

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND

Changes in life, along with transitions in life, is the most exciting part and at the same time also a challenge for people who must leave their city or country to work in another place. Similar situation also happens to those who have just begun a married life and wish to upgrade their level of life, particularly in terms of finances.

People in the preceding illustrations may face obstacles, difficulties and needs to do extra efforts to start with as each person deals with a new divergent journey of life. Take people moving to a new country, for instance, who while facing a lot of pressure and culture shock in adapting to completely different atmosphere from their homeland, must find a comfortable house or apartment to stay with family, search for schools for their children and familiarize with new living and working environments. Most expatriates work in Indonesia temporarily for at least 2 years. However, the challenge did not halt there because even after getting a house or apartment, due to a huge variety of taste and culture, each expatriate may find it difficult to get suitable furniture for their new place.

Indonesia is one of the countries that allows expatriate to work within many industries, both in multinational and local companies. Based on 2017 data published

by the Ministry of Labor of Indonesia, there are 126,000 expatriates who work in Indonesia, making it a potential market to be one of *Furniloka* target customers.

The following is a 2017 statistic of expatriates that shows the top 5 countries of origin: India, United States of America, Japan, South Korea and China. Among 126,000 workers, the top 5 types of occupation are professionals (31%), managers (17.4%), directors (15.5%), consultants (14.5%), and technicians (14.3%).

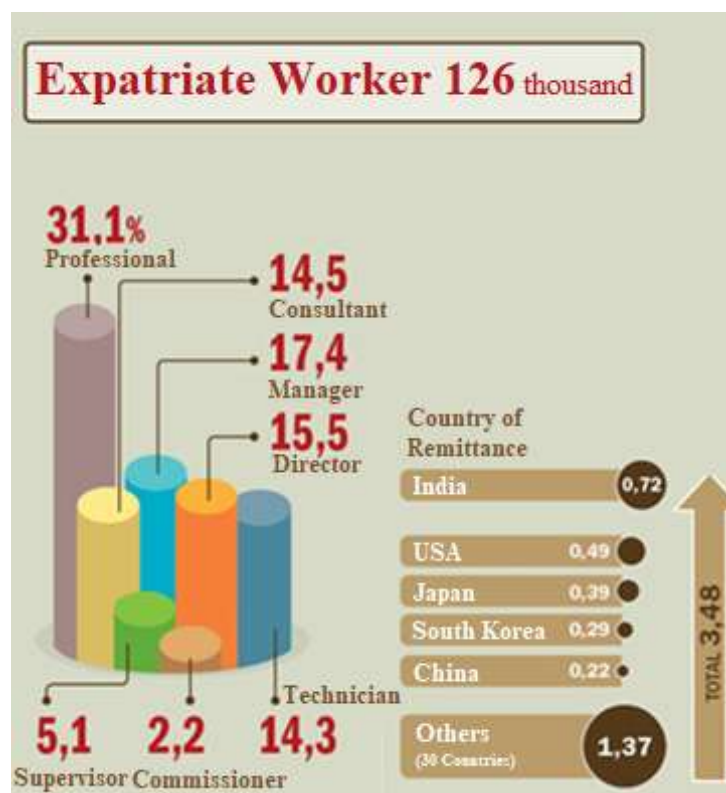


Figure 1.1: Expatriate workers statistic in Indonesia

Source: TKA VS TKI: Fakta dan Data (Saputra, 2017)

Furniture Domestic Market

In Indonesia, the furniture industry does not seem to focus to market its products domestically. In fact, most of Indonesia's furniture productions is aimed for

export, while the rest is locally marketed. This fact is counterproductive to the fact that Indonesia is the 4th largest populated country in the world and this should be capitalized for sustainable development of the domestic market.

Indonesia's current furniture demand is 55% fulfilled by domestic furniture production, while the rest is supplied by imported products. Vice Chairman of Organization & Relationship of Indonesian Furniture and Craft Association, Abdul Sobur as quoted in Business Industry (2015), said, "The annual turnover of domestic furniture and handicraft market is at least IDR 10 trillion. 45% of that market is dominated by imported products, valued around IDR 4.5-5 trillion. When the foreign market share rose to 55% this year, the value of the imports ranged from IDR 5.5 trillion to IDR 6 trillion."

