CHAPTER II
VALUE PROPOSITION

2.1 Market & Industry Analysis

According to Barney and Hesterly (2011), in doing strategic plan a firm should begin with an understanding of the general environment where its operate in order to analyze the threats and opportunities *(Strategic and Management and Competitive Advantage, 4^{th} edition, p.48).* This general environment consists of six elements: technological change, demographic trends, cultural trends, the economic climate, legal and political conditions, and specific international events

Technological change opens an opportunity for a company by giving it a differentiation in how the company does its business, but this force can also become a threat as other firms may try to explore a different way to sell their products and services.

Demographic is regards to distribution of age, sex, marital status, income, ethnicity, other attributes to population that determine buying patterns.

Cultural is regards to values, beliefs, and norms that life within a society. In broader sense it includes what is acceptable and unacceptable, what is fashionable and unfashionable. Understanding culture would provide a firm an advantage over competitor.

The economic climate is the general health of the economic system within which a firm operates. In preparing strategic plan a firm must study and understand and set its plan according to the business cycle.

Legal and political conditions are regards to the laws and regulation that impact business, in a broader aspect this include the nature of relationship between government and business.

Specific international events are regards to many events such as war, terrorism, economic recessions or booming. All these events have impact on a firm ability to generate competitive advantage.

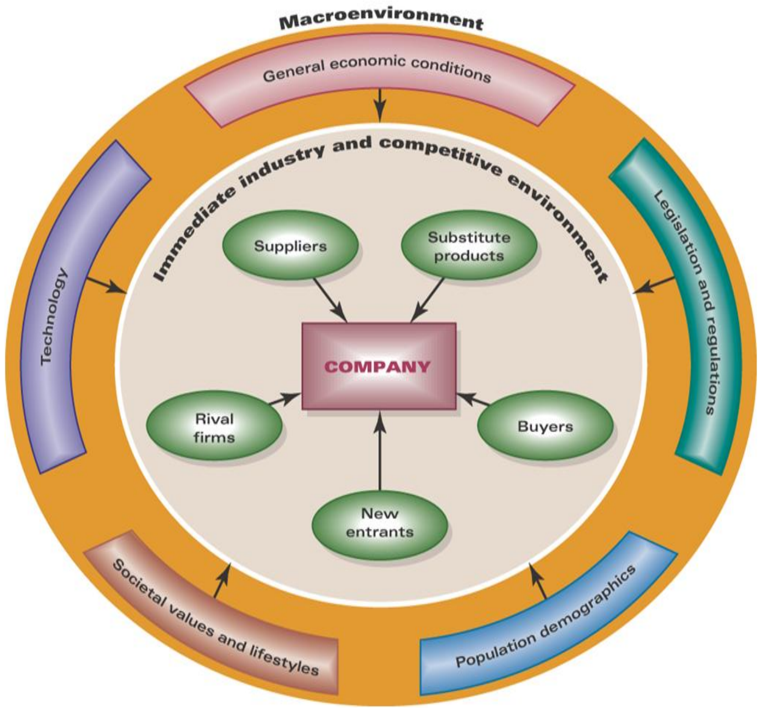


Figure 2.1 Firm's External Environment Analysis

Source: Barney and Hesterly, Strategic Management and Competitive Advantage, p.48

2.1.1 Macro-Environment in SMEs Business Promoter Industry 2014

Here is the analysis of macro environment on current year 2014 by using above methode :

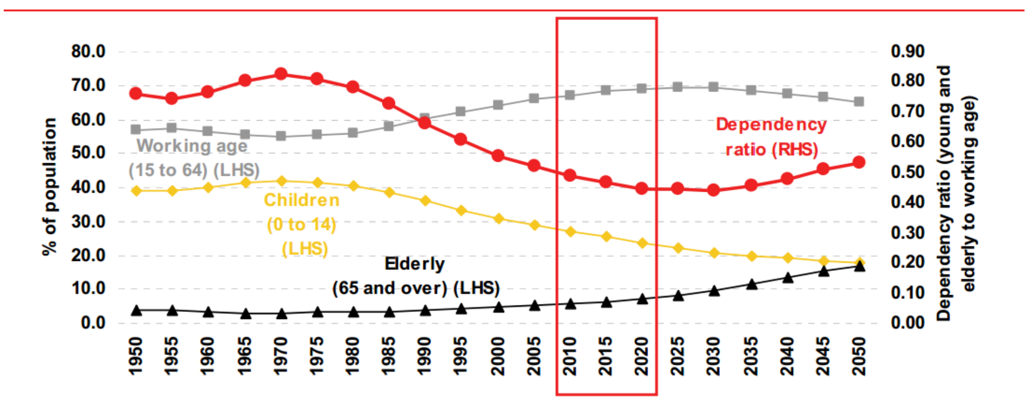
- Legislation and Regulation
  - On September 2014 the Indonesian government has committed its support for SMEs with the implementation of new regulations in the form of presidential decree aimed at simplifying trade license for

