THE BLUE OCEAN STRATEGY FOR CREATING VALUE INOVATIONS – STUDY IN KEDAI DIGITAL YOGYAKARTA

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ABSTRACT

Merchandise business has been developing rapidly in recent years especially in Yogyakarta. This phenomenon makes entrepreneurs in merchandise industry to compete to retain customers, and most of them extremely decrease their price and cut the margin profit. Kedai Digital implemented Blue Ocean Strategy to create a new market and make the competition irrelevant. Value Innovation is basic way of this strategy. Specifically, this study discusses analysis of value innovation in “Kedai Digital” Yogyakarta. The objective of this study is to determine value innovation and identify value driver in “Kedai Digital”.

This research was using mix method approach whereas qualitative approach was adopted by doing in depth interview with 12 of decision maker in 6 companies in the Merchandise Business in Yogyakarta and quantitative approach was conducted by spreading questionnaire to 100 persons which is got from the purposive sample of “Kedai Digital” customers. Both data analyzing was used as qualitative and quantitative. Analysis tools are Kanvas Strategy and Four Framework Analysis.

Findings show that there are 8 standard values that serve as the competition among other such as volume, price, prestige, quality, promotion, service, variation, and on time delivery. Most of Merchandise players trying to win the competition in this area. “Kedai Digital” has been creating 3 value innovation which is not able to be imitated by competitors instead of playing in the red ocean. Its value innovation that has been designing are free design, unique location and one stop shopping concept. These values makes Kedai Digital becomes a leader in merchandise industry and makes the competition irrelevant.

***Keywords**:Merchandise Industry, Value Innovation, Blue Ocean Strategy, Kedai Digital*

1. INTRODUCTION

Today, competition is very tight in so many sector. The rapid growth of technology, increase of new entrance and demand of customers make it happened. These conditions forced the company to work hard to be able to compete to be the best even Most companies try to improve the quality to win the competition, while others are trying to do cost-efficiency. In extreme conditions the company decrease price to win the competition and get more customers though the consequence is sacrificing profit margins. This situation resulted in the decline in corporate profits, which in turn could lead to bankruptcy. This situation known as red ocean.

Kim and Mauborgne (2007) describe market universe namely Red Ocean and Blue Ocean. Red oceans represent all the industries in existence today – the known market space. In the red oceans, the competitive rules of the game are known, industry boundaries are defined and accepted. Here companies try to outperform their rivals to grab a greater share of product or service demand. Eventually the market space gets crowded, prospects for profits and growth are reduced. Products become commodities and cutthroat competition turns the ocean bloody. In other hand companies can succeed not by battling competitors, but rather by creating ″blue oceans″ of uncontested market space. They assert that these strategic moves create a leap in value for the company, its buyers, and its employees, while unlocking new demand and making the competition irrelevant.

Indonesia is a country that has a wide range of art and culture. One of big city in Indonesia known as cultural and creative city is Yogyakarta. Yogyakarta has an advantage in the creative economy and the tourism sector, where the creative economy became one of the main drivers of economic activity in Yogyakarta. In Yogyakarta, business that quite a high level of competition in creative industry is Merchandise. Merchandise business is pretty tempting, hence many entrepreneurs trying to enter this market. They are MerchanDase, UGD, Treelable, Mangrove, Pino and Mugmento. The Merchandise business market become crowded. Most of them steadily decreasing customers and increasing cost. The attractive market now become unattractive. They need deliver unique product which is different from other competitor to win customer's heart.

Kedai Digital is one of the companies manufacture personal merchandise in Yogyakarta. Kedai Digital is unique because it brings the concept of "Personal and Corporate Merchandising" which mean Kedai Digital producing souvenir or merchandise for personal or corporate used. Although a new player, Kedai Digital is able to become a leader in this business even make uncontested market instead head to head competition – Red Ocean. Kedai digital create and capture new demand instead of exploit the existing demand. Kedai Digital align the whole system of a company's activities with its strategic choice of differentiation or low cost instead of align the whole system of a company's activities in pursuit of both differentiation and low cost. Value innovation is cornerstone of this strategy – Blue Ocean which is the key success of Kedai Digital.