Figure 1.2 below shows consumers activity in Indonesia for furniture expenditure in 2011-2016. The graphic shows the consumption of furniture experienced a rapid spike in 2016 among the years after climbing from 2011 to 2013, followed by a constant drop by about USD 12,000 in the next two years, hitting a trough in 2015 at just over USD 484,000. Furniture is a must-have product in every home and due to the increasing variety of furniture available in the market, consumers interest is stimulated, especially for the upper-middle-class society, to buy and update their furniture. Purchasing new furniture is an option when the price is cheaper compared to updating the old one. Nevertheless, the growth of furniture consumption is still heavily dependent to the property sector and consumer purchasing power. In fact, these two factors contributed to the growth of furniture consumption after 2015, when the property market began to rise again.

Implementation of the ASEAN Economic Community (AEC) also provides opportunities for foreign furniture investors such as IKEA to enter and compete in the Indonesian furniture market. This recorded a growth in furniture retail sales of 7% in 2015 (Euromonitor, 2016) because the entry of the foreign company has caused market competition to be tighter.

However, according to data from Global Business Guide Indonesia (2013), sales of furniture and home equipment in domestic market grew 12.1% in 2004-2009. In 2015, the large potential of domestic market was seen in national furniture turnover that reached IDR 4 trillion (Radar Semarang, 2016). In addition, data from Statista (2016) illustrates that furniture sales revenue in Indonesia through e-commerce reached USD 795 million in 2015 and is projected to hit USD 2,076 million in 2020.

The domestic market is extremely promising, especially for producers of contemporary (high-end), leather and classical European-style furniture that may ride on the growth of middle-class consumers. This potential is predicted to rise in line with the development of interior design industry to meet needs of the property sector (Global Business Guide Indonesia, 2013).

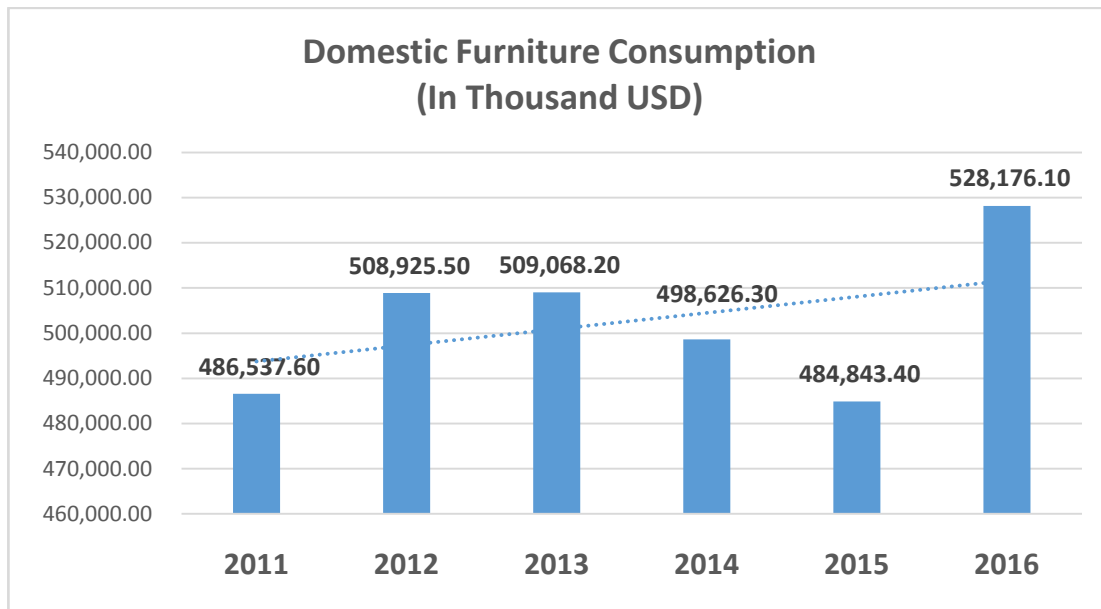


Figure 1.2: Domestic furniture consumption

Source: Furniture Commodity Info (Salim & Munadi, 2017)

Apartment Supply Condition

According to Figure 1.3, the total supply of apartments in Jakarta and its surrounding areas in 2017 hit a peak at 28,000 units, climbing 45.4% from only 19,000 units in the previous year. Although slightly sluggish due to the deceleration in domestic economy, apartment supply from developers is moderately high in 2017. However, by the end of 2018, supply of apartments is expected to fall about 13.3% to 24,000 units. With respect to the exact number of the apartments, while the number of apartments in Jakarta and surrounding areas in 2017 increased approximately 16% to around 204,000 units from 176,000 in the previous year. It is predicted to grow again 12% in 2018 to 228,000 units.