SMEs. The regulation were implemented to establish a legal base and protection for SMEs.

- Law no.7 year 2014 about Trading
- Government regulation on e-trading in the process, scheduled to be released in 3 to 6 months, interviewed by kompas dailynews with Coordinating Minister of Economic Sofyan Djalil (Kompas harian tgl 13 Maret 2015).
- Ministry of economic coordination, Chairul Tanjung expects ease of access for SMEs to financial institution. The new license will enable registered SME to access *Kredit Usaha Rakyat that are initiated by banking and non-bank financial institute (http://nasional.sindonews.com/read/893765/16/regulasi-untuk-umkm-1408616288)*

- Population Demographics

Referring to figure 2.2 Indonesia is experiencing demographic change from high dependency ratio, 0.75 – 0.85 in the 1950s until 1970s, decreasing to the lowest point of around 0.45 in the 2020s until 2030s. This is the result of growing number of working age couple with lower birth rate lowering the burden of the productive age segment. The outcome from having lower burden is that the person or family will have more disposable income, the amount of money that household available for spending and saving.



Sources: Demographic projections from BPS and UN Statistics.

Figure 2.2 Demographic Projection (BPS,2010)

- Social Values (Cultural Trend) and Lifestyle

  The number of internet users have grown from 26 million in 2010 to more than 42 million in July 2014, and the figure is still growing. According to Global Internet Report 2014 (www.internetsociety.org) Indonesia ranked 135th in the world in term of internet penetration with only 15.8% of the population using internet.

  E-trading trend is getting higher in term of sales value reaching Rp 96 trillion in 2013 and going up to Rp 120 trillion – Rp 140 trillion, estimated, in 2014. This value is still increasing along with the increasing number of middle level income in Indonesia, amounted to 74 million people in 2013 to become 141 million within the next five to ten years. The effect of this increase number of middle income will increase e-trading sales value up to 40%. *(Kompas dailynews dated 16 Feb 2015).*

  The trend indicates that more and more people in Indonesia has changed the way they buy goods they need. They use offline store to see the product they want, they can see and feel the physical product, and when they like the product they buy it through online store.

  Buyers tend to buy through online stores because they can easily compare price to find the cheaper one, to find reference of the product they want.

  The growth of the trend can be seen from the Hari Belanja Online (harbolnas), a yearly event held on Dec 12, an event where all the participant offer bigger discount. 2014 is the third year the the event has been held with the number of participating online stores has grown from only 7 in the first year (2012), grew to 20 in the second year (2013), and jumped to 78 in the third year (2014). On average all participant swamped by orders 10 times more than normal daily sales (Kontan tabloid no.13–XIX, 2014).

- Technology

As the access to internet becoming cheaper, faster, and more widely available, e-commerce has becoming a more popular shopping channel. Many seller are trying to capitalize on this trend to increase the reach of their product due to its low cost cost nature.

Indonesia, like other countries, is growing its' e-commerce business. This technological change in term of access to e-commerce technology is also supported by the growth of telecommunication technology and network infrastructure. The number of internet users is growing fast along with the growing of sales of internet capable smart phones.

Social media is also an additional aspect that contributes to technological change. Indonesia is the 4th largest Facebook population in the world *(source: Alexis Gravel 2013) and no 3rd twitter country in the world (source: Semiocas Jul 2013).*

- General Economic Conditions

According to Asia Development Bank, Indonesia's GDP in 2015 is projected to grow at 5.8%, slightly higher than GDP growth in 2014 at 5.3%. inflation rate will be higher from 5.8% in 2014 to 6.9% in 2015.

This forecast indicates that the general Indonesian economy will be growing at a moderate pace The growth is supported by growth in retail sales at the pace around 12% - 17% for the last two years.

