

# **CHAPTER 2**

## **VALUE PROPOSITION**

### **2.1 MARKET AND INDUSTRY ANALYSIS**

Development of this new business model is inseparable from the influencing factors of both the macro and microenvironment. These aspects should be taken into account thoroughly, therefore several theories from key researchers will be applied to help us analyze the case from divergent perspectives.

#### **2.1.1 MACRO-ENVIRONMENT**

According to *Crafting & Executing Strategy* (Thompson, Peteraf, Gamble & Strickland, 2016), PESTEL analysis is a framework for external factors used to analyze factors related to Political, Economic, Social, Technological, Environmental, Legal conditions which are abbreviated into PESTEL. From the namesake, it focuses on six major components and the findings will be identified in terms of threats and weaknesses in Strengths, Weaknesses, Opportunities, Threats (SWOT) analysis. Indeed, it can ultimately affect the survival of a company in a particular industry. PESTEL analysis is applied to support the design of this business model, especially for the development in Indonesia as explained below:

- **POLITICAL**

Factors on how the government organizes their policy affect a particular economic or industrial circumstance. The involvement of Indonesia on ASEAN Economic Community (AEC) established in 2015 would have led to a free trade zone and dynamic movement of professional workers from various Southeast Asia nations. The implementation of this AEC could drive a sustainability of potential market of expatriates.

The Government of Indonesia prioritizes tax policies to foster small-medium enterprises (SMEs). Started from July 1<sup>st</sup>, 2018, national tax rate reduction of SMEs to 0.5% from the previous 1% will boost performance of these SMEs. Moreover, taxation on e-commerce transactions is being prepared by the government and it should take the company financial planning into account.

- **ECONOMIC**

A country's economic indicator is a tool describing its performance and its direct impact on the company, both in short- and long-term. Although there was a declining trend in Indonesia economic growth rate from 2010 to 2015, in the next two years it has had a turnaround. In 2017 it accounted for 5.07%, and is expected to reach 5.4% in 2018. It will positively affect the purchasing power of consumers. However, the rupiah (IDR) exchange

rate has been weakening in 2018, which led to the high cost of imported furniture.

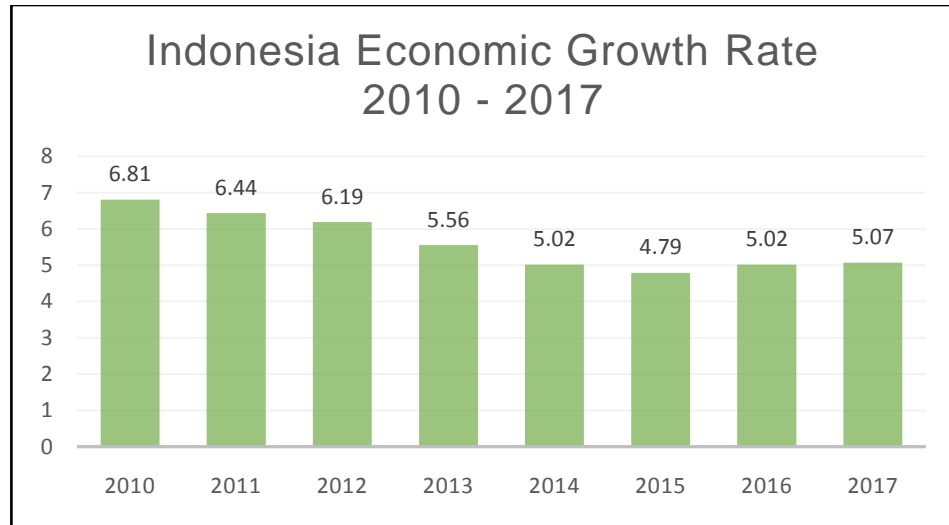


Figure 2.1: Indonesia economic growth rate 2010 – 2017

Source: Indonesia Economic Growth Rate (Badan Pusat Statistik, 2018)

The property industry is closely related to furniture demand. Along with the Central Bank of Indonesia’s policy to lower interest rates or “loan to value” policy, it will encourage the purchase of property so that the needs to fill houses with furniture will also increase.

