

The Owner Factor: An Innovation Element of Business Model Canvas by SMEs Rattan Industry in Cirebon Indonesia

Ida Hindarsah^{1*}, Bambang Heru Purwanto², Sidiq Priadana² and Adi Fahrudin³

¹Department of Business Administration, Universitas Pasundan, Indonesia

²Management Program, School of Postgraduate Studies, Universitas Pasundan

³Department of Social Welfare, Universitas Muhammadiyah Jakarta, Indonesia

*ida.31hindarsah@yahoo.co.id

Abstract

Indonesia is the largest rattan producing country in the world. It is estimated that 80% of rattan raw material worldwide is produced by Indonesia, the rest is produced by other countries such as the Philippines, Vietnam and other Asian countries. In 2003-2006 the rattan industry in Indonesia experienced ups and downs with an average of 0.38% per annum and a decrease of an average of - 3.63% per year. Most of the rattan industry players are from West Java Province, to be exact from Cirebon. Small Medium Enterprises (SMEs) is one of the actor of this trading industry. Although some SMEs are experiencing collapsed due to intense competition in the globalization era. Nevertheless, there are still several SMEs that can survive to this day. So in this connection, the question arises of business model innovations such as what is done by rattan SMEs in Cirebon Regency in facing business competition in the globalization era? This paper using qualitative method to describe the innovation components applied by SMEs. The result shows that rattan industry SMEs in Cirebon Regency based on BMC approach they applied all the components and one component plus that is owner predisposing factor which is the basic behavior of the owner that will influence the application of the entire component of business model.

Keywords: *business model canvas, innovation of business model, small medium enterprise, rattan industry*

1. Introduction

Indonesia is the largest rattan producing country in the world. It is estimated that 80% of rattan raw material worldwide is produced by Indonesia, the rest is produced by other countries such as the Philippines, Vietnam and other Asian countries. In 2003-2006 the rattan industry in Indonesia experienced ups and downs with an average of 0.38% per annum and a decrease of an average of - 3.63% per year. In 2012 Indonesian exports in the rattan handicraft sector experienced a trend of 4.45% (from 46.17 million in 2012 to 42.15 million US \$ in 2014) compared to the period 2008 to 2011.

Most of the rattan industry players are from West Java Province. The Ministry of Industry noted there are 665 businesses engaged in rattan for various needs, including furniture and equipment. It is about 330 (49%) of this industry operates in the West Java region, specifically Cirebon Regency. The rest of it operates in the provinces of East Java, Bali, Central Java, Special Region of Yogyakarta, Banten, and Special Areas of the capital city of Jakarta, North Sumatra, South Sulawesi and North Sulawesi [1].

Cirebon is one of the districts in the Indonesian region, which is the largest producer of finished rattan products in Indonesia. Cirebon contributes at least 80% of Indonesia's finished rattan product exports. Rattan industry is the main livelihood of residents of Cirebon and surrounding areas such as Kuningan, Indramayu and Majalengka.

Until 2004 the number of rattan industry companies in Cirebon experienced growth from production, exports to employment. From 923 business units to 1,060 business units, production increased from 62,707 tons to 91,181 tons, exports increased from 32,871 tons (worth US \$ 101.67 million) to 51,544 tons (valued at US \$ 116,572 million) and employment increased from 51,432 people to 61,140 people. However, in 2005, the rattan industry in Cirebon decreased significantly in production, exports, and employment. The decline continued in 2006 and 2007, some rattan furniture producers in Cirebon experienced a decline in production, including those that were initially able to export as many as 120 containers per month, currently only able to export 15-20 containers, some even no longer producing. According to business actors, one of the reasons is because of the difficulty of raw materials.

Free trade and globalization, which is supported by the acceleration of information and communication technology rapidly influencing and bringing other acceleration impacts on all fields. Globalization has two sides. On the one hand, it provides opportunities for businesses because of the many conveniences in selling products. Nevertheless, on the other hand, it also poses a threat to business people, due to increasingly fierce competition between local and foreign entrepreneurs.