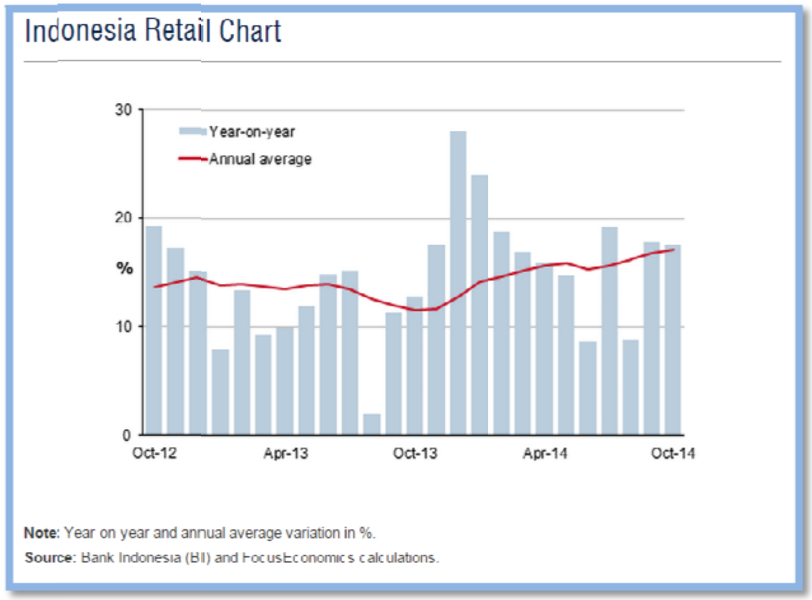


Figure 2.3 Indonesia Retail Chart

(Source : BI, 2014)

- Asean Economic Competition 2015

  According to the survey by Bank Indonesia, there are still a large number of SME that are not ready to enter the Asian Economic Community. SME that are adequately prepared for the Asian Economic Community are processing industry sector and the hotel and F&B sectors.*(http://sp.beritasatu.com/ekonomidanbisnis/bi-banyak-pelaku-ukm-belum-sadar-mea/58269)*
- SME requires support on financing and product quality improvement. The biggest complaint from SME is the lack of support in Marketing and product penetration. *(http://www.medanbisnisdaily.com/news/read/2014/11/04/127457/ukm-perlu-dukungan/#.VJ-wWsABA)*

2.1.2 SMEs Business Promoter – 5 (Five) Porter Analysis

In doing market and industry analysis, the general environment can be accompanied with the five-forces framework. This model was developed by

Professor Michael Porter published in his book *Competitive Strategy*. The five forces are internal rivalry, entry, substitute, supplier power, and buyer power.

Internal rivalry is the direct competition among firms within a market or an industry. An analysis of this rivalry begins by defining the market and two important aspects are product market and geographic market. Firms may also compete on price and non-price aspects. Conditions that could bring fierce rivalry are:

- Large number of competing sellers
- The industry is stagnant, slow growth or even shrinking
- Excess capacity experience by some firms
- Little or no products differentiation, products are competing more on price
- Strong exit barrier

New entrants are firms that start operating in a business segment or established firms that divesting and enter into a business segment. New entrants are heating up the competition by divide market demand and reduce market concentration. Conditions that creates barrier to entry are:

- Government protection (regulation of entry)
- Economics of scale
- Limited access to key input such as raw materials and know-how
- Product differentiation

Substitutes are other products that can meet needs in a different way. A close substitute is a threat to a product and a firm. A change in demographic can shift a demand of a product.

Supplier power is the ability of a single supplier to negotiate price to its customer. If there are a large number of buyers with limited supply, then supplier has the power to sell its products or services to the highest bidder.

Buyer power is the ability of a single buyer to negotiate price to its sellers or producers. If there are a large number of sellers, then buyers has the power to choose among the many seller or products or services to the lowest bidder.

Another Force: Complements

Another dimension to add to Porter's five forces framework is Complements, developed by Professor Adam Brandenburder and Barry Nalebuff.

A complementary is a product or service of other firm that support and collaborate with a firm product or service, so that the existence of a complementary has a positive aspect to the market and industry.