- **SOCIAL**

The social climate of the market includes demographics, age distribution, population growth, cultural trends, health consciousness and purchasing behavior. As population of the young generation labelled as *millennials* (born in 1980-2000) increases in Indonesia, the nation’s social culture is experiencing a shift. The millennials have different perceptions of

ownership, which alters their shopping behavior and spending priority. Based on Goldman Sachs Global Investment Research (2017), the millennials have different attitudes on ownership of things such as homes, cars, music and other luxurious items. There is a tendency to avoid commitment to owning an item, so they prefer to share or rent. This trend is proven by the rise of sharing economy, including car rides (Uber) and house sharing (AirBnB) that has become a trend. The millennials also have been driving up internet penetration in Indonesia. From 1998, there has been constant climb of internet users to 2017. The number of internet users has almost doubled from 2014 to 2017. In fact, the total of internet users in 2017 has reached 143.26 million, or more than half of approximately 262 million citizens of Indonesia. The number is expected to grow even higher in the future.

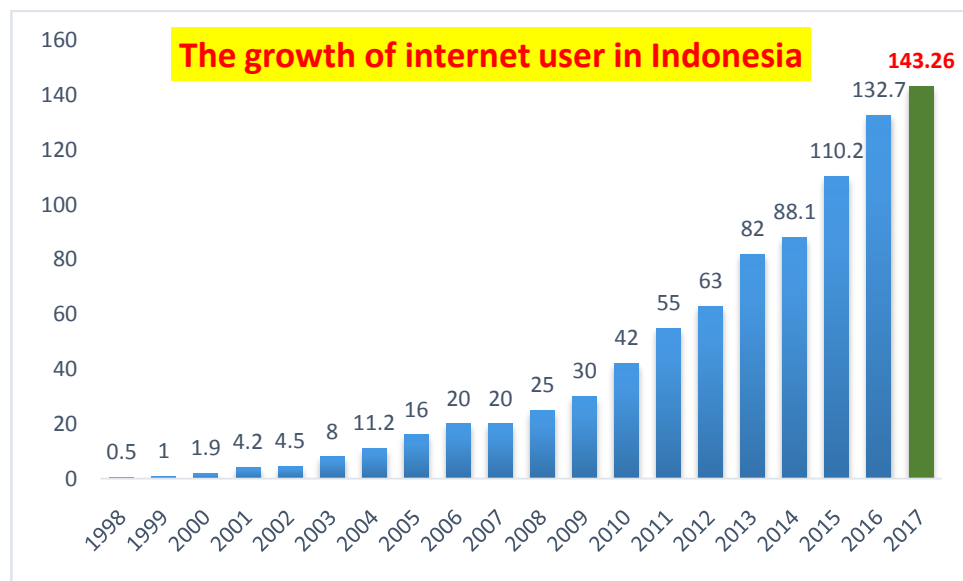


Figure 2.2: The growth of internet user in Indonesia

Source: Penetration and Behavior of Internet Users in Indonesia (APJII Survey, 2017)

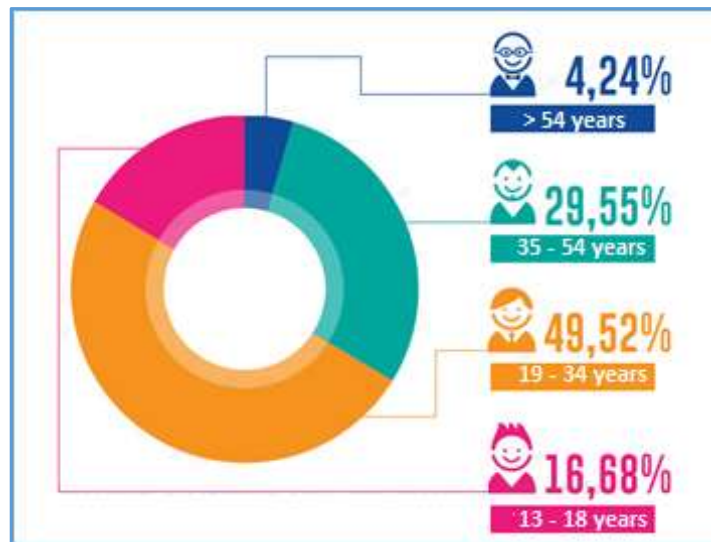


Figure 2.3: The composition of internet users by age

Source: Penetration and Behavior of Internet Users in Indonesia (APJII Survey, 2017)

- **TECHNOLOGICAL**

Factors related to the emergence of technological innovations and their impacts influence the operation of the industry and market. The technological advancements significantly facilitate internet penetration on Indonesia's growing population. The booming era of e-commerce and social networks including Facebook, Twitter, and Instagram has considerably changed the strategies of marketing. The proposed platform for this project is oriented to the digital market space where potential customers are practically unlimited. Moreover, beyond marketing, technology empowerment is often used as a competitive advantage to create the more advanced perspective, such as augmented reality. This technology allows customers to simulate where goods will be placed.

