

BUSINESS MODEL INNOVATION in INDONESIAN JAMU COMPANY

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ABSTRACT

Business model innovation is needed especially in a turbulent environment. But, firms had to overcome some obstacles due to leadership and market changing. Limited progress has been made, however, in describing how the process of business model innovation in a firm. This paper was a descriptive and explanative study that conducted to reveal how the process of business model innovation that was done by a firm in a knowledge-intensive industry. Business model innovation process is described by combining the business model framework and business model components. This research concludes that there are four stages in business model innovation that is done in the research object. Some research implications are also described.

Keywords: *business model innovation, knowledge-intensive industry.*

1. INTRODUCTION

Jamu, as Indonesian heritage herbal medicine, has been in transition situation (Stevensen, 1999; Suprana, 2012). Jamu is an Indonesian herbal tradition which could be served as medicine and also as cosmetic (Liong, 2010). Jamu, like other traditional systems of medicine, is relying on plants as a source of medicine, based on empirical knowledge, and many of the plants have not been scientifically evaluated for their safety and efficacy (Mahady, 2001). Then, there are many challenges according their safety, quality, and efficacy (Mukherjee, Wahile, Kumar, Rai., 2006).

In a more global situation, jamu could be a basis to develop biotechnology, as long as they could follow Western Regulators according to their safety, quality, and efficacy (Basu, 2004). But, in Indonesia, jamu has been facing some unfavorable situations. There was a negative trend in drinking jamu, lesser appreciation about cultural heritage products, inconsistent and suppressing government regulation, and destruction image of jamu caused by jamu illegal (herbal medicine containing chemical drugs materials). Meanwhile, there were some foreign traditional products which entering Indonesian market and have not been regulated by government or been controlled by different ministry. To face the

uncertain future, Indonesian jamu company should do something.

In such situation, firms need strategy innovation in a changing environment especially by business model innovation to create new values for customers (Hamel, 2001). Business model serves as a guide for firms to cultivate or develop the advantage of their business model components such as target market, product offering, and industry value chain then creating rents. Business model innovation could be done as a rethinking about what customer really want and what firms should do to fulfill it and then capture the rents (Teece, 2010). Business model innovation is especially needed in a dynamic market condition (McGrath, 2010; Sosna, Trevinyo-Rodriguez, and Velamuri, 2010). Even, business model innovation is more valuable than merely innovation or investment in technology or human resources (Chesbrough, 2007).

My research question was why a firm does business model innovation and how it been done. Chesbrough (2007) said that, even business model innovation was so important, many firms failed to innovate their business model because usually CEO has two-year to three-year rotations that is too short to develop business-model experiment. Another obstacle was functional managers usually focus more on their function and could not see the business as a whole. Then, the aim of this study was to

reveal and learn about business model innovation making process. To reveal the process of business model innovation, I need to conduct a qualitative case study research, because a case study research aims to describe the process according the phenomenon of a study and serve as an example to give clear understanding about the process (Eisenhardt, 1989; Silverman, 2001; Wahyuni, 2012).

This paper was a part of a field study which conducted to reveal how business model innovation was developed by an Indonesian jamu company along with its antecedents. This paper would more focus on the staging of business model innovation process. While the other paper would more focus on describing relationship between business model innovation and its antecedents such as organizational learning and organizational culture (Widjaja, 2013).

2. THEORETICAL BACKGROUND

2.1 Theory of Innovation

In the study of macro economy, innovation is associated with a growing economy (Lundvall, 1998). But, innovation is also known in micro level and defined as new combinations of factors of production by entrepreneurs (Schumpeter, 1934). Drucker (2002), also said that innovation is the specific function of entrepreneurs to create resources that generate new wealth as well as inherited existing resources that have the potential to increase value creation. Innovation is a tool for enterprises to win the competition in the future (Huber, 1984; Lowendahl and Revang, 1998; Prahalad and Krishnan, 2008).

Innovation is an effort to create customer's economic value by increasing positive difference between customer perceived value and economic costs incurred by the company (Fontana, 2009). It could be done through three ways. First, by increasing customer perceived value while maintaining economic costs incurred by the firms. Second, decreasing economic costs incurred by the firms while maintaining existing customer perceived value. Third, increasing customer perceived value as well as decreasing economic costs incurred by the firms.