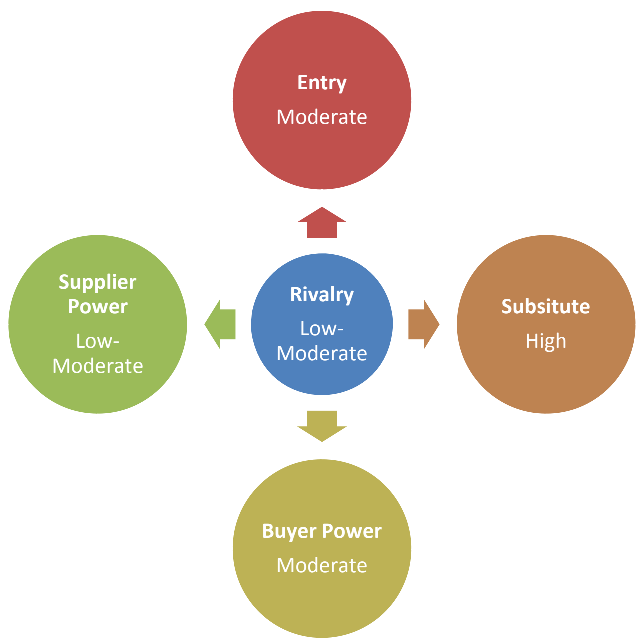


Figure 2.4 SME business promoter Five Force Analysis

2.2 Business Model Canvas For Retail & Business Promoter

"A business model describes the rationale of how an organization creates, delivers and capture value" (*Business model generation pg.14) according to Osterwalder and Pigneur (2010)*

2.2.1 Customer Segments

Customer Segment building block defines the organization target audience and customer groups. Customer groups can be differentiated by attributes based on their needs, distribution channel, types of relationship, profitability, differentiating offers. An organization need to specify its customer segments in order to shape the other building blocks.

Customer segments can be differentiated between mass market, niche market, segmented market, diversified and Multi-sided markets.

2.2.2 Value proposition

Value proposition building blocks describes products and services that are valuable for specific customer segments. The value proposition consist of elements that satisfies specific customer segments. These elements can be a mix of price, speed of service, design or customer experience)

2.2.3 Channels

Channels building block describes the organization communication strategies and delivery methods of its value proposition.

Channels are the building block that connects the organization with its customer segment.

The function of channels may consist of:

- Raising product awareness among customers
- Providing the customers with product and service information to customers
- Customers purchasing channel
- Post-purchase customers relation
- Delivery of products and services

Channels can be distinguished between direct and indirect channels as well between owned and partner owned channels. Each channels may include five distinct phases

Figure 2.5 Channel pg27

2.2.4 Customer relationship

"Customers relationship building blocks describes the type of relationships an organization establishes with specific customers segment" (business model generation pg.28)

Customer relationship deeply influence overall customer experience the company offers. Customer relationships are driven by the organization needs for customer acquisition, customer retention, boosting sales (upselling)

Customer relationship can be distinguished between several categories:

- Personal Assistance
- Dedicated personal Assistance
- Self Service
- Automated Services
- Communities
- Co-Creation

2.2.5 Revenue Stream

Revenue streams building blocks describes the organization income from each customer segments. Revenue stream describe the methods that the organization charge its customers as well as pricing methods. The revenue streams can be categorized into one-time customer payment or ongoing payments. Revenue streams category can be further expanded into:

- Trading goods sales
- Asset sales
- Usage fee
- Subscription fee
- Lending / Renting / Leasing
- Licensing
- Brokerage fee
- Advertising

Revenue streams also describes pricing mechanisms that the organization adopts into its business model

Pricing Mechanisms

Fixed Menu Pricing Predefined prices are based on static variables		**Dynamic Pricing** Prices change based on market conditions	
List price	Fixed prices for individual products, services, or other Value Propositions	*Negotiation (bargaining)*	Price negotiated between two or more partners depending on negotiation power and/or negotiation skills
Product feature dependent	Price depends on the number or quality of Value Proposition features	*Yield management*	Price depends on inventory and time of purchase (normally used for perishable resources such as hotel rooms or airline seats)
Customer segment dependent	Price depends on the type and characteristic of a Customer Segment	*Real-time-market*	Price is established dynamically based on supply and demand
Volume dependent	Price as a function of the quantity purchased	*Auctions*	Price determined by outcome of competitive bidding

Figure 2.6 Table Business model generation pg.33

2.2.6 Key Resources

Key Resources building blocks describes the vital assets the organization required to run the business model. Different business model may require different key resources. Key resources include owned or leased assets that the organization require to generate and deliver its value proposition to customers.

