

IMPLEMENTATION OF INNOVATION STRATEGIES AT PERANDA FURNITURE COMPANY IN COMPETITION IN BANGGAI REGENCY

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ABSTRACT

This study discusses the process being conducted in searching for the right innovation strategies for the company, in order to compete in the company's region. As a case study, this research is descriptive qualitative one with inductive approach. Data analysis tools used in this study are Miles and Huberman's interactive data models, which are Business Model Canvas, Blue Ocean Strategy, and Ten Types of Innovation. Business Model Canvas functions to explain the underway company business prior to this study. Blue Ocean Strategy functions to assist the company in determining changes in business model which is done through answering questions on the Four-step Framework. Ten Types of Innovation functions to determine tactics in innovation and formulate to suitable strategies to be implemented by the company. The result of this study revealed that the suitable strategies for the company are strategies that focus on the center side, which is directed to Platform Shift innovation. This innovation focuses on the re-creation, recombination, and rediscovery of new relationships between capabilities and demands in order to provide new value for customers.

Keywords: Innovation Strategy, Furniture Retail, Banggai Regency, Business Model Canvas, Blue Ocean Strategy, Ten Types of Innovation

INTRODUCTION

The intense competition in the business world requires every company to make changes by implementing innovations to survive the competition. Ciputra (2011: 74) defines innovation as an instrument of *entrepreneurship* to build and create creative added value of every business process. Innovation is also an integrated system that is designed to make customers cannot reject your product, hence the implementation of innovation strategies is very essential indeed. Innovation strategies will be achieved by determining the present business model using the *Business Model Canvas*, analyzing and developing new business models using the *Blue Ocean Strategy*, and then determining the application of innovation to be used using the *Ten Types of Innovation*.

The company as research object in this study is a family business of the researcher himself which is located in Luwuk, Banggai Regency, Central Sulawesi. This family company, which was founded in 2000, is engaged in furniture retail as trading business field. This study aims to find out the present business model of the company, determine the changes in business model

which can be implemented by the company, and find the innovation strategies that are suitable for the company. It is expected that the company can decide and implement suitable innovation strategies in order to compete with similar competitors in Banggai Regency area.

LITERATURE REVIEW

Rangkuti in Irmawati et al. (2013: 83) defines strategy as a continuous and adaptive responses to opportunities, external threats, internal strengths and weaknesses that can affect organization. Drucker in Yanuarto et al. (2013: 2) defines innovation as action that functions as source of new power and capabilities to create prosperity as expected. Later, Febransyah and Napitupulu (2010: 29) add that strategic innovation is essentially a business growth strategy based on value creation that benefits the customers and becomes the new competition platform. Furthermore, Freeman in Ruspitasari (2012: 20) states that innovation strategy is related to strategic response of the company in adopting innovations.

Business Model Canvas, according to Osterwalder and Pigneur in Dewobroto (2013: 216), is a logical overview of business model of how a company creates, delivers, and captures value. This canvas splits business model into nine main components, and then divides the components into right components (creative side) and left components (logical side), just like the hemisphere division of human brain. The nine components or blocks are *customer segments, value propositions, channels, customer relationships, revenue streams, key resources, key activities, key partnerships, and cost structure*.

Hardi and Mustamu (2015: 765) argue that companies that have suitable strategies to face with changes happen in the business world will be able to compete globally. Blue Ocean Strategy (BOS) is one of the strategies that can be applied by the company. Septarini and Kusumadmo (2014: 5) state that BOS has several analysis tools, namely Strategy Canvas, Four-step Framework, and the Eliminate-Reduce-Raise-Create schema. Priyono and Susilowati (2014: 6) explain Strategy canvas as to summarize the recent situation in the known market space. Kim and Mauborgne in Susanto (2015: 693) state that Four-step Framework is used to break the predicament or exchanges between differentiation and low cost, and to create new value curve. Eliminate-Reduce-Raise-Create Scheme, as for Kim and Mauborgne in Kosasih and Indriyani (2014: 430) is used to encourage the company not only to ask four questions in the Four-step Framework, but also to act based on the fourth questions in order to create a new value curve.