The objective of this study is to determine value innovation and identify value driver in “Kedai Digital”. The creation of value innovation by Kedai Digital requires a process that is not a moment from introducing the product to the consumer until consumers become loyal to the product. Value Innovation is the key to the success that can not be imitated by other companies. In this study we can configure what value driven the value innovation that can makes Kedai Digital profitably increase revenues in such an unattractive environment.

2. LITERATURE REVIEW

Strategy

Thompson et al (2010), defines "strategy consists of a collection of competitive movements and approaches related to business management in order to produced the successful performance". An absolute strategy is used as a means to determine the company targets. The strategy should address all the problems in the business will be run, how to form a business that should be run, what products and corporate goals, and what should be done so that the company can reach a target or goal. Strategy is not only done in the planning process alone but must be continued at the operational level and supervision.

Anthony and Govindarajat (2007) suggests that the strategy is the general direction that is used by the company with its plan to achieve its goals. Strategies were then divided into two levels ie corporate level strategy and business level strategy unit. It can be concluded that the strategy is a plan of the company as a whole, interconnected between planning, operational oversight to integrated and functioned as the basis for achieving targets or goals of the company.

Blue Ocean Strategy

Strategy is a step consisting of competitive strategy, competitive benchmarking, building competitive advantage in the face of competition (Kim and Mouborgne, 2005). When a company wants to build a competitive advantage, the step taken is to see and compare what the competitors then the company striving to do it better to win the competition (Kim and Mauborgne, 1997).

Kim and Mauborgne (2005) points out the difference between a successful company with a company that does not work is the approach of strategy. Companies generally use the conventional approach and strategic thinking was dominated by the idea that is be a leader of the competition or known as red ocean strategy. While successful companies focus on other things outside of the competition to make competition irrelevant. The company's goal is not to find opportunities from existing industry competition but create a new area that according to the strength of the company or known as blue ocean strategy. Blue ocean strategy is a suite of strategic principles, tools and methodologies that help organisations create a leap in value and profit by looking beyond the limitations of traditional competitive strategy. It opens the minds of those who work in strategic and marketing planning to look beyond existing demand, redefine the marketplace and make the competition irrelevant.

Red Ocean Strategy	**Blue Ocean Strategy**
1. Compete in existing market space 2. Beat the competition 3. Exploit existing demand 4. Make the value-cost trade off 5. Align the whole system of a company's activities with its strategic choice of differentiation or low cost	1. Create uncontested market space 2. Make the competition irrelevant 3. Create and capture new demand 4. Break the value cost trade off 5. Align the whole system of a company's activities in pursuit of differentiation and low cost

According to Thompson, Strickland and Gamble (2010) blue ocean strategy describe business world into two types of market space that is:

1) Create new markets, namely the type of market in which the industry has not been established, there is no competition and provide a great opportunity to make a profit and rapid growth, providing a strategy in which the company has the opportunity to form a new request rather than competing the existing demand.
2) Re-create existing ones, namely the state of the market where there are clear industry boundaries, there is competition but the company tried to capture a greater demand (bigger market share).

Kim and Mouborgne (2005) also state that Blue ocean strategy is also about minimalizing risk and maximazing opportunity. There are six principles in Blue Ocean Strategy expressly addresses how to mitigate each of these risks.

1) Reconstruct market boundaries – addresses the search risk of how to successfully identify, out of the haystack of possibilities that exist, commercially compelling blue ocean opportunities.
2) Focus on the big picture, not the numbers – tackles how to mitigate the planning risk of investing lots of effort and lots of time but delivering only tactical red ocean moves.
3) Reach beyond existing demand – addresses the scope risk of aggregating the greatest demand for a new offering.
4) Get the strategic sequence right – addresses how to build a robust business model to ensure that you make a healthy profit on your blue ocean idea, thereby mitigating business model risk.
5) Overcome key organizational hurdles – tackles how to knock over organizational hurdles in executing a blue-ocean strategy addressing organizational risk.

