward, the data obtained from customers are used to assess the alignment between the values needed by customers and the values offered by SMEs Buwah.

The social situation used in this research includes: place, which will be carried out in the city of Solok; actor, which is the owner of SMEs Buwah; and activity, which aims to understand the needs and desires of customers regarding the products owned by SMEs Buwah and the values needed by customers. Three methods can be used to collect data: observation, interviews, and documentation, as explained by [10]. The data obtained are divided into two types: primary data and secondary data.

Qualitative research allows verification of findings or data when there is no difference between what the researcher reports and what actually happens with the subjects. It is important to note that, according to qualitative research, the truth of actual data is not singular and depends on the researcher's ability to construct the observed phenomena [9]. Aspects that determine the quality of the researcher include Construct Validity, Credibility, Transferability, and Dependability. In this study, testing is conducted by auditing the entire research process.



According to [10], qualitative data analysis involves the process of collecting data from interviews, field notes, and documents. This data is then organized into categories, broken down into units, integrated, and classified. This process involves a systematic search and matching by selecting relevant information, as well as drawing conclusions to facilitate understanding. For research that involves coding, there are three stages according to [8]: open coding, axial coding, and selective coding.

RESULT AND DISCUSSION

This research is conducted to validate the business model of a contemporary micro-business in the Food and Beverage (FnB) or culinary sector named Buwah. The main informant is the business owner, Fadel Muhammad Jamil. In this study, interviews were also conducted with 10 Buwah consumers aged between 30 and 60, falling within the age category of Buwah's target customers. The interviews with customers aim to support and reinforce the results of previous interviews.

Analysis of Hypothesis Buwah

Hypothesis		Very Impactful / Less Impactful	There is evidence / There is no evidence	Code
Customer segment	We believe that our customer segment consists of men or women who already have awareness about health, aged between 30 to 60 years old, residing in the city of Solok, West Sumatra province, with an average income above 5 million, and having a practical lifestyle.	Very Impactful	There is still little evidence because the sales are still to women and men from Generation Z and millennials, as well as young mothers in their 30s.	H1 (Kuadran 1)
Value Proposition	We believe that the value of our product lies in being a healthy beverage without artificial sweeteners	Very Impactful	There is no evidence yet because consumers are not aware of the product without artificial sweeteners	H2 (Kuadran 1)
	We also believe that the 'Buwah' Health App, which features a consumption tracking system for users, can facilitate an easy way to monitor the success of their body goals	Very Impactful	There is no evidence yet because consumers are not aware of the existence of the 'Buwah' Health App.	H3 (Kuadran 1)
Channel	We believe that our sales channels include both offline sales (through outlets) and online sales (via Gofood).	Impactful	There is already sufficient evidence for both offline and online sales	H4 (Kuadran 2)



Hypothesis		Very Impactful / Less Impactful	There is evidence / There is no evidence	Code
Customer Relationship	We also believe that a 'buy 2 get 1 free' program will increase the number of customers joining as members.	Impactful	There is no evidence yet because the program has not been implemented.	H5 (Kuadran 1)
Key Activities	We believe that we can effectively manage all activities (product sales and marketing activities) needed to build a sustainable business model (generating significant profits)	Impactful	There is already enough evidence with the presence of profit even though it is not yet optimal.	H6 (Kuadran 2)
Key Resources	We believe that we can optimize all resources of Buah (human resources, physical assets, and finances) to build a sustainable business model (generating significant profits)	Impactful	There is enough evidence with the existence of profit even though it's not yet optimal	H7 (Kuadran 2)
Key Partner	We believe that we can efficiently manage all partners (raw material suppliers, online cashier service providers) to build a sustainable business model (generating significant profits)	Impactful	There is enough evidence because the business is already running.	H8 (Kuadran 2)
Revenue Streams	We believe that customers are willing to pay Rp.60,000 for one package of drinks (containing 3 bottles).	Very Impactful	There is not enough evidence because the product is still new.	H9 (Kuadran 1)
Cost Structure	We believe that we can efficiently manage all costs associated with running this business to build a sustainable business model (generating significant profits).	Very Impactful	There is enough evidence with the existence of profit even though it's not yet optimal.	H10 (Kuadran 2)
Profit	We believe that Buah can generate more revenue than the costs incurred, resulting in significant profits.	Very Impactful	There is enough evidence with the existence of profit even though it's not yet optimal	H11 (Kuadran 2)