Globalization has caused rapid changes in business due to local and global interconnectivity [2]. So, it requires business actors to follow the changes that occurred to make their business survive in tight competition. Innovation is one of the key strategies that must be developed by the actors to improve their competitiveness in the public market [3]. Thus, they can meet consumer desires as their values [4].

SMEs, as a business actor entity is inseparable from the impact of global competition due to globalization. SMEs in Indonesia plays a vital role in the national economic sector because they contribute both in terms of exports to reduce unemployment [5]. Since the globalization increase the competition among the business actors, some SMEs include SMEs in rattan industry cannot survive then turn into bankruptcy. Nevertheless, there are still several SMEs that can survive until today. So in this connection, the question arises what is an innovation element of business model done by rattan SMEs in Cirebon Regency that makes them survive in the competition of globalization era?

To answer the question, the authors use components of business model canvas (BMC) because BMC has nine components that can describe a comprehensive strategy and logic of an enterprise to run their business keep profit and sustain. By mapping the element of their model business, this research intends to give a novelty of business model canvas that performed by rattan industry SMEs in Cirebon Indonesia.

2. Theoretical Framework

Companies, as business entities provide goods or services to be sold in the market to get profits. Micro, small and medium enterprises (SMEs) are business entities that have varying levels of professionalism in management, and founders are managers because they are part of the company. In the case of small companies, the management is prone to be inadequate because of conditions that are still not well established [6]. With the growing complexity of the market due to globalization, companies need to develop their business models as business strategies including SMEs. The strategy is defined as a way to win in achieving goals [7], [8] by building dynamic capabilities to respond to possibilities that occur [5].

The strategy is a picture of *"how all elements of what companies do together"* [10]. A system consisting of pieces of interconnected company business elements is termed the *"business model"* [9]. The business model is a prototype developed by the company to describe how a process in the company runs and create value for corporate stakeholders.

Some of the success factors of the business model are high customer, sustainable sources of income, a uniqueness which cannot be replicated. Based on this opinion, it can be said that the business model is a corporate strategy consisting of various business elements that are run by the company.

A business model will be born when, the decline of the role of government in the economy, technological and information development, changes in the pattern of relations between producers and consumers, and the emergence of futuristic products [11]. Business models are a way to make the business sustainable so that companies can last long for success and profit in the long run [12]. The business model is an essential means for companies to commercialize new ideas and technologies specifically [13], consistent and integrated so that companies generate revenue and profits [14].

The term business model does not have a specific definition because the term is used to describe everything about how a company earns revenue to its organizational structure [15]. It is a reflection of the strategy realized in creating, delivering and providing value [16], [17]. So, the business model determines the 'model' or 'logic' for a company is doing business [18]. The business model is a reflection of the company's strategy that represents the logic of a company in offering customer value to create a sustainable revenue and cost structure to capture the value or benefits offered, so the company's goals can be achieved [19].

The canvas business model (MBK) is one of the business models developed by [20]. MBK consists of nine building blocks or components that companies undertake to deal with changes in internal and external conditions. The nine components are customer segment, value proposition, channel, customer relationship, revenue stream, key resources, key activities, key partnership, and cost structure [21].