- **ENVIRONMENTAL**

Environmental issues will directly or indirectly impact company operations. This requires balanced point of views in preserving the environment and creating the furniture, of which the vast majority is made of raw wood materials, along with the mechanism of renting and buying. By doing those, customers and suppliers can contribute to positive efforts to maintain the sustainability of our forests.

- **LEGAL**

Legal factors, pertaining to administrative safety when entering a new market, requires business to be not libelous or unlawful and do not infringe any trademark, copyright, and another proprietary, personal, or contractual rights of any party. The rental industry is generally inseparable from risk management, which governs when there is a dispute between the consumer and the lessor. For example, we should know about the consumer law governing if the leased goods are not returned within the agreed time, and the rights and obligations of parties involved in this regards.

## 2.1.2 MICRO-ENVIRONMENT

After the macro-environment analysis, further and deeper calculation was conducted using online survey on “*google form*” followed by amalgamating the result with data from furniture association to study the potential of this new business model in existing market. The following is a summary of answers related to the potential customers, while the complete survey result is available in the Appendix.

- a) If there is a platform to rent furniture and “*Garage Sale*”, are you interested in using the platform? *Yes: 33.1%, No: 23.4%, Maybe: 43.5%*

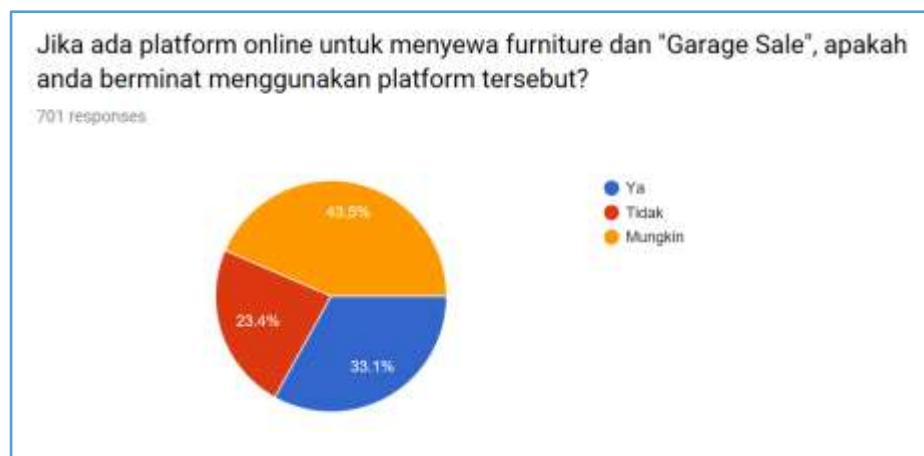


Figure 2.4: Questionnaire responses (Source: *Furniloka* survey)

- b) If there is a furniture rental solution (dining room or living room) to furnish your residence without buying it, do you want to rent? *Yes: 36.1%, No: 23%, Maybe: 40.9%*



Figure 2.5: Questionnaire responses (Source: *Furniloka* survey)



Figure 2.6: Projection furniture via E-commerce in Indonesia

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

Based on the surveys, we can conclude there is potential demand from prospective customers for both the renters of furniture and users in the market.



## 2.1.3 INDUSTRY ANALYSIS

### 2.1.3.1 PORTER'S FIVE FORCES MODEL

Developed by Michael Porter as Five Forces analysis (Barringer & Ireland, 2016), the design can be an important tool for better understanding of the forces shaping competition among others within an industry. This model is often applied as **external forces**.

#### **Threat of new entrants**

If an industry is perceived as attractive, new entrants are highly likely to appear. However, when several new entrants appear, profitability and attractiveness across the industry will be lowered and eventually decline. The threat is worsened and sometimes blocked by the larger companies willing to take a monopoly over the industry.