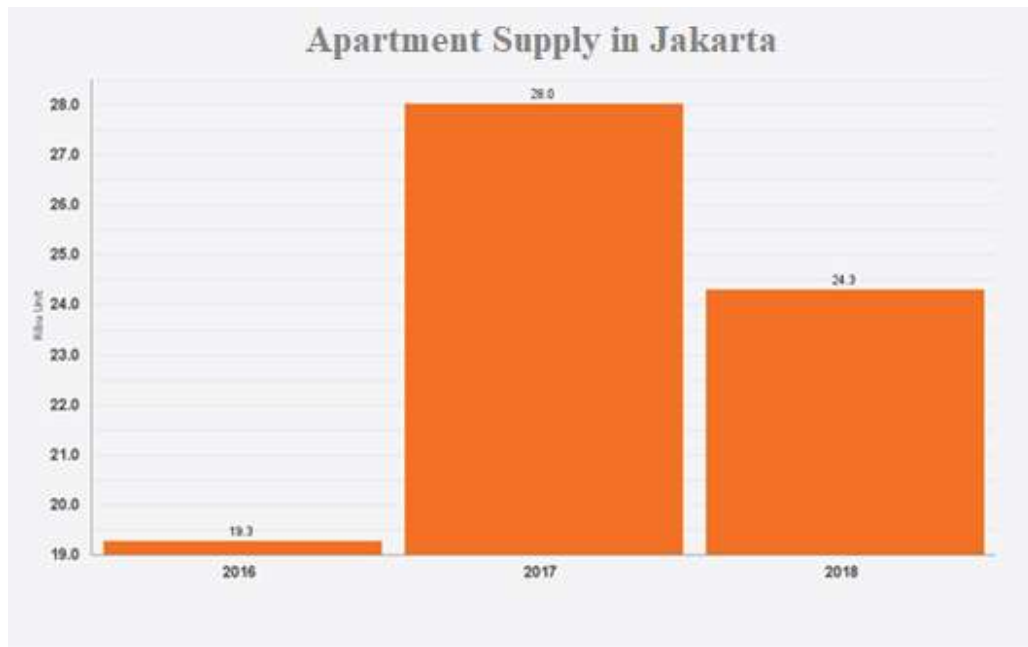


Figure 1.3: Apartment supply in Jakarta

Source: Berapa pasokan apartemen di Jakarta dan sekitarnya (Katadata, 2017)

The latest figure taken from Property Index demonstrates that supply of apartments in DKI Jakarta has escalated every year. More specifically, the supply in the fourth quarter of 2017 increased by 28.7% from the fourth quarter in 2016, and it has grown 3.8% compared with the third quarter of 2017. The Property Index has high accuracy to find out the dynamics occurring in property market in Indonesia because it is based on an analysis of 400,000 property listings sold and rented throughout the nation, with more than 17 million pages visited and accessed by more than 5.5 million property seekers every month. Referring to the above condition, those property seekers, whether buying or renting apartments in Jakarta and its surroundings, will be target segment of *Furniloka* along with most of both the younger and older people as well as newlyweds couple who look for residential areas near their workplace.

Freshmen College Students

Freshmen who have just enrolled in a new university or college are similar to foreign workers who have just moved to Indonesia. Moving to a new area means they must adapt with both the city and campus. In fact, many students have transferred to Jakarta to obtain better higher education either in public or private universities.

Based on statistical data of the Ministry of Research, Technology and Higher Education collaborating with the State University and Private Universities Coordinating Body (*Kopertis*), focused on DKI Jakarta area, 1,084,123 students were enrolled in 2017 and 21.8% of them, or 237,050 people, were new students. More than 40% of the freshmen were enrolled to five public universities such as the University of Indonesia, whereas the rest was students of 318 private universities including Binus University, University of Pelita Harapan and University of Trisakti. The findings highlight a huge potential of new students as part of the key segments in this furniture rental business. The following table and pie chart are a detailed overview representing the new entrants of university students in the Jakarta area in 2017.