6) Build execution into strategy – tackles how to motivate people to execute blue-ocean strategy to the best of their abilities, overcoming management risk. These six principles aim to make the formulation and execution of blue-ocean strategy as systematic and actionable as competing in the red oceans of existing market space. In creating blue oceans, they guide companies in a way that is both opportunity maximizing and risk minimizing.

Value Innovation

Roberts, Edward B in Gaynor (2002) states that innovation is the discovery and exploitation. The invention includes activities bring new ideas and combine them into a brilliant idea. Exploitation includes the processes and stages in the commercialization, application and transfer, which includes a focus on the ideas or inventions that lead to specific goals, and then evaluating the goals and directing the research and diffusion of technology to produce a new one. According gaynor (2002) innovation is a continuation of the invention followed by implementation and commercialization. The discovery is the process of digging the idea and develop it into a concept which then lead to the emergence of innovations. Innovations include the discovery of ideas, development of ideas into concepts, concept development into an invention, then the invention is implemented and exploited. There are four elements in building a culture of innovation, namely, culture, resources, processes and infrastructure.

Futhermore Moore (2004) divide innovation into seven kinds:

a. Disruptive Innovation. This innovation received much attention due to the creation of a very extensive resources in creating prosperity. For example, Motorola is providing mobile products first in the market.
b. Application Innovation. These innovations include the application of existing technologies into other purposes or in other areas, such as the use of computers in the world to produce ATM banking.
c. Product Innovation. Innovations of this type provide new offerings in existing markets to a higher level, for example: Toyota issued a hybrid car.
d. Process Innovation. Innovations of this kind make existing processes more efficient and effective. Examples of this innovation is in Toyota's lean production.
e. Experiental Innovation. This type of innovation is innovation in building a consumer experience of a product.
f. Marketing Innovation. Innovations related to the marketing function include: communications, and consumer transactions conducted. Examples of this type of innovation is Amazon's e-commerce.
g. Business Model Innovation. Innovations of this kind create the proportions of value to consumers and companies in establishing the role of the value chain together.
h. Structural Innovation. This innovation capitalizes on disruption to restructure the relationship between industry.

The value assigned by company will be perceived by the customer. Customer value is a customer's perception of the balance between the benefits received to the cost incurred (Hinterhuber, 2008). Companies that provide superior value that will be attractive to consumers. Furthermore, Kotler and Keller (2009) defines customer value (customer value) as the difference in return customers as compared to the costs incurred. There are two ways to generate superior value by giving more benefits to consumers or by reducing the sacrifices that must be paid by the consumer. The concept of customer value gives an overview of a company's customers, considering what they want, and believe that they benefit from a product.

Kim & Mouborgne (1999a) states the value of innovation is the cornerstone of blue ocean strategy Value innovation gives equal emphasis on value and innovation. Value without innovation tends to focus on value creation on a large scale, something that increases the value but not sufficient to make the company stand out in the market superior. Innovation without value tends to be relying on technology, market pioneering, or futuristic and often aim at something that has not been readily accepted and consumed by consumers. Value innovation to provide value to consumers and enterprises. Value innovation is not focused on competition but rather focus on making the competition irrelevant. value innovation is different from value creation and technological innovation. Value creation as the concept of strategy is too broad because there are no specific restrictions that directs the company to act lead to success. Create value in the incremental scale, it yields a value but can not be used to deliver high performance. Technological innovation is to encourage the formation of value innovation but innovation value itself can be formed without the support of technology so that technology is not important in shaping the innovation value.

3. RESEARCH MODEL

This research was using mix method approach whereas qualitative and quantitative approach. The qualitative approach was adopted by doing in depth interview with 12 of decision maker in 6 companies in the Merchandise Business in Yogyakarta such as MerchanDase, UGD, Treelable, Mangrove, Pino and Mugmento. Quantitative approach was conducted by spreading questionnaire to 100 persons which is got from the purposive sample of “Kedai Digital” customers. Both data analyzing was used as qualitative and quantitative.
Tools and analytical framework that is used to identify the value of innovation in the Kim & Maugborne (2005) consists of:

1) The Strategy Canvas
   The strategy canvas is a diagnosis of action framework for building a blue ocean strategy. Canvas strategy has two main functions: first, the strategy canvas summarizes the current situation in the known market space. This enables companies to understand where the competition is currently happening and understand what factors are used as a platform to compete in products, services, and delivery, as well as understand what the consumer obtained from existing competitive offerings on the market. The horizontal axis shows the factors that competes. The vertical axis of the strategy canvas summarizes the obtained level buyers bidding in all competition factor. A high score indicates a better company offers to consumers, while indicates that the company spent more investment in these factors. In the case of price, a higher score indicates a higher price. In the strategy canvas there is a curve that describes the value of the graphic relative kineja company with respect to the factors of competition in the industry.
2) The Four Framework (The Eliminate-Reduce-Raise-Create Grid)
   Four-step framework is used to reconstruct buyer value elements and are used to break the exchange between differentiation and low cost, and in order to create a new value curve. There are four key questions to make the logic of the strategy and business model of an industry:
   a. Which of the factors that the industry takes for granted should be *eliminated*?
   b. Which factors should be *reduced well below* the industry’s standard?
   c. Which factors should be *raised well above* the industry’s standard?
   d. Which factors should be *created* that the industry has never offered?

4. DATA ANALYSIS

Based on interview most of Kedai Digital aged 21 to 30 years. Age of respondents in accordance with the target market, namely college student.

5. DISCUSSION

Using Canvas strategy to capture the current state of play in the known market space, which allows users to clearly see the factors that the industry competes on and where the competition currently invests and to propel users to action by reorienting focus from competitors to alternatives and from customers to noncustomers of the industry. The value curve is the basic component of the strategy canvas. It is a graphic depiction of a company's relative performance across its industry's factors of competition. A strong value curve has focus, divergence as well as a compelling tagline.

Based on interview to 6 merchandise company, as a result we get the standard value in Merchandise Industry. Researcher will map the values and give the weight of each order can be illustrated visually the value curve to see the relative position of the industry Kedai Digital.

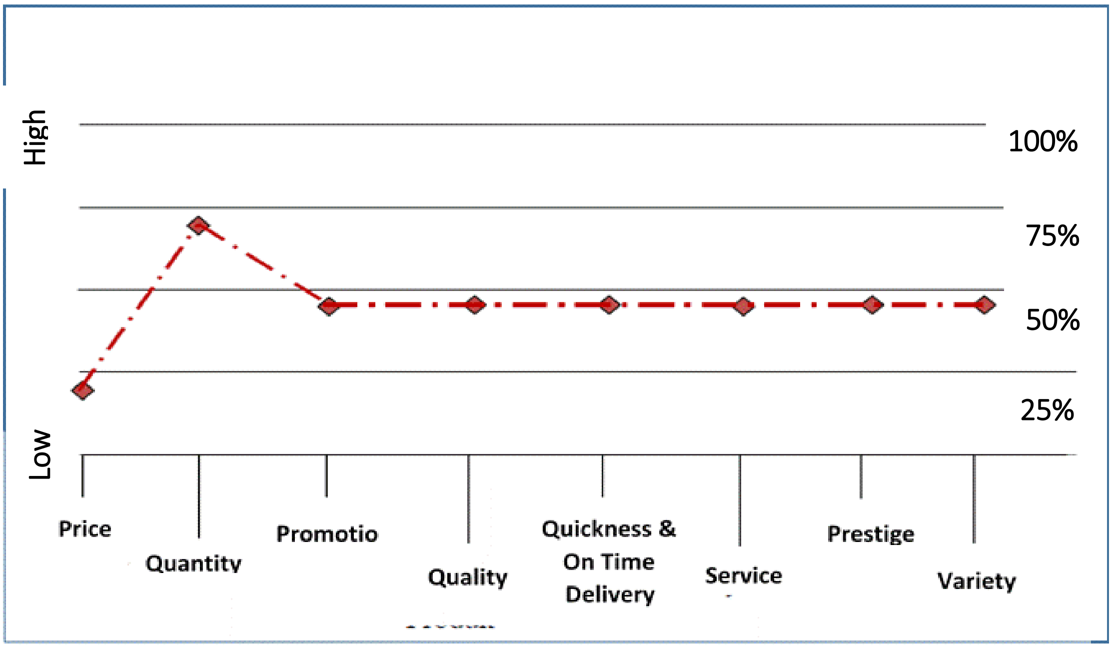
Standard value that is used as a competition such as :