The company may need to consider these:

- *Are there many entry barriers? High entry and low exit barriers make for an attractive industry. Entry barriers may include rights, patents, technology protection etc.*
- *Do you have customer loyalty?*
- *Do you have specialist knowledge that can be used to differentiate you?*
- *Is there evidence of economies of scale in play in your industry?*

- *Is there any government policy in place to either encourage or discourage new entrance?*

### **Threat of substitution**

Customers may choose to substitute a product or service for another. Keep in mind that this is not the same as shifting to a different company to use the same product or shifting product entirely. Switching from a regular phone to a smartphone, or from a sugary to a healthy alternative snack, are several examples. As more products enter the market, there is higher chance that customers will be drawn to an alternative of their usual choice. How does Furniloka can confront these?

- *How many substitute products are there?*
- *Is there a perceived level of differentiation?*
- *Is there a cost to the buyer for switching?*
- *How easy is it for the buyer to switch?*

### **Supplier Power**

*Furniloka* should have suppliers, whether they are raw materials, knowledge supports or physical staff labors. *Furniloka* has known that a great deal of research and consultation should be done to get the best supplier at the best price. It is important to avoid a condition when there is a tiny choice of

suppliers because the fewer they are, the more powerful leverage they have over the company, including in setting the price of the supplier charge.

Furniloka should take these into account:

- *How many suppliers are available to you?*
- *What are the sizes of the suppliers available to you?*
- *What are the costs to both you and them for switching buyers?*
- *What is the strength of your distribution channel?*

### **Buyer Power**

Buyers can press the companies when they have the power to lower the prices.

How does Furniloka prepare for this?

- *How many buyers do you have?*
- *How price sensitive are your buyers?*
- *What information is available to you about your buyers?*
- *What differentiates you from your competitors?*

### **Industry Rivalry**

A key factor in competition is a clear strength of the rivalry itself.

What Furniloka need to consider:

- *How many competitors do you have?*

- *Do you have a solid competitive strategy in place?*
- *Are you being innovative in order to give you a competitive advantage?*
- *Do your competitors have more advertising resources?*
- *Is there a difference in quality?*
- *Are your customers or their customers loyal?*