Table 1.1: Numbers of registered university students

Source: 2017 Higher Education Statistics (Ministry of Research, Technology and Higher Education, 2017)

2017	Public	Private	Total
New Students	95,584	141,466	237,050
University	5	318	323
Registered Students	401,009	683,114	1,084,123

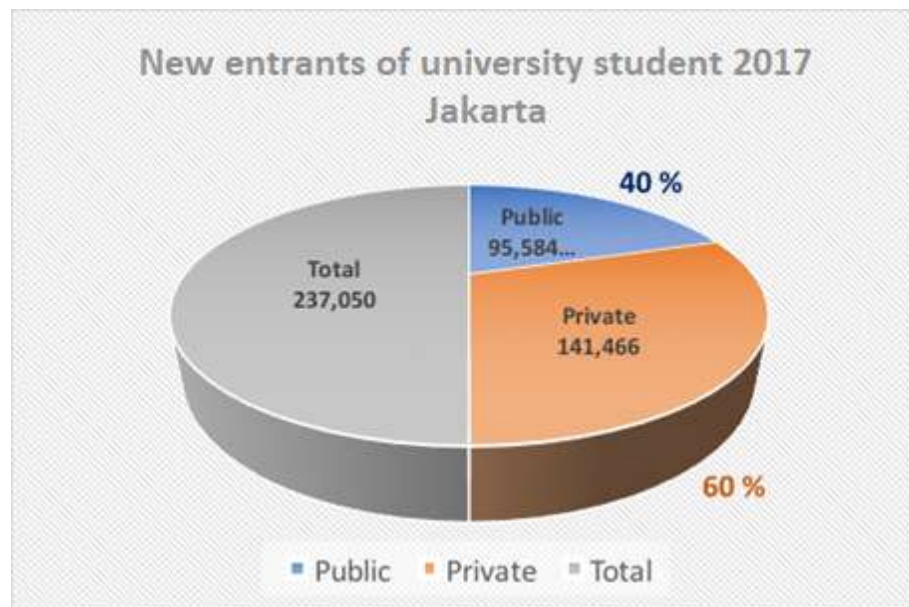


Figure 1.4: New entrants of university student in Jakarta on 2017

Source: 2017 Higher Education Statistics (Ministry of Research, Technology and Higher Education , 2017)

1.2 PROBLEMS AND CHALLENGES

Having described the issues in the previous section, the key segments are identified to face the following problems:

- Moving places means they need to move furniture
- Time must be spent to select and buy the right furniture
- Budget constrain to have all the needed furniture at once
- What to do with old furniture once they acquire new furniture

Moreover, they are using their conventional mindset and paradigm to fulfill their home furniture needs by purchasing furniture, without realizing how painful the process to get suitable furniture while reducing psychological conflict even after it

has been bought will be. Nevertheless, the option to buy furniture for their home might be replaced with “Furniture Rental” solution to obtain more benefits and to eliminate disappointment in buying furniture.

The positive aspect "Furniture Rental" is because there are only a few furniture rental companies in Indonesia, which brings an end-to-end solution that offers hassle-free subscription, various choices in furniture style and budget, with fast and easy process to expedite furniture to be at customers' home as soon as possible. As a result, this situation may create an opportunity towards potential in Indonesia's domestic furniture market.

1.3 BUSINESS IDEA

Why do you buy furniture? Why do you not rent instead?

Whether the customer is an expatriate, young couple, home stager, college freshman, or even Airbnb property owner, our business model is created to serve them in times of transition that requires new furniture. On the other hand, our goal is also to eliminate hassle with buying, moving and setting up new furniture, along with moving, selling or discarding the old furniture. This situation has piqued us to propose a “Furniture Rental” as a solution.