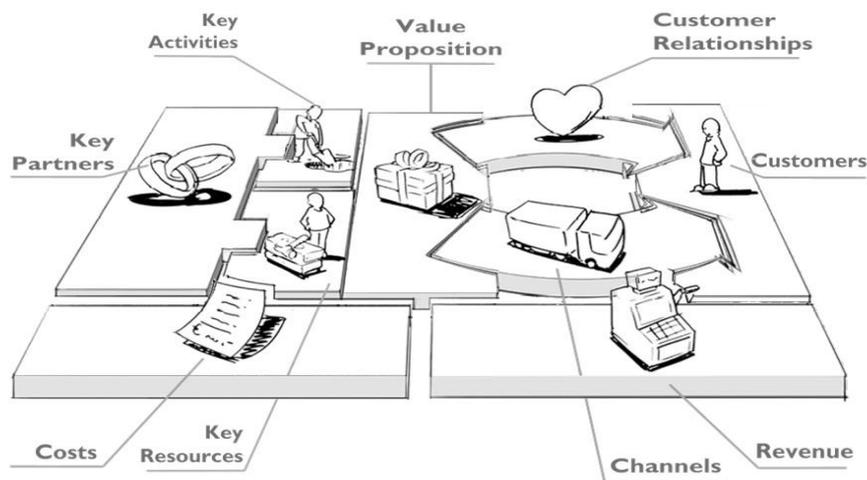


Figure 1. Components of Business Model Canvas [21]

First, *Customer Segment*, this block represents a group of differentiated people who want to be reached or served by the company. Customers are the core of all business models; without customers, no company can last a long time. To better satisfy customers, companies can classify customers according to different segments based on similar needs, behaviour or other attributes. There are five types of customer segments, namely: Mass market, specific niche market, segmented, diversified, and multi-sided platform.

Second is the *Value Proposition*, and this block illustrates the combination of products and services that create specific customer segment values. The value proposition is the

reason that customers move from one company to another. Each value proposition contains a combination of certain products and services that serve the needs of specific customer segments. The value can be quantitative, like price or speed of service, or qualitative like design and customer experience.

The third is *the channel (channel)*. This building block illustrates how a company communicates with its customer segments and reaches customers to provide a value proposition. Channels of communication, distribution and sales are a link between companies and customers as a means to increase customer awareness of the company's products and services; help customers buy products or services; after-sales service. The channel is the company's channel, partner channel, or through a combination of both.

Fourth, *Customer Relationship*, a block that describes the various types of relationships that companies build with specific customer segments. The company's relationship with customers can be driven by several motivations, such as customer acquisition, customer retention, and increased sales (upselling).

Fifth is the *Revenue Stream*, a block that represents the cash generated by the company from each customer segment (the cost must reduce revenue to generate revenue). The sixth is the *Key Resources*, building blocks that describe the assets needed for a business model to function. The key sources are physical, financial, intellectual or human. Primary resources can be owned or leased by the company or obtained from key partners.

Seventh, *Key Activities*, building blocks that describe the most important things that companies must do so that their business models can work. Categories of these key activities, namely the production of large quantities of products and superior quality, problem-solving by offering new solutions to individual customer problems, and platforms or networks. The eighth is *Key Partnership*, the building block that describes the network of suppliers and partners that make the business model work. Partnerships form the basis of various business models, create alliances to optimize business models, reduce risk, or obtain partner resources.

The Ninth is *Cost Structure*, a block that describes all costs incurred to operate a business model. These building blocks explain the highest costs that arise when operating specific business models. Cost structure can be classified into two classes. Namely cost-driven and value-driven, many business models are located between these two points, with fixed cost characteristics such as leasing factory physical facilities, and variable costs following the production process.

3. Methodology

This study uses a qualitative approach because the object is a problem that is still unclear and dynamic, namely, business model innovation by using the existing components in the canvas business model. The object studied is the Small-Medium enterprises (SMEs), which work in the sector of the rattan industry that already export their products abroad. Precisely, according to the author, the business model is not just proportional knowledge, but it involves tacit knowledge that is almost impossible to obtain through a rationalist approach. Understanding the concept of a Business Model is not possible without knowing the respondents' perceptions of how their perceptions of business modelling.

This research begins with the step to find information about the development of SMEs of the rattan industry, generally in Cirebon Regency UKM. The second data-collection technique is done by non-participant observation, semi-structured interview with owner of SMEs rattan industry, head of department of state institution, and buyer. The authors interview the informants by proposing open-ended question that related to business

components of rattan industry. Further the author also gathers official document from related state institution to support macro data of the research.