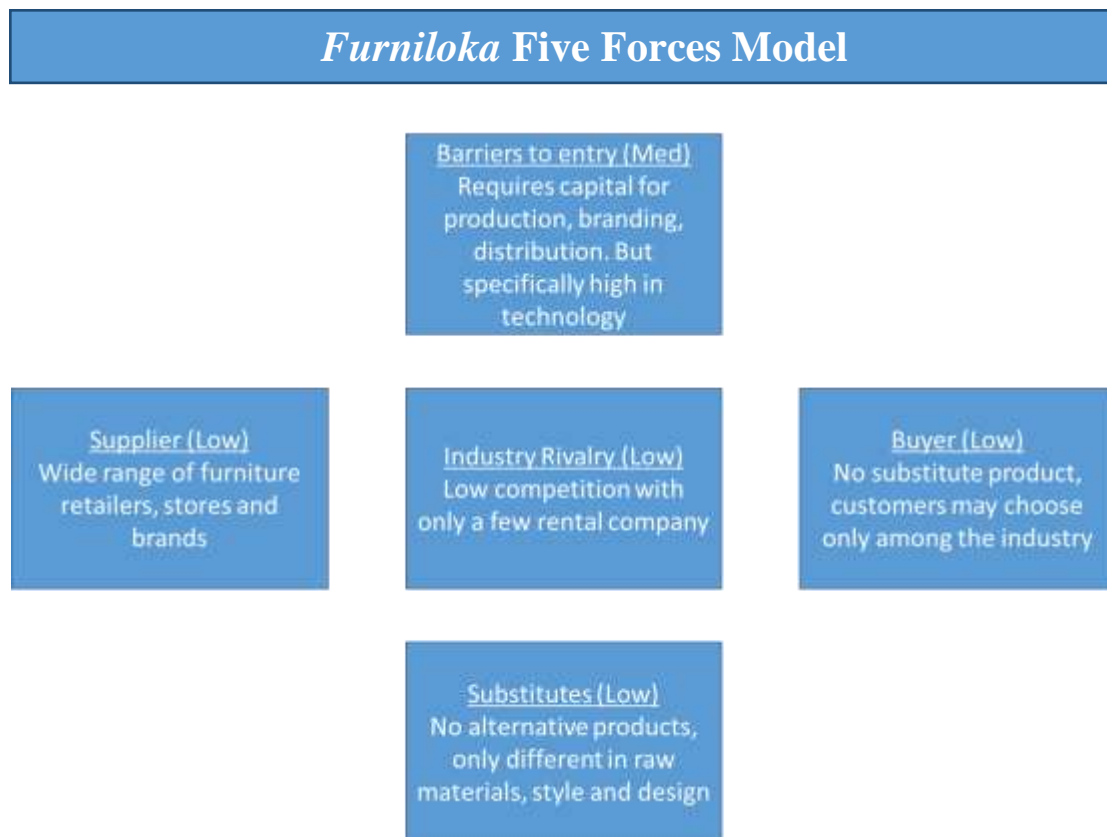


Figure 2.7: *Furniloka* five forces model

### **2.1.3.2 DIAMOND STRATEGY MODEL**

The Diamond Strategy Model was developed by Don Hambrick and Jim Frederickson as a framework (Grant, 2016) for checking and communicating a strategy. It also serves as a checklist to ensure a company has a good strategy. By answering its all questions, the strategy should be ready. To have a great strategy, areas in the model must reinforce and support each other.

#### **The Five Major Elements of Strategy**

Five key parts of the strategy are:

- Arena
- Vehicle
- Differentiators
- Staging
- Economic Logic



Figure 2.8: Porter's strategy diamond model

Source: Porter Diamond Model (Porter, 2018)

***Furniloka Diamond Strategy is as follows:***

**Arena**

- Focus on key segments
- Indonesia market

**Vehicles**

- Internal development, including digital platform
- Partnership

**Differentiators**

- Affordable price
- Acquire stylish and quality furniture through variety of choices

- Hassle-free concept with fast and easy business model

### Staging

- Expansion and initiatives

### Economic Logic

- Lower cost through scale advantages



Figure 2.9: *Furniloka* diamond strategy model

### 2.1.3.3 PORTER'S Generic Strategy

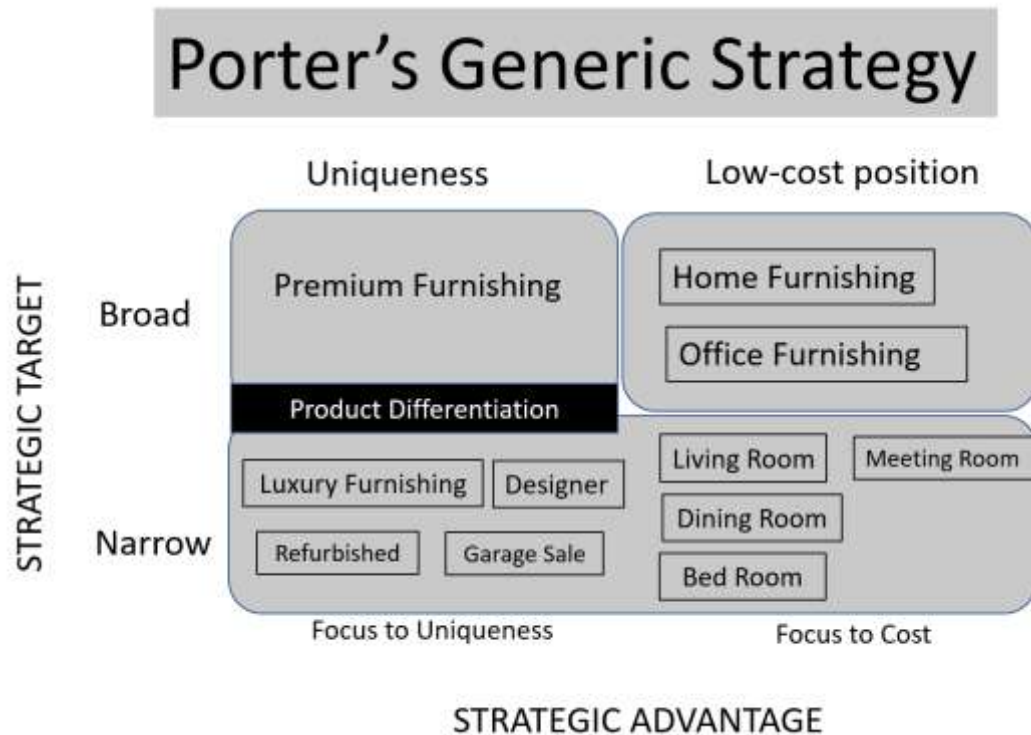


Figure 2.10: *Furniloka* applied Porter's generic strategy

### 2.1.3.4 VRIO ANALYSIS

Elaborating the internal factors of the company is as important as analyzing the external forces by applying Porter's five forces theory model. The collected resources in internal factors are essential in determining *Furniloka's* potential for competitiveness. Therefore, we use the VRIO analysis framework to evaluate the sustainable competitive advantage of the *Furniloka* business model. Four key questions to be answered in VRIO analysis are:



1. *Does the firm have valuable resources or capabilities as their strength and to reduce potential threat?*
2. *Does the firm have specific resources that are only owned by a few companies or none?*
3. *Can the firm's resources or capabilities be duplicated or substituted by other competitors?*
4. *Is the firm organized properly in order to exploit its resources or capabilities?*

Table 2.1: VRIO framework

Source: Strategic Management and Competitive Advantage (Barney & Hesterly, 2016)

<b>Is resource or capability:</b>				
<b>Valuable?</b>	<b>Rare?</b>	<b>Costly to imitate?</b>	<b>Exploited by an organization?</b>	<b>Competitive implications</b>
No	No	No	No	Competitive disadvantages
Yes	No	No	No	Competitive parity
Yes	Yes	No	No	Temporary competitive advantage
Yes	Yes	Yes	Yes	Sustained competitive advantage

Sources of Competitive Advantages	V	R	I	O	Conclusion	Note
	Valuable	Rare	Imitability	Organize		
Marketplace	Yes	Yes	No	Yes	Competitive Parity	First-time mover advantage
Price competitiveness	Yes	Yes	No	Yes	Competitive Parity	Offer lower price compared to buying
Buyer - Seller interaction	Yes	Yes	No	Yes	Competitive Parity	As middlemen to facilitate the transaction
Product refurbishment and restoration	Yes	Yes	Yes	Yes	Sustained Competitive Advantage	To maintain used product condition
Technology platform	Yes	Yes	No	Yes	Competitive Parity	Apps and website
Product mix (package) customization	Yes	Yes	Yes	Yes	Sustained Competitive Advantage	Expert suggestion in design and product combination

Table 2.2: VRIO analysis of Furniloka

## 2.2 BLUE OCEAN STRATEGY

In today's business competition where start-ups enter the overcrowded industry to challenge the incumbent, what they face through differentiation and competitive advantages leads to shrinking profits and market share. Therefore, *Furniloka* refers a strategy based on Blue Ocean Strategy introduced by Kim and Mauborgne (2005), which focuses on building the unexplored market to avoid head-to-head competition with

existing competitors by creating a new business model. Key differences between the Red Ocean and Blue Ocean Strategy are described in the following table:

Red Ocean Strategy Focus on current customers	Blue Ocean Strategy Focus on noncustomers
• Compete in existing markets	• Create uncontested markets to serve
• Beat the competition	• Make the competition irrelevant
• Exploit existing demand	• Create and capture new demand
• Make the value-cost trade-off	• Break the value-cost trade-off
• Align the whole system of a firm's activities with its strategic choice of differentiation <u>OR</u> low cost	• Align the whole system of a firm's activities in pursuit of differentiation <u>AND</u> low cost

Figure 2.11: Comparison of red ocean strategy and blue ocean strategy

Source: Red Ocean vs Blue Ocean (Layton, 2009)

In order to build this strategy, the company needs to have a set of frameworks to help them set up a new value curve in their strategy canvas. The implementation of four actions framework for *Furniloka* describes as follows:

Eliminate	Raise
<ul style="list-style-type: none"> <li>- Buying furniture paradigm and mindset</li> <li>- Own furniture</li> </ul>	<ul style="list-style-type: none"> <li>- Delivery service minimum 72 hours</li> <li>- Secure online transactions</li> <li>- Shop The Look - Partners product show case on platform</li> </ul>
Reduce	Create
<ul style="list-style-type: none"> <li>- Hassle when pre and post furniture purchase</li> </ul>	<ul style="list-style-type: none"> <li>- Flexibility, create your furniture style easily &amp; frequently when you get bored</li> <li>- Better viable options &amp; good quality of products</li> <li>- Faster and easy subscription process</li> <li>- Cheaper and affordable price</li> </ul>

Figure 2.12: *Furniloka* four action framework

- **ELIMINATE**

To eliminate the continuity of buying furniture paradigm and mindset without rental option causes many owners do not consider to replace their furniture even when the furniture is outdated and people are bored, especially for those who only need furniture temporarily to eliminate own the furniture.