There are two form of innovation in terms of the changes brought about, namely radical innovation and incremental innovation (Nonaka and Teece, 2001). Radical innovation is not merely creating new programs or technology, but more emphasizing on significant change in doing existing tasks/activities (Mintzberg, Lampel, Quinn, Ghoshal, 2003). Radical innovation is the result of new point of view towards a problem (different from the usual point of view that already been done). While, incremental innovation is a peripheral change as a response towards environment's needs and demands. This research would study the form of both incremental and radical innovation through the business model innovation of a jamu company.

2.2 Business, Business Model, and Business Model Innovation

Business is an individual or organization that seeks to make a profit by providing products that satisfy the needs of their customers (Ferrel, Hirt, and Ferrell, 2011). It consists of two main activities, creating value and capturing value (rents) (Chesbrough, 2007). To run their business, firms not only have to consider their customers, but also their other competitive environment (competitors, product substitutions, new entrances, and suppliers) as well as their general environment (politics, economics, sociocultural, and technology) (Wheelen and Hunger, 2004). Then, firms need to generate their own business model to get a good understanding about their business and to monitor their creating and capturing activities.

Moreover, firms also need to make business model innovation because their environment is dynamic even uncertain. For example, the existence of competitors makes customers have many alternatives products they could choose. Then, customers would change or update their product preferences. To meet with these changing, firms need to make business model innovation (Sosna, Trevinyo-Rodriguez, and Velamuri, 2010).

Business model innovation is reflected by modifying or complementing existing business model with a new, more unique, and more creating value business model

(Chesbrough, 2007). The business model framework (Figure 1) depicts sequencing stages in business model innovation. I use this framework because 1) it depicts the movement of a firm's business model as a value creating process; 2) it involves closed innovation and open innovation as a trending topic in innovation management (Huizingh, 2011); 3) it is in line with a dynamic perspective of business model (Demil and Lecocq, 2010; Sosna et al., 2010).

The business model framework (Chesbrough, 2007), consist of six types which starts from an ordinary business model until the most valueable business model.

First type - firms with an undifferentiated business model. These firms have no uniqueness in their business model. They are positioning themselves as commodity sellers that serve their customers through competitive price and product availability just like other competitors. These firms are facing fierce competition.

Second type - firms with some differentiations in their business model. These firms start to develop some uniqueness in their business model such as product or service differentiation so that they are not merely offering their product through competitive price. But, because they have not segmented their market, they have to compete in a broad market and in many cases they do not have enough resources to sustain their successful product differentiation strategy.

Third type - firms with a segmented business model. According to the failure above, firms start to segment their market and develop a suitable and profitable business model for each target market. In a market that has a price and product availability orientation, they serve it with cheap and high volume products. While in a market with a product performance orientation, they serve it with unique and higher quality products which give higher margin to the firm.

Till this stage, firms are focus on internal idea generation. They try to fulfill the market needs by their own ability to create products. They are more count on a closed innovation approach. But, these firms are vulnerable to a disruptive change in technology and

market that are beyond their current activities and innovation. Then, they should adopt an open innovation approach.

Forth type - firms with an externally aware business model. These firms are more opened to external ideas and technologies that are around them. They develop a good relation with their external stakeholders and considering their ideas to be transformed into new products. But, their innovation activities are separated from their business model.

Fifth type - firms that integrating innovation process with business model. Firms, their suppliers, and their customers are closely related formally. Firms could make experiments in their supply chain management to make them alert toward technology shifting and new market opportunities. Firms start to shift from only offering products into also offering services.

Sixth type - firms with business model as an adaptive platform. In this stage, key suppliers are involved in firm's planning process and related to their customers' business model. Firms could attract other firm to invest their resources and expanding their value proposition without additional investment.

But, the framework does not explain, what firm should do to shift or combine their business model. Then, I use the business model component (Lindgardt, Reeves, Stalk, and Deimler, 2009) (Figure 2). This framework is used because 1) it reveals that there are two basic elements of a business model, that are value proposition and its implementation through operating model (Chesbrough, 2007; Ferrel et al., 2011); 2) it is developed in a context how to cope high competition and market turbulent with business model innovation by adjusting business model components. According to this study, I exclude revenue model and cost model from the business model component because these two items would be reflected in business' profit. While organization aspect is merged into value chain and would be explained as an industrial value chain.