Key resources are categorized as

- Physical, Physical assets that may include facilities, machines, systems, distribution infrastructure.
- Financial , Financial resources such as cash, line of credit, stock options
- Intellectual, Intellectual resources includes brands, copyright, patents , intellectual properties, partnerships, customer database.
- Human, Human Resources includes skilled workers such as doctors, creative designers and scientist.

2.2.7 Key Activities

Key activities building block describes the activity in which the organization perform in order to run the business model. Key activities differ between companies and can be categorized as:

- Production, Activities of making products which are typical of manufacturing companies.
- Problem solving , Activities that generates solution to customer problems, typically found in consulting firms and services organization offering solutions.
- Platform / Network, Activities of connecting platforms and networks. Typically found in online software and services such as social networks and B2B computer networks.

2.2.8 Key Partnership

Key partnership building blocks consist of suppliers and partners that the organization depend on to run the business model.

Organization forge partnerships for the purpose of risk reduction, resource acquisition or business optimization.

Partnerships can be distinguished between:

- Strategic alliance between non-competitors

- Coo petition partnership between competitors
- Joint Ventures
- Buyer-supplier

2.2.9 Cost Structure

Cost Structure contains all the important cost incurred in the operation of the business model. Cost structure can be driven by these two extremes:

- Cost-Driven, Focuses on cost minimization. This approach delivers low price value proposition and essential to cost leadership strategies.
- Value-Driven, Focuses on value creation. This approach can be found in premium value proposition typically involving highly personalized services and premium segmented products.

Cost structures can be divided into:

- Fixed cost, Static cost that remains during the operation of the organization. Fixed cost may include salaries and rents.
- Variable cost, Cost that vary in regards to the volume of production of goods or services.
- Economic of scales, Cost savings that vary in regards of level of output. Economics of scales provides cost savings proportional to the volume of production.
- Economics of scope, Cost savings that are generated to companies scope of operations. Cost saving grows in proportion to scope of operations. This may include owned

2.2 Idea Generation

Below are several factors that generate the idea for the business model :

- Increasing number of SME
- Small business need a goverment or agency business to expand the product
- SMEs need to connect and easy to get funding with investor
- Obligation impose on banks to provide loan to SMEs

- Growing online market

2.3 Value Proposition

Below are some values creation from the business model :

- Become Marketing and Sales Channel for SMEs
  This project will provide marketing media for SMEs' product through a website. More than marketing, sales channel will also provided so that SMEs can really feel the positive impact from their marketing.
- Connecting SMEs and banks
  The project offers facilities physcially and virtually to connect SME owners with banks. SME will have their products and company displayed and curated to bring in potential fund provider such as banks.
- Expanding SME product through co-branding
  The project aims to tie in SME product brands with it's own brand to expand the products reach. With co-branding the products and brand of the project would increase the perceived value of both brands.
- Personal Consultation
  Curators of the project would also offer consultations to selected SMEs to further refine their product strategies

2.4 Threat – Oportunity – Weaknesses – Strength (TOWS) Analysis

TOWS is a strategic tool to analyze external environment and internal environment to produce strategic plans. The research will use this tool to develop strategic options, and the options are as below:

External Factors / Internal Factors	**External Opportunities (O)** 1. Increase in disposable income 2. High percentage of generation at the age 20-30 yrs 3. Growing online sales 4. Internet widely available & cheap	**External Threats (T)** 1. Copyright & property right protection is low 2. Limited number of regulation regulating online sales
Internal Strength (S) 1. Knowledgeable curator to find interesting products 2. Wide Networking with SMEs and Banks 3. Brand power of high perceive 4. Multiple Revenue stream	**SO strategy** S1O1: Bring consistent new and interesting product to market S2O5: Matching Banks with potential SMEs for funding S3O1: Targeting up-scale market S4O2O3: Selling wide variety products to different market	**ST strategy** S1T1: Find a way to process cheaply and fast copyrighting products S3S4T2: Use the best online sales technology to prevent fraud and scam
Internal Weaknesses (W) 1. Marketing expertise 2. Location 3. Capital	**WO strategy** W1O1: Employ proper marketing program, especially for online sales W3O3: Prudent financing	**WT strategy** W1W3T1: Protection from law suit

Figure 2.7 TOWS Analysis

2.5. Business Strategy, Blue Ocean Strategy

Blue Ocean Strategy was a business strategy book written by W. Chan Kim and Renee Mauborgne in 2005. The authors of Blue Ocean Strategy, which is based on a study of 150 strategic moves spanning more than a hundred years and thirty industries, argued that companies can succeed by creating their "blue ocean" rather than competing in "red ocean". Their strategic move to blue ocean renders competition irrelevant. The aim blue ocean strategy is not to out-perform the competition in the existing industry, but to create new market space or blue ocean, thereby making the competition irrelevant. The project will use Blue oceans Strategy Canvas and Eliminate-Reduce-Raise-Create (ERRC) Grid.