The object is located in Cirebon Regency by taking three samples from Tegal Wangi Village, Weru District, and Plumbon. The documents in question include a set of rules from the Regional Government (PEMDA) relating to the rattan industry and UKM policy, as well as supporting documents that are in the Cirebon Regency rattan UKM including documents from the Association. Semi structured interview with experts do confirmation theory and research finding from the field. In details, the informant describes in Table 1 as follows.

Table 1: List of Informants

No.	Informant	Number
1	Owner of SMEs	9
2	Government Official	2
3	Buyer	2
4	Association	1
5	Academia/Expert	4

Then, the collected data analyzed and classified into the components of BMC as a mapping way of business model that running by SMEs. The steps described as follow.

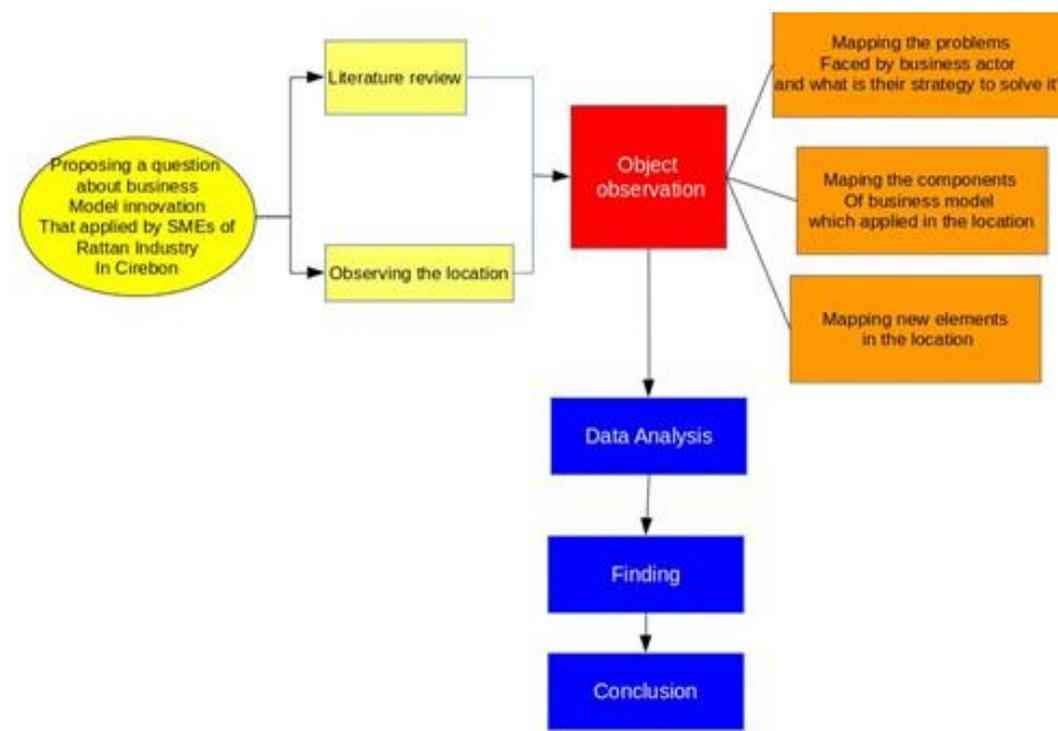


Figure 2. Research Process

Refer to qualitative technique analysis data, the data that obtained in this research is interpreted based on the author's assumptions of the object under study, and the author has the freedom to explore various perspectives based on his findings. The analysis uses the coding process by processing raw data in the form of interview transcripts, notes, archival

material, newspaper reports, or articles that are transformed and interpreted into a meaning based on a particular theory [22].