According to Lindgardt et al., (2009), a business model should focus on value proposition and then implement it in operating model. Value proposition describes what kind of value is offered by

firm to their customers. Value proposition is supported by target segments and product offering. Target segment means a group of customers that are chosen to be served included their needs and wants that would be fulfilled. Product offering means what kind of product that firm would offer to fulfill their customer's needs and wants. Industrial value chain means how firm manages product or service delivery according to customer's needs and wants. It includes whether they would make the product by themselves (in-house) or are there any parts of the product that would be made outside the firm (outsourced). Industrial value chain would be described by supply chain (how it get raw materials), internal process (how it makes product), and distribution (how it distributes product).

3. RESEARCH METHOD

According to the research questions, this research was a description and explanation research (Babbie, 2008). Descriptive study aims to answer research question of how, while explanatory study aims to answer research question of why (Yin, 1994). This type of study would depict about what kind of business model innovation are being done by a firm and why it does so. Descriptive research and explanation research could be used together and complement each other to provide a complete picture of the activities that reflects the variables studied.

The mode of this study was qualitative field research and it used case study as research paradigm (Andrade, 2009; Babbie,

2008). The aim of this study was to deeply investigate business model innovation process in a firm. Case study research was suitable to the aim of this research because it gave greater flexibility to reveal firm's empirical condition that have not known yet by public (Eisenhardt, 1989). Ghauri et al. (1995) said that one of the advantage of case study was it enable to seek new business practices in research object. It was hard for quantitative study to do the same thing because quantitative study required some predetermined specific questions and answers (Wahyuni, 2012).

I choose a jamu company, PT. Nyonya Meneer, because jamu is a kind of knowledge-intensive industry that needs a specific business model (Sheehan and Stabell, 2007) and there is less attention in cultural heritage business research. PT. Nyonya Meneer is the oldest jamu company that is still going concern in the business of jamu in Indonesia till now (Sumardono and Hanusz, 2007). As a family business, PT. Nyonya Meneer has been entering business jamu since 1919. My unit analysis is PT. Nyonya Meneer as an organization, while my prime source of data are the CEO as the owner of PT. Nyonya Meneer and persons who are involved in a kind of top management team. Both of them are in-charge of business model innovation in PT. Nyonya Meneer. The main data are collected by conducting in-depth interview with the owner (family member) and focus group discussion with persons (non family member) who are involved in a kind of top management team.

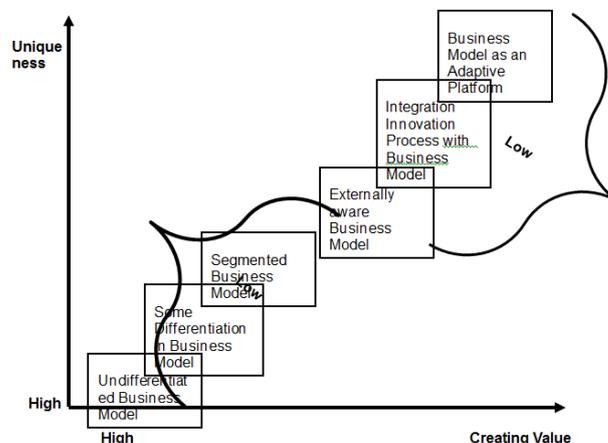


Figure 1 The Business Model Framework (Chesbrough, 2007)

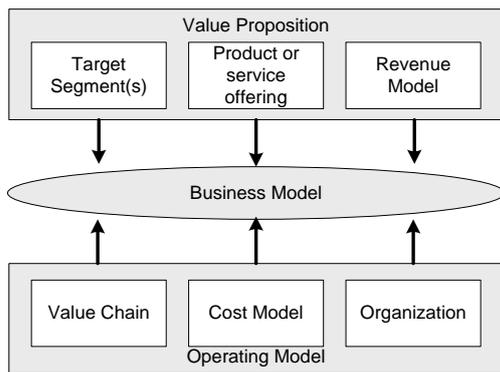


Figure 2 Business Model Component (Lindgardt et al., 2009)

4. RESULT AND DISCUSSION

After six times in-depth interviews and six times focus group discussions, the process of business model innovation could be describe as below:

Stage 1: Shifting from undifferentiated business model into some differentiation in business model.

It was the very first time Mrs. Meneer entered jamu business. After her husband passed away she had to make a living for her family. The only thing that she knew well was jamu. Her knowledge and skill about jamu has already known by her neighbours because she had ever succeeded in curing her husband before. Then, she offered jamu that used to be drunk by her family. At the moment, pharmaceutical drugs were expensive and people used to buy jamu to remedy their illness.