1) Quantity of Product: Merchandise company sell goods with a minimum number of orders, more the number of items ordered, the more the order, the lower the price per pcs.
2) Price: Price is one of determining factor which is important because consumer merchandise will consider the price difference, especially when the price striking differences, moreover their customer is corporate.
3) Quality: The quality of the product, durabillity and also safe products (made from materials not harmful). Maintain the quality becomes important to maintain loyal customer.
4) Promotion: Promotion include how the customer can find out how to get the product such as brosure, flyer, website, television, newspaper
5) Service: This factor include service at the outlet as well as outside the outlet. Company give free delivery and also pickup desain for large number of orders. Friendly service is also an attraction for the customers coming back to buy the product.
6) Prestige: merchandise company tried to give the image to the consumer that the product is a unique product solely owned by the company who purchased the product for branding for example Tshirt which has Bank Commonwealth's logo only owned by the customer of these Bank that foster the certain pretige that others don't have.
7) Product Variety: range of products is an important factor, more diverse product offerings that can be more targeted markets..
8) Quickness and On time delivery: the company's dedication to deliver products to consumers as quickly as possible and appropriate appointments or procedures of the company. Companies engaged in the business of merchandising states that the speed of processing time is also an important determinant factor of consumer when they decide to order merchandise. Often customer does not order a product only because a long processing time or not as consumer expectations.

Identified values become the industry standard value is then given a score by each company to determine the average.

No	Factor of Competition	Kedai	Mangrove	Pino	MerchanDase	Mugmento	UGD	Average (%)
1	**Price**	25%	20%	-	18%	50%	20%	22,17
2	**Quantity**	0	80%	90%	80%	60%	80%	65,00
3	**Promoion**	70%	40%	40%	40%	40%	30%	43,33
4	**Quality**	65%	30%	40%	50%	30%	45%	43,33
5	**Quickness and On time Delivery**	60%	40%	40%	40%	50%	30%	43,33
6	**Service**	75%	50%	40%	20%	50%	30%	44,17
7	**Prestige**	25%	50%	60%	45%	40%	50%	45,00
8	**Product Variety**	75%	40%	40%	30%	50%	30%	44,17

The average score is then drawn into the strategy canvas. The purposes is canvas strategy summarizes the current situation in the known market space. This enables companies to understand where competition is currently happening and understand what factors are used as a platform to compete and understand what consumer obtained from existing competitive offerings in the market mercandising. The horizontal axis shows the factors of competition, while the vertical axis shows the low to the high scores.