- **RAISE**

To raise delivery furniture with minimum 72 business hours delivery service commitment to consumers, especially for those who prefer to frequently alter their home arrangement. To raise guarantee secure online transaction process. To raise and promote “Shop The Look” of Partners product show case in the platform. Professional suggestions in terms of selecting the package ensure customers to obtain the best mix and match combination. This is supported by

a free maintenance offered for rented furniture for a certain time of subscription.

- **REDUCE**

Reduces the hassle and the effort on pre-post activity to buy and sell either new or used furniture.

- **CREATE**

A platform to create **Flexibility** in creating furniture style easily and frequently when customer get bored with their furniture. To create **Better** viable options and good quality of products. To create **Faster** to enable easily subscription process, To create **Cheaper** as an affordable price that can turns customer capital expenditure (capex) to become operational expenditure (opex) by paying rental monthly

Based on these four actions framework, researchers draw the strategy canvas to captures the current state of market space and identify the value curve from the proposed value innovation.



Figure 2.13: *Furniloka* proposed value innovation

## 2.3 VALUE PROPOSITIONS

Value proposition (Osterwalder & Pigneur, 2014) describes the benefits expected from products and services to customers. It is one of the tools being used to try out a new product, service and project. The Value Proposition Canvas has two sides and sections: **Customer Profile** and **Value Map**. The company can show off their **Customer Profile** to clarify customers understanding whereas **Value Map** is used to describe how value for their customer is intended.

Both **Customer Profile** and **Value Map** work simultaneously to achieve **Fit**. **Create Value** is a set of value proposition benefits that the company can design to attract customers.

**Value (Propositions) Map** is the features of specific value propositions in a company's business model that is elaborated into more structured and detailed ways

divided into the company's products, services, pain relievers, and gain creators. **Customer (Segment) Profile** is a specific customer segment in the company's business model being distributed as customer jobs, pains, and gains. **Observe Customers** is the set of customer characteristics enabling the company to assume, observe and verify in the market.

### 2.3.1 BENEFIT COMPARISON

We took an example of new unfurnished apartment and compare it to semi-furnished apartment to calculate total benefit *Furniloka* would offer. The example is a 2-bedroom apartment in Madison Park, Tanjung Duren, West Jakarta.

#### Unfurnished apartment



Figure 2.14: *Unfurnished apartment*

#### Semi-furnished apartment



Figure 2.15: Semi furnished apartment

Table 2.3: Total Benefit comparison

	Retail Price	Rental price (1 year)	Semi Furnished	Unfurnished
<b>Monetary</b>				
Rental Fee for Apartment			65,000,000	45,000,000
Dinning Table with 4 chairs	4,800,000	2,240,000	-	2,240,000
Wardrobe (L)	3,700,000	1,726,667	-	1,726,667
Wardrobe (M)	2,500,000	1,166,667	-	1,166,667
Sofa	4,800,000	2,240,000	-	2,240,000
Bed (L)	6,000,000	2,800,000	-	2,800,000
Bed (M)	4,500,000	2,100,000	-	2,100,000
<b>Total</b>	<b>26,300,000</b>	<b>12,273,333</b>	<b>65,000,000</b>	<b>57,273,333</b>
<b>Non Monetary</b>				
Style			Given	Free to choose
Cleaning service			Paid	Free
Swapable			NO	YES
Upgradeable			NO	YES



As seen in the table, a semi-furnished apartment annual rental fee is IDR 65,000,000 with furniture in given condition, which is most probably have been used before. Meanwhile, an unfurnished apartment annual rental fee is IDR 45,000,000 and tenants have the freedom to choose furniture with a budget of less than IDR 20,000,000 (from the rental fee difference).

Total furniture rental fee for 1 year is IDR 12,273,333. Added to unfurnished apartment rental fee, it is still lower than renting semi-furnished apartment. In addition to the cost difference, *Furniloka* also offer non-monetary benefits such as the freedom to choose preferred style of furniture, periodical free cleaning service for rented furniture, the ease of swapping with another furniture set without worrying what to do with old furniture, and upgrade options are ready to be chosen should if customers' needs change. In this scenario, a customer can save up to IDR 7,726,667 by renting *Furniloka* furniture.