The author uses the coding process by codifying the narrative of the respondent's statement into the categories of components that already exist in the concept of a business model canvas such as customer segment boxes, value propositions, channels, customer relationships, revenue streams, key resources, key activities, key partnerships, and cost structures. Second, analyze the strengths, weaknesses, opportunities, and threats of each element of the existing business model. Identify what is an innovation component that implemented by rattan industry SMEs in Cirebon.

4. Results and Analysis

Indonesia is the largest rattan-producing country in the world, estimated that 80% of rattan raw material worldwide is produced by Indonesia, which is centred in Cirebon. Currently, there are approximately 1300 rattan MSME industries and 270 companies that run rattan exports, with a range of exports of 1500 containers per year with a value of 272 USD [23]. There are three places of origin of the SMEs used as objects in this discussion, namely from Tegal Wangi Village, Weru District and Plumbon. Consists of eight sample SMEs, namely: Modena, Indo Rattan, Savana, Fortuner Enterprise, Adeb, Indah Rattan, Tegalwangi, Jhon Sann Rattan.

In a previous study Hindarsah stated that there are forty-two components in the business model carried out by rattan SMEs in Cirebon district, namely: flexibility to change, product model, product design renewal, product comfort, product strength, environmentally friendly products, service evenly to customers, partnerships with designers, partnerships with artisans, partnerships with suppliers, partnerships with government, good relations with customers, customer complaint services, efficiency of production costs, production strategies, target markets, marketing techniques, product diversification, Capable HR, mutual trust with partners, integrity attitude to partners, customer satisfaction, production systems, sales systems, partner satisfaction, open the door of cooperation to competitors, production costs, place costs, business fields, pricing, pricing, product quality maintenance, efficiency burden on human resources, production equipment, knowledge sharing, regeneration, availability of raw materials, marketing costs, entrepreneur's philosophy, place of business, profit determination, entrepreneur focus, and HR costs [23].

The business model is a template or framework for mapping company performance. To identify the finding components in the business model on the object, the writer will use the framework of the business model canvas. That is because the canvas model has complete component indicators to be able to describe the business model applied by rattan SMEs in Cirebon Regency. The components are customer segment, value proposition, channel, customer relationship, revenue stream, key resources, key activities, key partnership, and cost structure. So that the components of the writer's findings can be simplified based on the nine groups of components in the canvas business model as follows.

Table 2: Mapping the finding components based on the framework of business model canvas

No.	Business Model Canvas Component	Components of the Authors' Findings
1	<i>Customer segments</i>	Target market

2	<i>Value Proposition</i>	Product model, product strength, comfort, environmentally friendly
3	<i>Channel</i>	sales system
4	<i>Customer Relationship</i>	Good relations with customers, equal service to customers
5	<i>Revenue Stream</i>	Field of business
6	<i>Key Activities</i>	The efficiency of HR burden, flexibility to change, product design renewal, production strategy, product diversification, customer complaint services, production systems, pricing, product quality maintenance, regeneration
7	<i>Key Resources</i>	Production tools, raw materials, places, capable human resources,
8	<i>Key Partnership</i>	Partnership with designers, partnerships with artisans, partnerships with suppliers, partnerships with government, open the door of cooperation to competitors, knowledge sharing, availability of raw materials
9	<i>Cost Structure</i>	Production costs, place costs, HR costs, marketing costs
10	Uncategorized in the existing category of BMC	Mutual trust with partners, integrity attitude towards partners and customers, entrepreneur's philosophy, focus and commitment

First, *customer segments*, based on the author's research results, their average market segmentation is a mass market with a local market share. It also exports to various countries starting from the continents of Europe, America, Australia, the Middle East (I-1 s.d. I-5). Second, *the value proposition* made by object SMEs includes product design (I-1, I-5, I-7), environmentally friendly values (I-1, I-9, I-11), timely delivery (I-1, I-3, I-4), quality of goods (all informants), custom according to consumer demand (I-8), artistic value (I-10). The third is the *channel component*. The respondents use two types, namely their own and those of partners. Self-owned consists of web sites and door to door (I-1, I-2, I-4, I-5, I-6, I-7), while the partners' belongings such as other people's shops, workshops (I-2) and exhibitions (all informants).