Keeley et al. (2013: xiii) emphasizes on the importance of a good innovation that is not only focused on the product alone, but should also be focused on combining several types of innovation. *Ten Types* is a framework that can be used as a tool to diagnose and enrich the innovation process being done, or to analyze the existing competition in order to produce strong concept. Ten types of innovation consist of a *profit model, network, structure, process, product performance, product system, service, channel, brand, and customer engagement* (Keeley et al., 2013: 16-17). There are three choices of change direction to be practiced by a major driver of innovation in a company: *the business model shift* (focus on the left side), *platform shift* (focus on the center side), and *customer experience shift* (focus on right side).

Based on the definitions discussed in preceding paragraphs, the analysis model used in this study is shown in Figure 1.

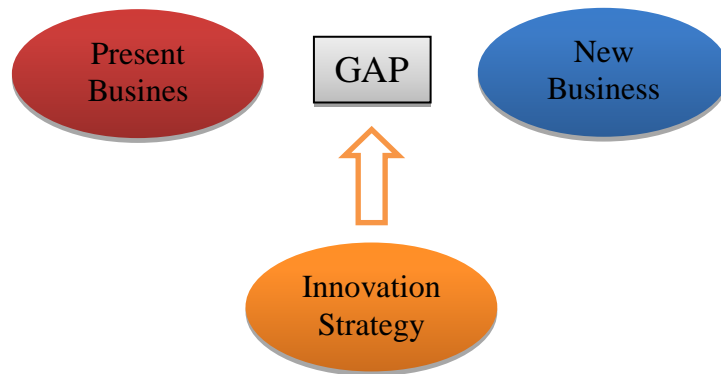


Figure 1. Analysis Model

Source: Data processed

RESEARCH METHODS

This study is qualitative in nature, by using descriptive case study research design with inductive approach. The informants for this study were two directors, two people from its sister company, three customers, and one retail expert. The total informants were eight informants. The study was conducted in the period of August to November 2015, and took setting in Luwuk and Surabaya.

Sources of primary data for this study were the result of interviewing all informants, observation, and documentation of company data. Sources for secondary data for this study were all company documentation and literatures related to this study. The data were collected using several methods of data collection, which were semi-structured interviews, participant observation, and documentation by documenting the company's official documents. For data validation, this study uses source triangulation and method triangulation. The model of interactive data analysis by Miles and Huberman was used as analysis tool.

FINDINGS AND DISCUSSION

Business Model Canvas

Segmentation of customers of a company is a mass market where a company does not distinguish between different customer segments. Customers of the company in this study are people who need *knock down furniture* since the majority of the product or main product of the company is *knock down furniture*.

Value proposition of the company consists of three, which are product quality, service, and warranty. Product quality of the company is an offered value proposition, since the company always tries to offer quality product with suitable price. The services provided by the company are friendly store clerks, fast delivery processes, and installment facilities that can be adjusted to the payment ability of customers from lower economic level. Another value proposition offered by the company is the damaged products guarantee with two-week maximum claim after the purchase has been made.

The communication channel, distribution, and marketing consist of two, namely the store and the exhibitions which are often joined by the company.

Customer relationship maintained by the company is to give special treatment to regular customer. The special treatment is in form of giving special discount and gifts for regular customer for their religious holiday.

The company's revenue stream is only from product selling.

The main resources of the company consist of four, namely physical resources, intellectual resources, human resources, and financial resources. Physical resources of the company are store building, warehouse, delivery truck, and the store's strategic location in the center of Luwuk town. Intellectual resources of the company are cooperation with product suppliers. Human resources of the company are store clerks, workers to assemble and repair the products, and staffs that control the product quality. Financial resources of the company are cash and bank credit for the capital.

There are five key activities of the company: product order to obtain quality product, product assembly and quality control to ensure the good condition of the products, sale, product delivery as form of service for the customers, and product reparation as guarantee service implementation.

The main partnerships of the company are product suppliers, Expedition Company to deliver the product, bank, and other financial companies.

Cost structure of the company is divided into fixed costs and variable costs. The company's fixed costs are salaries, maintenance of assets, depreciation of assets, marketing costs, and store and warehouse operating costs (telephone, water, and electricity). The company's variable cost are the cost of delivering product from the purchase and sale, as well as the cost of purchasing product from the suppliers.

Figure 2 shows the picture of recent Business Model Canvas of the company.