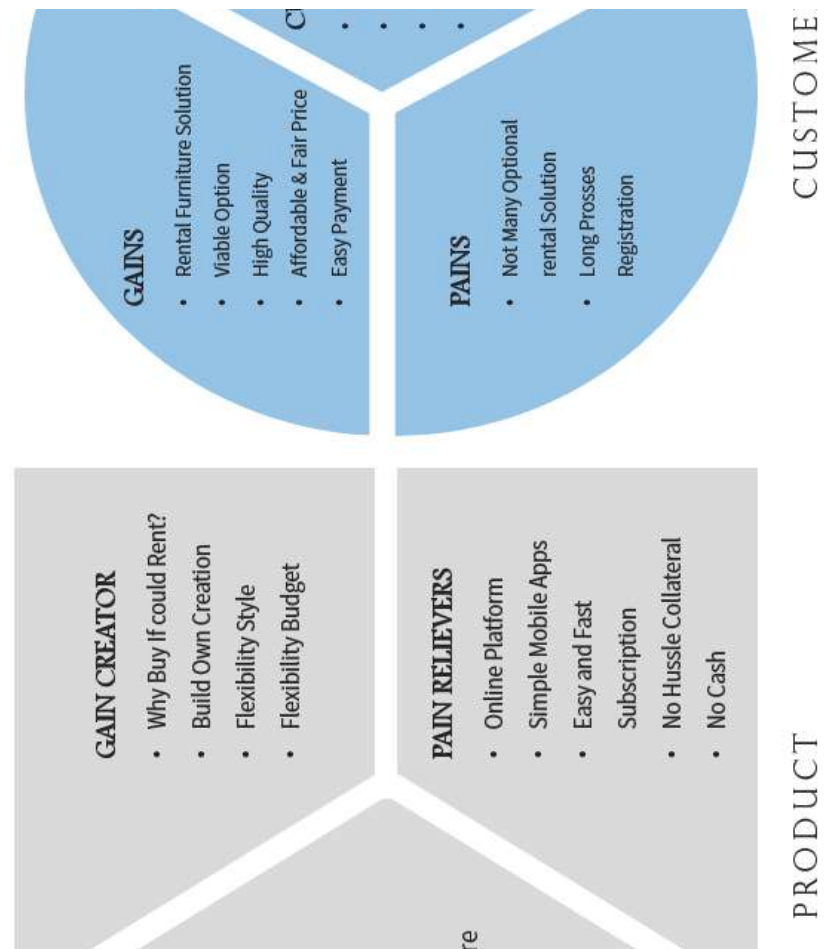


Figure 2.16: *Furniloka* value proposition canvas

## 2.4 THEORY OF BUSINESS MODEL CANVAS

Creating a business is basically a series of activities to bring in profits or added value. After determining the best strategy to be implemented, then the company transfers it into business plans. In 2010, Alexander Osterwalder & Yves Pigneur introduced a framework consisting of nine building blocks to develop a business model, known commonly as Business Model Canvas (Osterwalder & Pigneur, 2010). It is a tool to see how an organization creates, delivers and captures value more accurately. The initial complicated

business concept has changed into a simpler version, with one sheet of 'canvas'

containing a business plan. In the 'canvas', there are nine key elements which are well-integrated, and it covers the strategic analysis of the company internally and externally.



Figure 2.17: Business Model Canvas

Source : Business Model Canvas (Printable business model canvas, n.d.)

The nine building blocks on the business model canvas are briefly explained as follows:

### 1. Customer Segments

This describes the end-user to be satisfied specifically at which group is focused on with the products or services. The segments could be divided into demography, behavior, location, purchase power or other attributes.

### 2. Value Propositions

It provides an overview of what values are offered by the company to customers in order to reduce "pains" and add "gains" to customer needs that must be well-fulfilled and satisfied.

### **3. Channels**

Channels are prominent for the communication and distribution of how **Value Propositions** are delivered to customer's segments. They spread across the processes from building up awareness to after sales support.

### **4. Customer Relationships**

Customer Relationships are the type of relationship between the company and customer segment to engage in whatever they choose to. For instance, how a company maintains their customer being able to engage with the company's product or services.

### **5. Revenue Streams**

Revenue Streams describes sources of revenue that can be generated by the company of the business model to be run for the specifically targeted segment.

### **6. Key Resources**

It highlights the essential assets to run a business model and, without these resources, the continuity of a business model will be affected.

### **7. Key Activities**

This sector illustrates the activities of the company in order for the business model to work such as a business process of delivering the Value Propositions to customers.

#### **8. Key Partnerships**

Key Partnerships are partners or suppliers having a mutual cooperation in the business model. These key partners may be the owner of the key resources element.

#### **9. Cost Structure**

Cost Structure acts as fixed or variable along with the activities of the business process to take into account how it is affected by the economies of scale and scope.