Based on the 11 hypotheses in the table above, the hypothesis that is most risky, being both highly impactful and having little evidence, is located in quadrant 1. Product development is carried out to provide added value that can satisfy Buwah's consumers. Product development in this study focuses on five hypotheses that have been tested and validated. Here are those five hypotheses and their discussions:

Hypothesis 1

The validated Hypothesis 1 is located in the customer segment block, targeting men or women aged 30 to 60 who are health-conscious, residing in the city of Solok, West Sumatra province, with an average income above Rp.5,000,000 and a practical lifestyle. According to [7], the customer segment is a group of people or organizations that differ, and the company aims to reach and serve them.

Hypothesis 2

The validated Hypothesis 2 is located in the Value Propositions block, which is offering a healthy drink without artificial sweeteners. This hypothesis is supported by the statement of a nutrition expert from America, emphasizing the strong relationship between soda, sweet drinks, weight gain, and an increased risk of disease. The expert also recommends avoiding unhealthy or sweet foods too often as it can trigger diabetes. [6] suggest avoiding preserved or canned foods due to high salt content, and reducing sugar consumption.

Hypothesis 3

The validated Hypothesis 3 is located in the Value Propositions block, involving the presence of the "Buwah" mobile app with a consumption tracking system to facilitate users in monitoring the success of their body goals.

Hypothesis 5

The validated Hypothesis 5 is in the customer relationship block, stating that the 'buy two get one free' program will increase the number of customers joining as members. With the member card, the company can track the number of customers and evaluate its impact on the company, assessing whether the use of the member card is beneficial for both the company and the cardholders [12].

Hypothesis 9

The validated Hypothesis 9 is in the revenue streams block, indicating that customers are willing to pay Rp.60,000 for one package of drinks containing 3 bottles. The price's adequacy can be seen from the perspective of benefits, where consumers decide to buy a product if the perceived benefits are equal to or greater than the cost. In this case, Buwah successfully sells the drink package to customers. Revenue is a recurring income generated from ongoing payments for providing value propositions to customers or supporting customers post-purchase [7].

CONCLUSION AND RECOMMENDATION

After conducting research on the Buwah business based on the findings, analysis, and discussions, the researcher draws the following conclusions:

The research results indicate that there are four [4] validated business models, namely validated hypothesis 1 located in the customer segment block, validated hypotheses 2 and 3 located in the Value Propositions block, validated hypothesis 5 found in the customer relationship block, and validated hypothesis 9 found in the revenue streams block.

There are 4 assumptions of the innovative product and service business model from Buwah SMEs that are considered a priority for immediate validation.

Business development strategies based on digitization of the main activities of Buwah SMEs are obtained from testing to validate the Business Model Canvas development for the Buwah business. The learning obtained from testing each trial using different methods produces business development strategies that can be recommended to Buwah for the development of its business. The recommended business development strategies are found in the practical advice sub-chapter.

RECOMMENDATIONS

A. Academic Recommendations:

For further research, it is recommended to explore other blocks of the Business Model Canvas that have not been examined in this study. This research focused only on four blocks: value propositions, customer segment, customer relationship, and revenue



streams. To obtain a broader and deeper understanding of business model validation with business idea testing theory, research can be conducted on other blocks using different testing tools or methods.

B. Practical Recommendations:

Focus on developing the Instagram account to attract more customer purchases. In this regard, Buah can collaborate with a social media management agency to create attractive content.

Advertise more frequently on Instagram for product sales and introduction. In this regard, Buah can use professional services to manage paid Instagram ads to target the desired audience and make sponsored costs effective.

Product innovation or product development to be sold should be researched first to match the tastes and needs of the market.

The creation of the Buah Mobile App can be done immediately considering the research results that prove that the mobile app is desired by Buah customers. The creation of the mobile app can be entrusted to third parties as this requires professional mobile app development services.

In terms of promotions, Buah should be able to run attractive promotions and implement special membership programs to increase customer purchases and, of course, continue to make a profit for Buah. Membership programs can be implemented to bind customers to remain Buah customers.

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