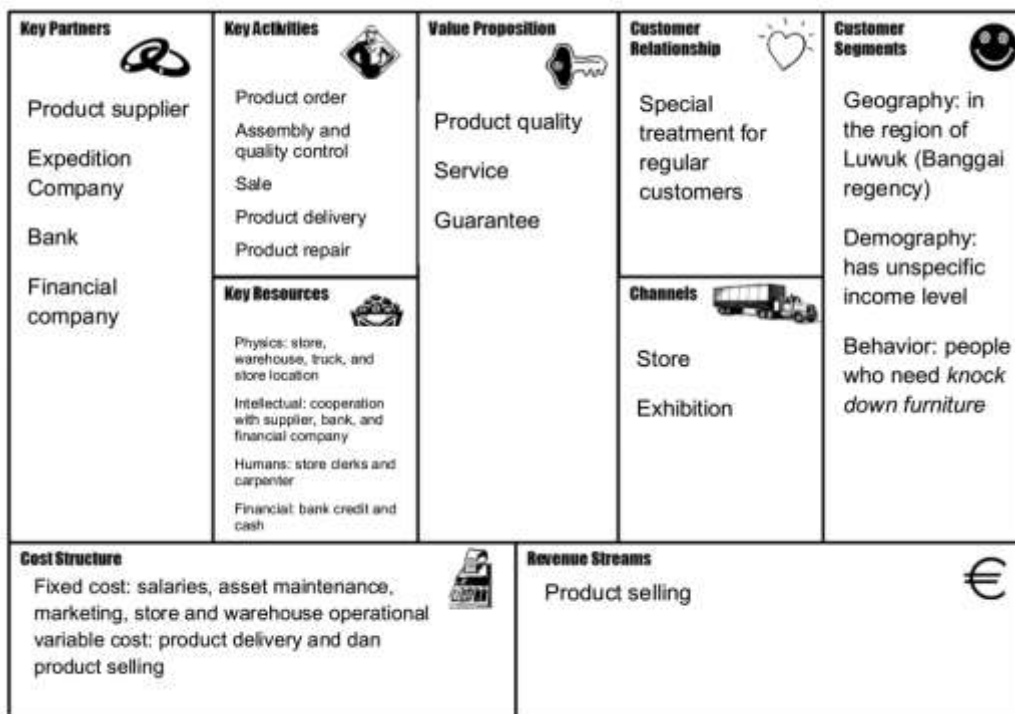


Figure 2. Recent Business Model Canvas of the Company

Source: Internal data of the company, 2015 (data processed)

Blue Ocean Strategy

a. Strategy canvas

Based on the results of observations and interviews conducted by the researchers to the eight informants, there are seven critical factors that determine the success of a company in furniture retail industry. The factors were price, product display, types of product available, product quality, product delivery, payment methods, and store clerk services. The following description is assessment indicator of each factor as resulted from the researcher's interviews and observations.

- 1) Price, the assessments are:
 - a) Average contribution margin $\leq 10\%$ (score 1)
 - b) Average contribution margin $\leq 15\%$ (score 2)
 - c) Average contribution margin $\leq 20\%$ (score 3)
 - d) Average contribution margin $\leq 25\%$ (score 4)
 - e) Average contribution margin $> 25\%$ (score 5)
- 2) Product *display*, the assessments are:
 - a) Total of product display ≤ 100 product (score 1)
 - b) Total of product display ≤ 150 product (score 2)
 - c) Total of product display ≤ 200 product (score 3)
 - d) Total of product display ≤ 250 product (score 4)
 - e) Total of product display > 250 product (score 5)
- 3) Types of product available, the assessments are:
 - a) Total of product types available ≤ 150 product (score 1)
 - b) Total of product types available ≤ 200 product (score 2)
 - c) Total of product types available ≤ 250 product (score 3)
 - d) Total of product types available ≤ 300 product (score 4)
 - e) Total of product types available > 300 product (score 5)
- 4) Product delivery, if meets criteria (more than one) then the scores can be added:
 - a) Speed of delivery (max. score 1)
 - b) Timeliness of delivery (max. score 2)
 - c) Friendliness of delivery staff (max. score 1)
- 5) Product quality, if meets criteria (more than one) then the scores can be added:
 - a) Durability (max. score 3)
 - b) Guarantee (max. score 1)
 - c) Product design (max. score 1)
- 6) Payment methods, if meets criteria (more than one) then the scores can be added:
 - a) Cash payment (max. score 1)
 - b) Installment payment through financial company (max. score 2)
 - c) Debit card payment (max. score 1)
 - d) Credit card payment (max. score 1)
- 7) Store clerks service, if meets criteria (more than one) then the scores can be added:
 - a) Knowledge of product description (max. score 3)
 - b) Friendliness (max. score 2)