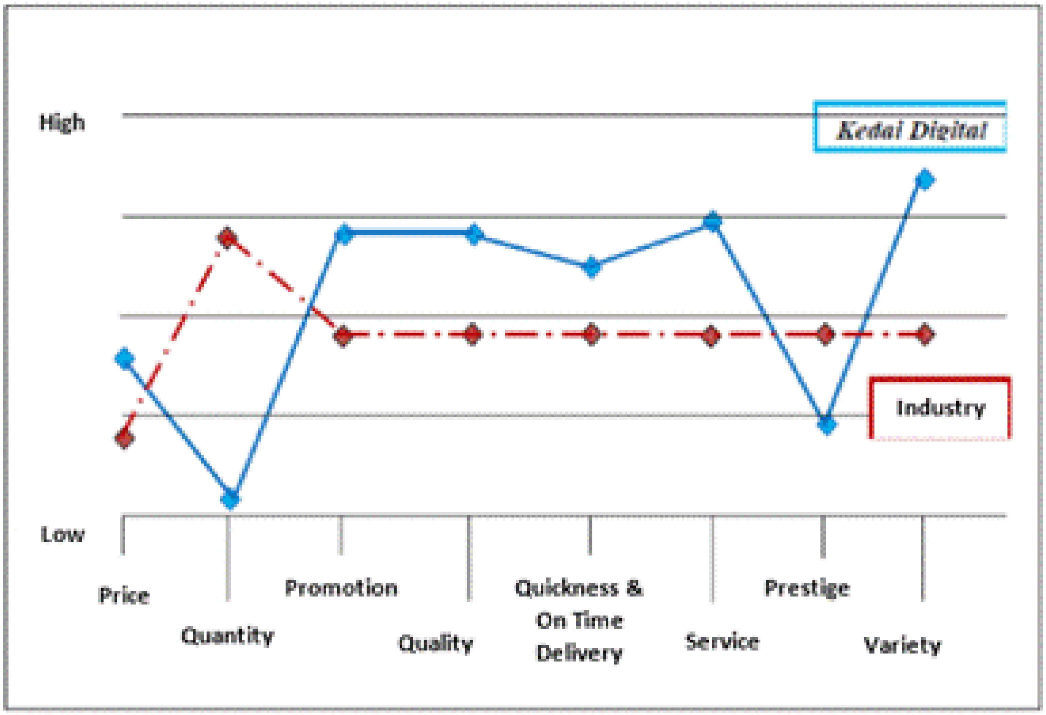
After describe the strategy canvas of merchandising industry, the next step is mapping out a strategy canvas or value curves of the Kedai Digital. This is done to look at the relative position of the industry Kedai Digital. Through these images, we can see where the value is create, eliminate, raise and reduce or known as The Four Action Framework.

Analysis of the value innovation of Kedai Digital consists of several elements that can be identified from a few questions such as:

1. How does the business concept in the Kedai Digital?
2. How does Kedai Digital decide the location?

3. How pricing strategy in Kedi Digital
4. How does the process of product innovation in the Kedai Digital ?
5. How employees in the Kedai Digital?
6. What is marketing strategy in Kedai Digital?
7. How Digital Shop respond to imitation made by competitors?

Based on those question Strategy Canvas of Kedai Digital relatively to the Industry shown in this figure.



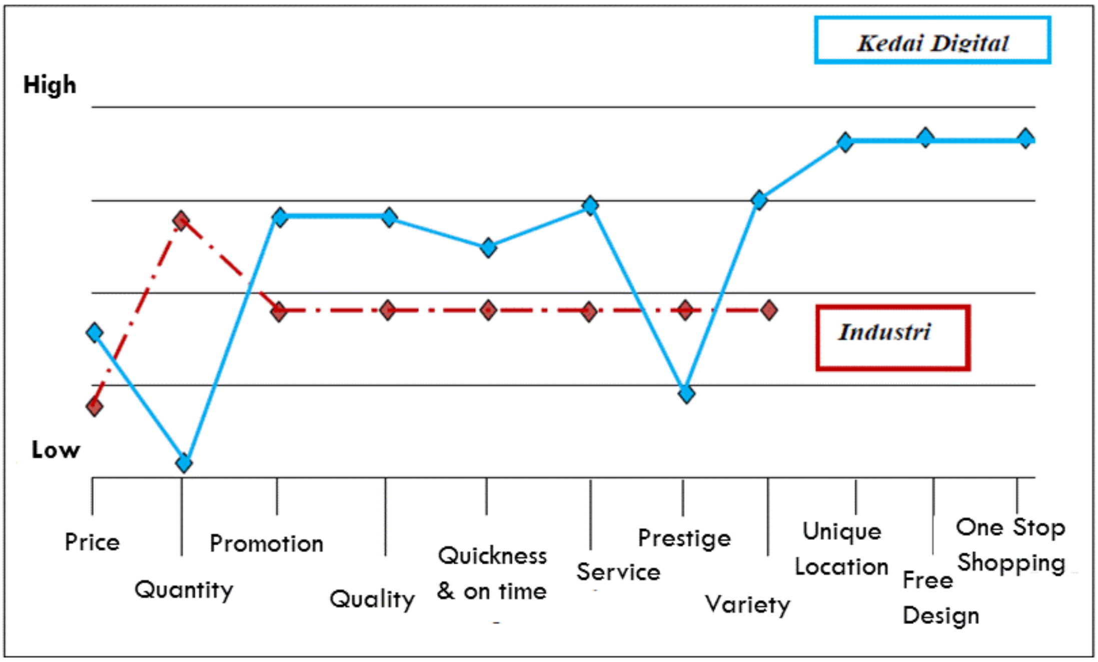
To reconstruct the elements of customer value in creating new value curve, then the researcher try to develop a framework of four steps (four framework analysis). And obtain result:

1. *Eliminate*. All of Kedai Digital competitor sell the product in a minimun order of number and Kedai Digital does not implemen a minimum order. They eliminate the quantity value. Kedai Digital give the new concept of merchandising, “Personal Merchandise”. Their customer can order even only 1 pcs, because everyone is unic and can be an artist so they think that merchandise not only for company or someone who has privilage to have it but also for everyone. Kedai Digital known with the tag line “Bikin Mug Satoe Saja” (order mug 1 pcs).
2. *Reduce*. Factors that reduced by Kedai Digital is prestige branding, ie the perceived prestige only by a particular community. Kedai Digital with product concepts "pieces" makes anyone can have any desired merchandise, even with any extreme design. Kedai Digital provides a unique experience to consumers that as personal, they could have a merchandise. Reduced the prestige value Kedai Digital can reduce the cost of marketing to corporate parties. Kedai Digital targeting personal customer so they can use the power of word of mouth.
3. *Raise*. Kedai Digital make a huge investment in terms of quality, promotion, service, quickness and on time delivery than others. In term of quality Kedai Digital use the best printing machine to maintain the quality of picture and also graphic. In term of

promotion, Kedai Digital use flyer, local television, radio, even booth in some event. Using e-marketing such as website (www.kedaidigital.com), email, yahoo messenger even texting and call center and also the fiendly staf to increase the services in Kedai Digital. Kedai Digital analyze that one day service being an attractive service for customer. Order 1 pcs – 200 pcs can be finnished in 1 day even they have to pay more expensive that other company.

4. *Create.* To give the customer the best service, Kedai Digital implement free design for the customer. They dont have to pay at all for the design. Difference from other merchandise entrepreneur that charge some price for design exclude the price of product. Furthermore Kedai Digital choose unique location for their merchant such as location near the campus. Then, Kedai Digital not only deliver merchandise but also started a related business unit such as Photo Studio, Close Cutting, Wedding Invitation that makes Kedai Digital as one stop shopping.

Based on the analysis of interviews and analysis of questionnaires distributed to consumers, the obtained value innovation produced by Digital Store. These three additional value given the Digital Shop is a unique location, free design and one stop shopping well received by consumers. These values can be described as follows:



The analysis of value innovation undertaken by Kedai Digital also perceived the same by consumers. This is the role of the Kedai Digital tagline is "Buat Merchandise Semau You" and "Bikin Mug Satoe Sajah" very clear and has been proven to attract consumers. Use of this tagline is quite effective in communicating the goals and strategies of Kedai Digital. Additionally value innovation created is consistency Kedai Digital to focus on the strategy that trying to focus on creating a branch with a unique location, provide free design service and strive to meet the needs that are still associated with the merchandise so that it becomes one stop shopping.

CONCLUSION

Kedai Digital use the strategy canvas and four action framework to construct value innovation to create a new market and make the competition irrelevant. Kedai Digital has been creating 3 value innovation which is not able to be imitated by competitors instead of playing in the red ocean. Its value innovation that has been designing are free design, unique location and one stop shopping concept. These values makes Kedai Digital becomes a leader in merchandise industry and makes the competition irrelevant. Now Kedai Digital being a market leader even charge higher price than the others. The analysis of value innovation undertaken by Kedai Digital also perceived the same by consumers. This is the role of the Kedai Digital tagline is "Buat Merchandise Semau You" and "Bikin Mug Satoe Sajah" very clear and has been proven to attract consumers. Use of this tagline is quite effective in communicating the goals and strategies of Kedai Digital

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