Fourth, *customer relationship* conducted by SMEs, namely personal assistance (I-1), special personal assistance (I-3, I-10). Fifth, *revenue streams* obtained from product sales activities (all informants) and production differences (I-2). The author classifies revenue streams into two types, namely from single payment income transactions and recurring income. The sixth *key resources* owned by the SMEs are the human resource industry (all informants) and physical building such as the primary physical resources owned in building a business, among others in the form of a house as a place of production, a warehouse as a place to store large amounts of raw materials, machinery and compressor (I-3, I-6, and I-8).

The Seventh is *key activities*, the components applied include production (all informants), efficiency of HR burden (I-5), production cost efficiency (I-1, I-5), marketing cost efficiency (I-3) flexibility to changes and customer desires (I-1), product design renewal and design (I-1, I-3, I-5), production strategy (I-4), marketing strategies and techniques (I-4, I-7) customer complaint services (I-1), production calculation and

pricing (I-7, I-8), product quality maintenance (I-8), and regeneration (I-2), and knowledge sharing (I-6) whereas problem-solving is done when there are complaints, especially from customers. The eight, *key partnerships* carried out by SMEs are objects of cooperation between non-competitors such as with customers (I-1, I-4, I-8), suppliers (I-3, I-4, I-7), subcontractors / craftsmen (I-3, I-4, I-8) shipping companies / forwarders (I-1, I-2, I-3 I-4, I-5), government (I-4, I-6), academics (I-7), and associations (I-7); partnership with competitors or "coopetition" with other similar companies (I-2, I-3, I-7).

The ninth is *cost structure* which is the burden of SMEs costs, namely HR (I-3, I-6, I-7), factory overhead (BOP) or production costs that are not included in the production variable (I-7, I-8), marketing costs (all informants).

Based on the explanation above, then, there are *components that cannot be classified* into nine components in the canvas business model. Those are sense of mutual trust between owners and partners (I-2, I-8), integrity attitude towards partners and customers (I-2, R3), entrepreneur's philosophy (I-1, I-2, I-7), and the focus and commitment of entrepreneurs (I-1, I-7, I-8).

5. Discussion

The result shows there are four elements that cannot be classified into the nine components of BMC, those are mutual trust between owners and partners, integrity attitude, entrepreneur's philosophy, and the focus and commitment of entrepreneurs. The authors think that those element is constituted to the attitude of the business owner, which formed from the influence of the values of trust that are manifested in the attitudes, motivations, priority choices, abilities and knowledge of the owners. The component is a determining factor in the direction of the company's management and activities in operating or initial design of a company's business model.

Based on the characteristic, the authors named the component as "*owner predisposing factor*". Refers to the component of BMC, the authors argue that SMEs of rattan industry in Cirebon applied an innovation of BMC. Because there is a new invention component that makes their BMC is different with the existing BMC component. Thus, there are ten component blocs of BMC as follows.