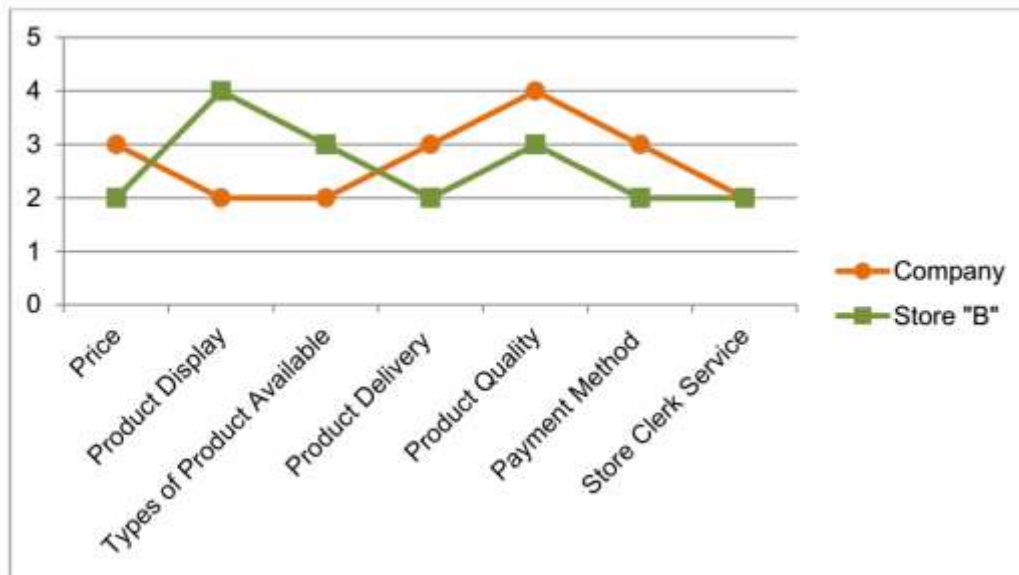


Figure 3. Recent Strategy Canvas of the Company

Source: Company data, 2015 (processed)

b. Four-step Framework

From the results of observation and interview, the researcher considers that the seven factors explained previously were essential and thus cannot be eliminated, since those factors are essential for surviving the competition in furniture retail industry. Two factors can be reduced, which are product display and product delivery. For product display, what can be reduced is the numbers of products displayed in the store. This is done to implement juxtapositioning strategy to trigger impulse buying for customers, also to make efficient of the space of selling area. For product delivery, what can be reduced is the way the product is delivered. Previously, the company focused on quick and punctual delivery plus friendly service. However, for customers it is more important to get their product delivered on time.

Types of product available, payment method and store clerk services are factors that must be increased. Customers will prefer to visit the store with complete furniture collection available, since they will have more opportunities and preferences to choose furniture that suit their taste. Product catalogue will be designed and provided to support types of product available. Payment method can be increased by providing debit card reader to do payment in the store. For the store clerk services, the company must do efforts to increase store clerks' knowledge about the products of the company. The wider the clerks' knowledge of the products available, the better their performance in explaining and assisting customers when choosing the product that suits their needs.

The company must create two factors; display design and post-purchase service. After reducing the product display in the store, the company can make benefit of the available space by designing the product display based on juxtapositioning strategy as a strategy to position products. Post-purchase service is a strategy to make customers revisit the store to purchase another product. To make a post-purchase service, the company needs complete customer database that can be used to send promotion or offer new product to potential customers.

Four-step Framework generates Eliminate-Reduce-Raise-Create schema which is shown in Table 1.

Table 1. Eliminate-Reduce-Raise-Create Schema

| Eliminate | Raise |
|-------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|
| - | <ul style="list-style-type: none"> ➤ Types of product available ➤ Payment method ➤ Store clerks service |
| Reduce | Create |
| <ul style="list-style-type: none"> ➤ Product display ➤ Product delivery | <ul style="list-style-type: none"> ➤ Display design ➤ Post-purchase service |

Source: Company data, 2015 (processed)

Based on the already explained Four-step Framework and Eliminate-Reduce-Raise-Create schema, the new generated Business Model Canvas for the company is displayed in the following chart.