The “Furniture Rental” offers solutions that are relatively stress-free while at the same time guaranteeing a home-like environment for those willing to construct a new house as desired in Indonesia. For many short-term assignees, it is also a more

viable option because they will not have to go through the hassle of shipping their personal furnishings. With respect to families, they who have rented their house along with furniture in their home country may not need to ship their furniture and to buy a set of desire furniture upon their arrival. Therefore, furniture rental is the best solution to overcome the above circumstances. Furthermore, the proposed idea is designed as a digital platform. It is for furniture rental subscription providing an end-to-end solution that ensures hassle-free process, offering various choices in furniture style that fits customers' budget depending on their social class, with a fast and easy process. Therefore, it can expedite the arrival of furniture at their home, while attempting to fill the gap and answer the opportunity to create a huge potential market.

1.4 GOAL AND OBJECTIVES

Our goal is to compete in domestic furniture market with the distinctive business proposition as Furniture Rental provider in Indonesia that utilizes digital platform and application. Our objective is to provide our customer with quality furniture and work with trusted partners (such as IKEA, Informa, Arbor & Troy, Vinoti Living) to provide quality service, as well as a customized rental budget to fit their needs in style with reliable delivery commitment.

Provides an ideal short- or long-term solutions. Furniture rental is an ideal solution, from several months to several years and everything in between.

Provides personalized and convenient service. By personalizing customers' own space and giving options of choosing furniture by piece, set or room, it gives them more flexibility.

Provides seriously hassle-free process. Without going to the store, customers will get a prompt response to their personalized selected furniture, which will be professionally delivered to their houses within 72 hours.

The following is the ideal condition of the furniture rental business proposition as described below:

- **Comprehensive service:**

Convenience is the main reason why people should consider Furniture Rental because *Furniloka* offers a total solution for their whole home and office furnishing needs. It can also save time and effort due to dealing with only one company. Furthermore, *Furniloka* also offers a commitment on delivery service so that the customers must not wait for a long time for furniture items since they will be shipped within at most 72 hours.

- **Value:**

Good quality furniture should be beautiful, comfortable and durable so that *Furniloka* inventory must have good workmanship and made from the best materials. It is important to check the quality of items offered by rental companies. *Furniloka* provides a good virtual showroom to display its furniture rentals and this serves as a mean of approaching the

customers so that they can see the conditions of each part. In case the customers feel the material on a piece is obsolete, *Furniloka* can refurbish it for them. For those renting for a long period of time, they may redo the seat again after a few years.

- **Variety:**

House or apartment should become a long-term extension of the owners' personalities. *Furniloka* as a good rental company offers a wide variety of furniture styles so that people can find the best items that suit their taste, lifestyle and home design.

- **Service:**

One benchmark of a furniture rental company is warranty service program. *Furniloka* offers a comprehensive maintenance service and warranty and we are confident about the quality of our furniture. *Furniloka* also suggests and will provide insurance policies that protect from normal wear and tear damages.

- **Return Policy:**

To ensure the desired furniture of people will fit into space in their new home, *Furniloka* will visit their home to measure and observe. This is to match the desire, needs and space availability so that both customers and *Furniloka* feels convenient. However, in case the customers are unhappy with the selected furniture and how it looks in their home, *Furniloka* will offer a return policy.

1.5 SCOPE OF THE STUDY

In this business, model creation is restricted to focus only on customers in Indonesia who need furniture for their home and use it conventionally. This topic also challenges their paradigm with questions such as "*why do you buy furniture?*" and "*why do you not rent instead?*" leading to their preference in terms of furniture needs in the future. The first target of customers are individuals who are in life transitions such as expatriates, newlywed couples, young people who want to upgrade their lives, as well as Airbnb owners. After the first year of operations, this will be expanded to corporate furnishing for offices. Therefore, this business model will be applied for both Business to Customer (B2C) and Business to Business (B2B). Business Strategy, Business Model and Business Plan in this thesis is planned for the next 5 (five) years.

1.6 THESIS STRUCTURE

In this thesis, the Business Model will be thoroughly described and discussed in five chapters. Chapter I has described the background, problem, and challenge, business idea as well as the objectives, while the following chapter addresses the theoretical framework, value proposition, market, as well as industry analysis. The third chapter further elaborates business model canvas and proposes the design. Chapter IV thoroughly discusses the Business Plan, such as company profile and

organization structure, technology plan, marketing plan, financial plan, analysis of market survey and prototyping. The last chapter concludes the feasibility of the business model, including business limitation and challenges.