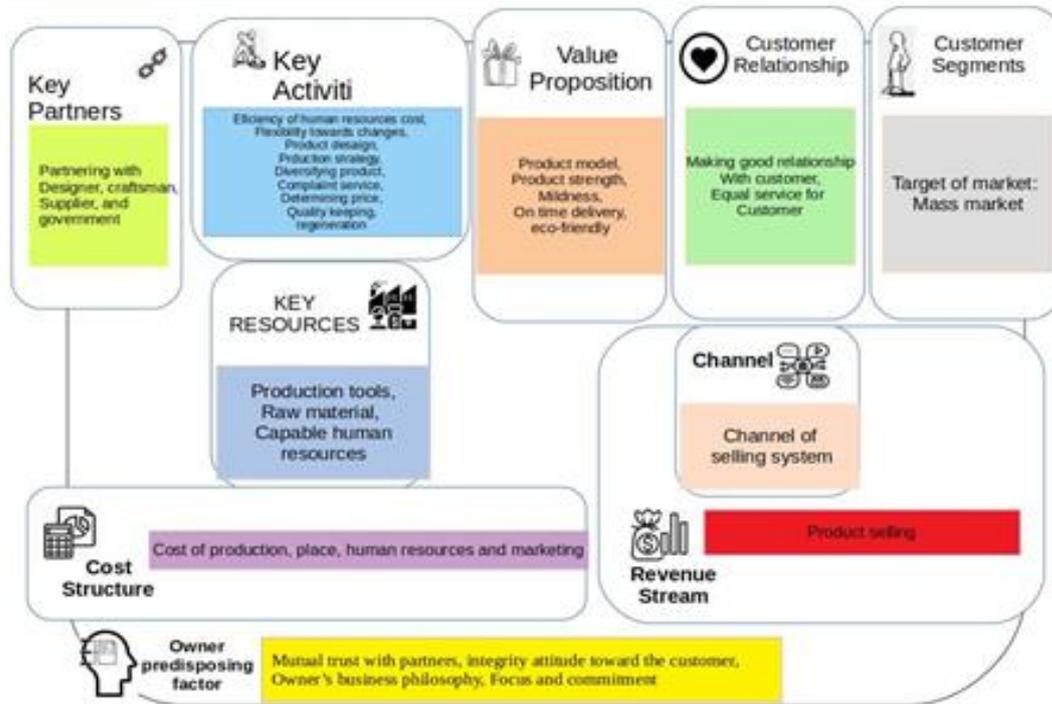


Figure 3. Model business of Rattan Industry SMEs

The picture, there are ten components of the canvas business model conducted by the rattan industry SMEs in Cirebon Regency, namely: *Customer Segment, Value Proposition, Customer Relationship, Chanel, Key Activities, Key Resources, Key Partners, Cost Structure, Revenue Streams, and Owner Predisposing Factors*. It can be said that the component blocs of BMC of rattan industry SMEs in Cirebon is different with the previous model.

6. Conclusion

Some of rattan industry SMEs in Cirebon Regency is one of the business entities that can maintain their existence in order to gain income amid globalization competition. This is inseparable from the innovations carried out by them in developing business models that they run to increase their competitive power in meeting customer satisfaction. Business model innovations carried out by rattan SMEs in Cirebon Regency in the face of business competition in the globalization era can be seen using the canvas business model approach. By identifying components of findings in the field, they are classified into nine components of BMC, namely: customer segments, value propositions, channels, customer relationships, revenue streams, key resources, key activities, key partnerships, and cost structures. Overall the business model run by the rattan industry SMEs in Cirebon is following the components in the BMC, although there are differences between one SMEs and other SMEs. However, some components cannot be classified into nine components in the canvas business model, such as mutual trust with partners, integrity attitude towards partners and customers, entrepreneur's philosophy, and entrepreneur's focus and commitment. So the author gives a new component category, "*owner predisposing factor*" as the tenth component of BMC because the author believes these components are the attitude of the business owner formed due to the influence of his trust values that determine the direction of management and activities that operated by the company.