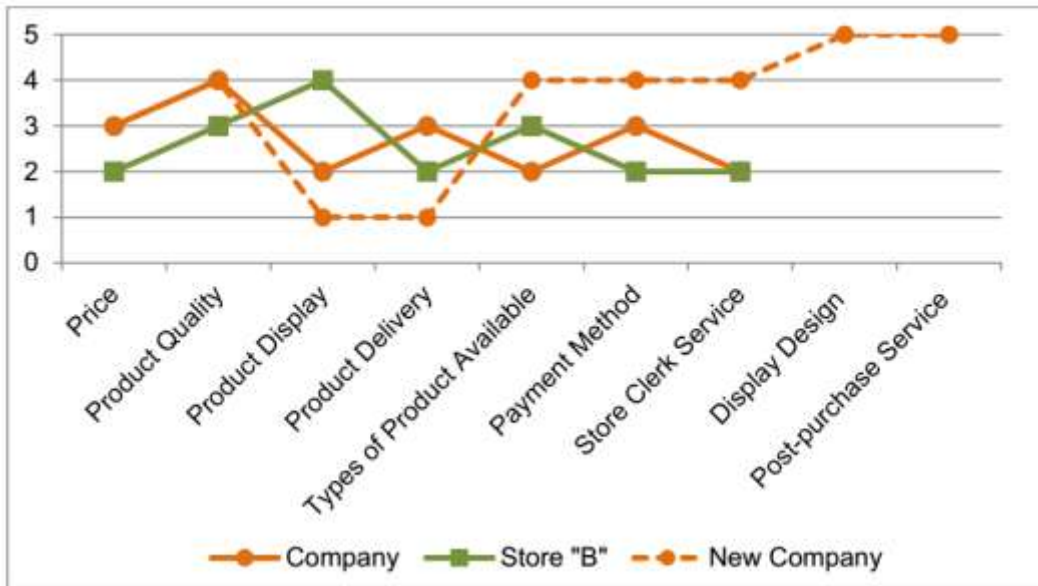


Figure 4. New Strategy canvas of the Company

Source: Company data, 2015 (processed)

This new strategy canvas generates the new *Business Model Canvas* (BMC) of the company, as displayed in Figure 5.

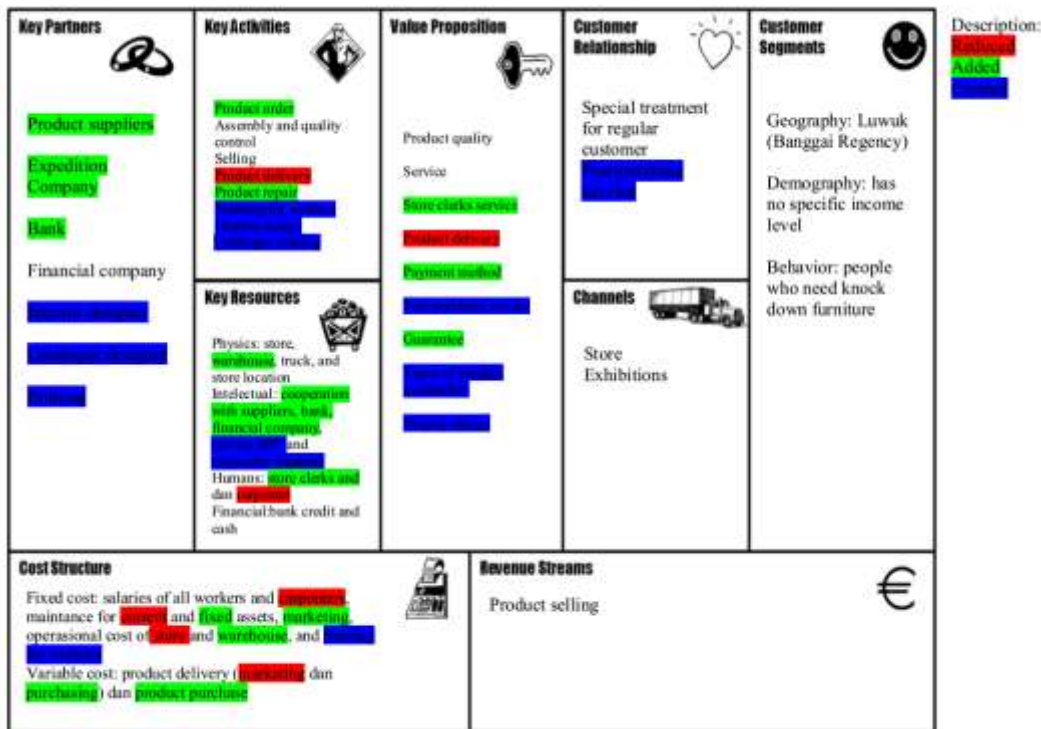


Figure 5. New Business Model Canvas of the Company

Source: Company internal data, 2015 (processed)

When the new Business Model Canvas (Figure 5) is compared to the recent Business Model Canvas (Figure 2), it can be seen that the type of business does not change, which is distributor as basic business model. Type of asset used by the company is physical assets since the business model type is retail business model. Still, there are some differences in each block in the models as influenced by the Blue Ocean Strategy implemented in the analysis process.