1. Strategy Canvas

   How to captures the current state of play in the known market space ?

   How company positions it self compare to competitor ?

How to asses important factors in competition such as products, service, and delivery, and what customers receive from the existing competitive offerings on the market

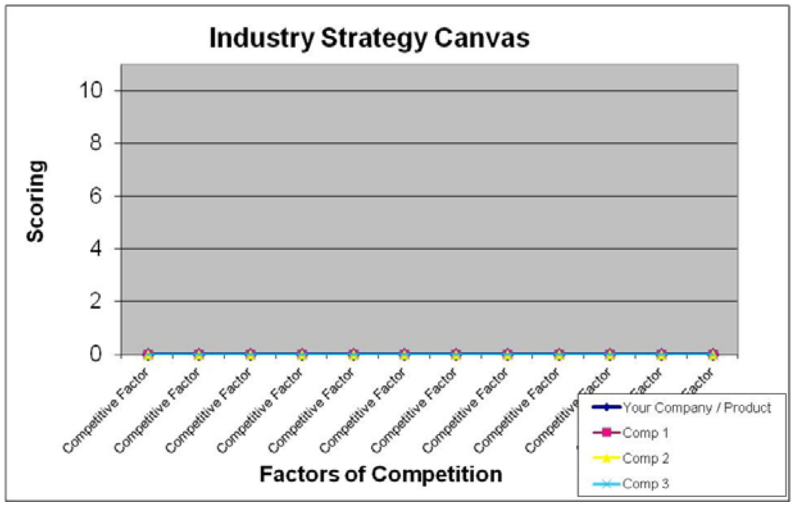


Figure 2.7 Industry Strategy Canvas

2. Eliminate-Reduce-Raise-Create (ERRC)

   Actions framework need to be done based on the assesment pictured on the strategy canvas. There 4 (four) possible actions such as Eliminate-Reduce-Raise-Create agains market.

   The four actions framework offers an technique that breaks the trade-off between differentiation and low cost and to create a new value curve

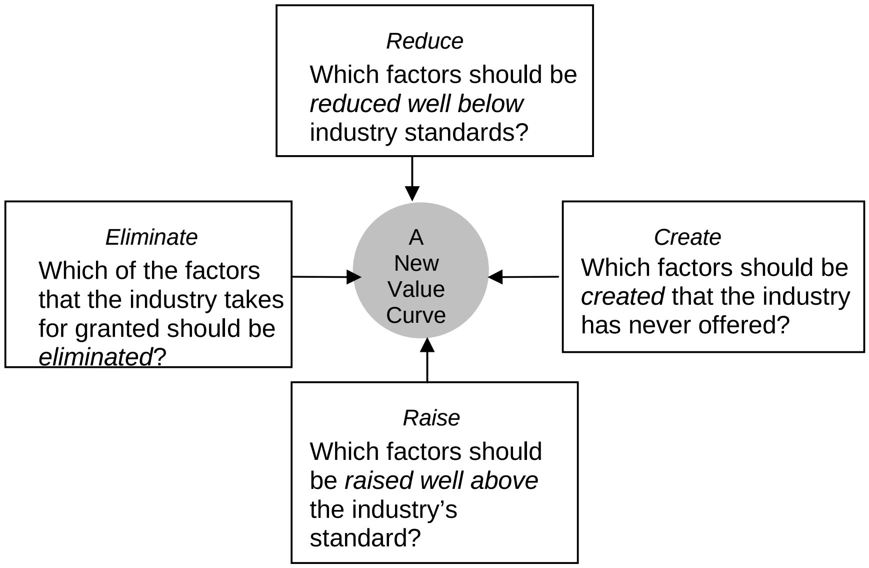


Figure 2.8 Eliminate-Reduce-Raise-Create (ERRC) Grid