References

- [1] Decree of The Minister of Trade of Republic Indonesia Number 666/KMK, 017/1966, about “determinant of amount of rates and payment and importation of export taxes”, Minister of Trade of Republic of Indonesia, (1996).
- [2] Campbell, P. J. C., MacKinnon, A., & Stevens, C. R., “An Introduction to global studies”, Chichester: Wiley Blackwell, (2010).
- [3] Sinarta, S., “Inovasi model bisnis untuk perdagangan hasil peternakan: Studi deskriptif pada UD Happy Indah”, AGORA, vol. 2 no. 1, (2014).
- [4] Weiser, J., M. Kahane, S. Rochlin, & J. Landis, “Untopped: Creating Value in Underserved Markets”, California: Barrett-Koehler Publisher, (2006).
- [5] Saptadi, Singgih., Sudirman, Iman., Samadhi, T.M.A Ari., Govindaraju, Rajesri, “Owner’s Support, IT Sophistication and IT Adoption in Indonesian Manufacturing SMEs”, International Journal of ICT Research and Applications, Vol. 8, No. 3, (2015) pp. 270-288.
- [6] Longenecker, C., “Why managers fail in post-Soviet Russia: Causes and lessons”, European Business Review, Vol. 13, No. 2, (2001), pp. 101-108.
- [7] Nawawi, H. Hadari, “Manajemen Sumber Daya Manusia untuk Bisnis yang Kompetitif,” Gadjah Mada University Press, Yogyakarta, (2003).
- [8] Siagian, Sondang P, “Manajemen Sumber Daya Manusia”, Bumi Aksara, Jakarta, (2001).
- [9] Dasilva, C. M. D., & Trkman, P., “Business Model: What It Is and What It Is Not”, Long Range Planning, 47(6), 379-389, (2012).
- [10] Porter, M E, “Strategy and the internet”, Harvard Business Review, vol. 79, no. 3, (2001), pp. 62–79.
- [11] Widodoatmodjo, S, “Cara Sehat Investasi di PASar Modal”, PT. Elex Media Komputindo, Jakarta, (2005).
- [12] Nielsen, C., & Lund, M, “An Introduction to business models”, In The Basic of Business Models. Nielsen, C., & Lund, M (Eds.), BookBoon. com/Ventus Publishing Aps, Copenhagen, (2014), pp. 8-20.
- [13] Chesbrough, H, “Business model innovation: Opportunities and barriers”, Long Range Planning, vol. 43, (2009), pp. 354-363.
- [14] Moingeon, Bertrand & Yunus, Muhammad & Lehmann-Ortega, Laurence, “Building Social Business Models: Lessons from the Grameen Experience”, Long Range Planning, Vol. 43, (2010), pp. 308-325.
- [15] Zimmermann, H. D., & Pucihar, A. “Open Innovation, Open Data and New Business Model”, Proceedings of IDIMT 2015-23rd Interdisciplinary Information and Management Talks, (2005), pp. 449-458.
- [16] Casadesus-Masanell; R., & Zhu, F, “Business model innovation and competitive imitation: The Case of Sponsor-Based Business Models”, Strategic Management Journal, vol. 34, no. 4, (2013), pp. 464–482.
- [17] Berglund, H., & Sandström, C, “Business model innovation from an open systems perspective: Structural challenges and managerial solutions”. International Journal of Product Development, 18(3-4), 274-285, (2013).
- [18] Gassmann, O., Frankenberger, K., & Sauer, R, “Exploring the Field of Business Model innovation: New theoretical perspectives”, Berlin: Springer, (2016).
- [19] Spieth, P. S., Schneckenberg; D., & Ricart, J. E, “Business model innovation state of the art and future challenges for the field”, R&D Management, Vol. 44, no. 3, (2014), pp. 237–247.
- [20] Osterwalder, Alexander & Pigneur, Yves, “Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers”, New Jersey: John Wiley & Sons, (2010).
- [21] Osterwalder, Alexander & Pigneur, Yves, “Business Model Generation”, Elex Media Komputindo, Jakarta, (2012).
- [22] Given, L. M. “The Sage encyclopedia of qualitative research methods”, Sage Publications, London, (2008).
- [23] Hindarsah, I., Sudirman, I., & Affandi, A, “Hindarsah, I., Sudirman, I., & Affandi, A (2019). Mapping Business Models of the Small and Medium Enterprise (SMEs) in the Rattan Industries in Cirebon, Indonesia”, International Journal of Innovative Science and Research Technology, Vol. 4, no. 10, (2019), pp. 184-190.