Reducing the display product resulted changes in several aspects, such as decrease of store operational cost since fewer products were stored in the store. Cost maintenance for current assets also decreased since the numbers of store clerks were reduced. In addition to that, carpenters' wages could be reduced since their responsibilities for assembling the products were reduced also.

Changes in product delivery were found in several forms. They are reducing value propositions since the company only focused on the time precision of product delivery and no longer on the speed of product delivery, reducing key activities of product delivery, and reducing product delivery cost due to efficiency effort done in delivering the products to several customers simultaneously.

Changes in increasing types of product available resulted in the emergence of new value propositions of the company. The changes are in form of numbers of product types that are available; increased capacity of the warehouse in order to store more products; more cooperation with suppliers to get more products; increase key activities in ordering product; increased numbers of partner such as product suppliers and expedition companies to deliver more products; and new partners such as catalogue designer and printing to make the catalogue. Likewise, there are changes in costs such as warehouse operational cost, purchasing the product from suppliers, delivering the products from the supplier, and marketing cost. Improvement in

the factor of payment method will increase value propositions of the company since it will make easier for the customers to make payment, improve cooperation with the bank for debit card reader, increase the number of bank partner since it is no longer for capital only, and increase current asset cost of the company such as debit card reader machine. Increasing the factor of store clerk's service will also influence the increase of its value propositions, that can be found in friendlier store clerks who have widen knowledge of the products. The role of store clerks as key resources will increase since their appearances and knowledge will be needed more than before. Thus, the service SOP becomes a new key resource to maintain the standard of company service. Another new key resource also emerges, which is training all workers to gain more knowledge about company products, and this leads to new costs in form of cost for workers training and increase in workers' wages since more workers are needed to provide maximum service for the customers.

Creating the factor of display design has an impact on the emerge of new value proposition of the company, which is more interesting company's display design that is different from its competitors. This new created factor also results new key activities such as designing the display and new key partners such as interior design to help organizing the display design, and later can increase marketing cost.

The last factor that affects the change in BMC is post-purchase service. Post-purchase service creates new value propositions of the company in giving its service and in giving guarantee for its products, since this service can be used as a tool to monitor all products purchased by the customers that have not or have been guaranteed, in order to make them satisfied. This service also emerges new key resources in form of customer database to support the post-purchase service, increases the workers' key resources after considering that the role of all workers will more influential to the company, and increase key activities in form of training for workers to improve service and product repairation. Although these changes will eventually increase the company's marketing cost, these changes, especially in having complete customer database, will also reduce the company's promotion cost.

Ten Types of Innovation

Innovations to be implemented by the company consist of six types, with seven strategies as described furthermore.

- a. *Structure*. For the company itself, in order to improve its service better than before and to have same standards for all, the company will implement *Corporate University* innovation strategy (Keeley et al., 2013: 145) in form of organizing for all human resources, especially for the store clerks.
- b. *Process*. For the company itself, strategy to be used in this kind of innovation is *Process Standardization* (Keeley et al., 2013: 145), in form of standard of company service, which is SOP for service. This SOP is required as general standard of the company in serving its customers.
- c. *Product Performance*. Based on company's new value propositions, which are numbers of product types available, strategy to be implemented by the company is *Superior Product* (Keeley et al., 2013: 146) in form of developing product catalogues as a means of offering more product types to the customers.
- d. *Product System*. Display design as company's new value propositions is included in *Modular Systems* strategy (Keeley et al., 2013: 146), in which the company will arrange the spatial layout by using juxtapositioning, to show customers that the company provide components that can be used separately, yet can also be combined to gain more functions of the components.