At this stage, the company focused on selling their products. In term of business model components, they focused especially on product offering. Nyonya Meneer's products were a family recipe and it was famous because of its efficacy and taste. They get raw materials either from their garden or from farmers. They processed it by themselves. They open a store to sell their jamu and people used to come to drink jamu.

Mrs. Meneer relied on word of mouth in order to promote her products. She also used to ask for some suggestions from her customers and it generated a strong relationship and trust with her customers. Then, she also packed her jamu that people could bring it home and drank it by

themselves. Mrs. Meneer also put her portrait in the packaging in order to maintain strong relationship and trust with her customers (Sumardono and Hanusz, 2007).

The suitability between market needs, social environment and product offering was enough to make the business work. Even she started the business with a limited knowledge about her market but she successfully developed it by continuing asked suggestions from her customers. It seemed that other business model components have not been considered yet. This single business model served the business for decades.

Stage 2: Combining some differentiation in business model with segmented business model.

At this stage, after decades of doing the business, PT. Nyonya Meneer could accumulate their knowledge either knowledge about jamu or knowledge about their market. Then, they found that their market could be divided into some specific segments. For example, usually they sold Jamu Habis Bersalin, an after-given-birth herbs, to those who just given birth then they modified the product to fulfill specific customers such as either they who used to drink jamu (served in powder) or they who did not used to drink jamu (served in pill), they who had high income level, middle income level, and low income level, and for domestic market or foreign market.

Then, PT. Nyonya Meneer run their business by combining a differentiated product offering business model and variation in target segment business model. Business model innovation was done either through a variety of differentiated products offered or also through variations in the target segments. Other business model components only served as a supporting system. This dual business model served the business till their third generation entered the business.

Stage 3: Combining existing business models with an externally aware business model.

As the Indonesian economy started to grow in 1980s, buying power of Indonesian society also grew and gradually people changed their habit according to jamu. There

was a diminishing of people who used to drink jamu. Jamu were perceived as an old life style and even unsaved because there were jamu that contained drug chemicals. Foreign herbal medicines also entered the market. Then, PT. Nyonya Meneer started to face an unfavorable market condition.

In order to face the situation, PT. Nyonya Meneer was forced to offer more new products faster. They started to benchmark competitor's products because they could not rely on their own ideas in generating products. In 2000, PT. Nyonya Meneer began to launch a phytopharmaca product named Rheumaneer (Sumardono and Hanusz, 2007). Phytopharmaca was a herbal medicine that had passed clinical test, then it could be prescribed by physicians. The ideas of Rheumaneer came from external parties such as BPOM (Indonesian Food and Drug Monitoring Agency) and Ministry of Health.

At this stage, business model innovation was still triggered either by variation in products offering or variation in target segments. But at this stage, PT. Nyonya Meneer started to offer product that originated from external ideas (non family recipe). Other business model components still acted as business support.

Stage 4: Combining existing business model with an integrated industrial value chain into business model.

In order to expand the market, PT. Nyonya Meneer also sold their products in foreign markets such as, Malaysia, Taiwan, Holland, and USA. But they were also aware of the licensing barriers to sell their products directly using their own brand in foreign market. Then, they searched for local company in foreign market to sell their product using local brand.

At this stage, PT. Nyonya Meneer started to capitalize on their competence in terms of gathering herbs. They asked other companies to produce herbs under their supervision and sold it as a new product using the local brand in foreign market. Then, business model innovation began to be triggered by industrial value chain besides triggered by product offering and target segment. By implementing business model innovation, PT. Nyonya Meneer has

grown into one of the largest jamu plant and nearly one century old.

According to Chesbrough (2007), the final stages of business model innovation was business model as an adaptive platform. PT. Nyonya Meneer has not yet fulfilled this stage. Because of the unfavorable jamu market condition, many shops which used to sell jamu were closed or were not selling jamu anymore. Then, PT. Nyonya Meneer had to rebuild their distribution channel.

5. CONCLUSION

There were several things could be concluded from this study. Firms are driven to do business model innovation when they are squeezed by competition or when they have a better and more knowledge about their business. In order to get a better and more knowledge about their business, firms need to understand their market and based on their competence to develop appropriate products.

Business model innovation could be triggered by offering differentiated products either originated from internal as well as external organization, or by segmenting their market, or by reconfiguring their industrial value chain. This study reveals that to sustain in a business firms need to combine several business models. Then, to make business model innovation, firms need to consider both business idea (product offering and target segment) as well as its implementation (industrial value chain).

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