- e. *Service*. In this kind of innovation, the company will implement two strategies, which are *Superior Service* and *Personalized Service*. The first strategy, *Superior Service* (Keeley et al., 2013: 146) is where store clerks will assist, guide, and suggest the customers to choose and purchase products that suit their needs. In addition to that, the company will add new payment method which is by using debit card for customers' convenient when making payment. The second strategy is *Personalized Service* (Keeley et al., 2013: 146) is which uses customer database or information for post-purchase service. This innovation can increase the aspect of post-purchase service on the company's strategy canvas.
- f. *Customer Engagement*. *Customer engagement* to be implemented by the company is *Experience Automation* (Keeley et al., 2013: 147) through post-purchase service, where the company will contact all customers who already purchase the product, to ask whether the products suit their needs and expectation or not, and to offer guarantee or replacement for customers who are not satisfied with the product appearance.

| | |
|---------------------|--------------------------------------------|
| Profit Model | |
| Network | |
| Structure | •Corporate University |
| Process | •Process Standardization |
| Product Performance | •Superior Product |
| Product System | •Modular Systems |
| Service | •Superior Service •Personalized Service |
| Channel | |
| Brand | |
| Customer Engagement | •Experience Automation |

Figure 6. Analysis of Ten Types of Innovation of the Company

Source: Company data, 2015 (processed)

Managerial Implication

The company's innovation strategies is considered as *platform shift*, since all innovations that will be done by the company are in the six types, where four out of six types are located in the center part of Ten Types Framework, as seen in Figure 6, namely *process*, *product performance*, *product system*, and *service*. The remaining two types are innovation on *structure* and *customer engagement*. These innovation strategies must be done to actualize the new strategy canvas of the company that is shown in Figure 5. The managerial implications for the company based on the new strategy canvas of the company, before and after the innovation strategies are implemented, can be seen in Table 2.

Table 2. Managerial Implication for the Company

| Factor | Before | After |
|-----------------------------------|--------------------------------------------------|----------------------------------------------------------------------------------------|
| Price | Higher than competitor | Higher than competitor |
| Product quality | Durable and has a guarantee | Durable and has a guarantee |
| Product display | Products displayed were around 130 products | Products displayed will be around 90 products |
| Product delivery | Fast and on time | On time |
| Types of product available | Types or products available were about 180 types | Types or products available were about 280 types |
| Payment method | Debit card payment was not accepted | Debit card payment will be accepted |
| Store clerks service | Friendly and know the products price | Friendly, and have sufficient knowledge in products price, types, design, and material |
| Display design | No | Product display will be arranged under specific theme (Juxta Positioning) |
| Post-purchase service | No | Contact customers after purchasing to offer guarantee, reparation, or new product |

Source: Company data, 2015 (processed)

CONCLUSION AND SUGGESTION

After conducting *Business Model Canvas* analysis, it can be described that the present business model of the company is distributor as basic business model by involving physical assets, which is commonly known as retail business with customer segments in specific geography (in Luwuk, Banggai regency), demography (has no specific income level), and behavior (customers who need knock down furniture). The company's value propositions are product quality, service, and guarantee. The company's channels are store and exhibitions. Customer relationship maintained by the company is by giving special treatment to regular customers. The revenue stream of the company is product selling. The company's *key resources* are divided into physical, intellectual, humans, and financial. The company's *key activities* are product order, assembly and quality control, selling, product delivery, and product reparation. The company's *key partnerships* are product supplier, Expedition Company, bank, and financial company. The company's cost structure is categorized into fixed cost and variable cost.

From the result of *Blue Ocean Strategy* analysis, the company can modify the present business model through implementing Four-step Framework. Firstly, the company does not have to eliminate the existing factors. Secondly, the company can reduce factors of numbers of

displayed products and product delivery. Thirdly, the company must add factors of types of product available, payment method, and store clerk service. And lastly, the company must create factors of display design and post-purchase service.

From the result of *Ten Types of Innovation* analysis, innovation strategies that are suitable for the company are to carry out the direction change of *Platform Shift*. These innovation strategies focus on recreating, recombining, and reinventing new relationship between capabilities and offerings to create new value for the customers.

This study used interview as a method to collect data, where the informants of this study were directors, *sister company*, customers, and retail expert. For future researchers that are interested in conducting more study on the similar topic, it is suggested to interview competitors as informants, in order to deepen the study focus especially in analyzing the influence of factor of offering to customers.

The research focus in this study is limited to determining innovation strategies. Therefore, for future researchers who are interested in similar topic, it is suggested to expand the focus on other variables such as company performance, in order to find out the connection of innovation strategies and their influence to company performance.

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