

# RECONSTRUCTION OF BUSINESS MODEL ON SMALL AND MEDIUM-SIZED ENTERPRISES

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**Abstract**—Small and medium-sized enterprises (SMEs) need to analyze which business model they engage for sustainability. Business model canvas (BMC) can be a useful tool. This study aims to analyze business models engaged by SMEs. This to be able to compete in the market.

**Purpose** – This study aims to analyze business models engaged by small and medium-sized enterprises.

**Design / Methodology / Approach** – This was a business case. The study subject was Hani Mandiri, a jeans sewing service in Jakarta, Indonesia. Primary data was obtained through in-depth interviews and observation. Results from the data above were analyzed using qualitative methods.

**Findings** – This study showed that the customer relationship and channels building blocks provides information to the management that they cannot rely only on offline marketing. Developing digital marketing is needed.

**Research Limitations / Implications** – The results of this study can only be used by Hani Mandiri and other similar businesses.

**Originality / Value** – This study provides a detailed description of the condition of SME Hani Mandiri

**Keywords:** business model, business model canvas, small and medium-size enterprises

**Paper Type** – Research Paper

## 1 INTRODUCTION

THE monetary crisis in Indonesia in 1997 became a bad experience of the country's economic condition in the past.

One lesson that was learned during the crisis was that SMEs or Small and Medium Enterprises contributed to saving the Indonesian economy condition. SMEs was able to reduce the number of unemployment through the opening of jobs that were resistant to the effects of the economic crisis. Data from the Ministry and Small and Medium Enterprises shows that the number of SMEs in 1997 was 39,767,207 units, by 2013 they increased to 57,89,271 units.

By seeing the importance of SMEs' role, the Indonesian government issued Government Regulation (PP) No.17 2013 about the Implementation of Law No.20/2008, where the important matters regulated were the roles of the central government and regional governments in facilitating the development of MSMEs industry. This government regulation eased the licensing, provided financing, and facilitated information technology.

Although the government issued various rules to encourage SMEs to develop, their productivity remains low. Rachbini (in Raharjo, 1994:114) states that "The problem in the Small and Medium Enterprises is very complex but the one that should be improved is productivity." SMEs experience difficulties in increasing productivity and competitiveness because "Small and Medium Enterprises in Indonesia face complex obstacles" (Sagir, 2000). These obstacles are caused by various factors including: "weak management and production tech-

niques, capital, skill, and marketing (Sagir, 2000: 2). Based on the statements above, SMEs in Indonesia need to improve their competitiveness. By increasing competitiveness, it is expected that the role of SMEs in Indonesian economy will be even greater in the future.

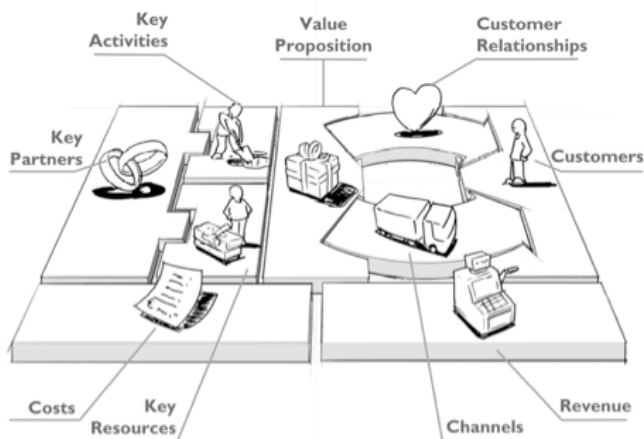
To develop sustainable strategies, SMEs need to know and understand their competition (Dudin et al, 2015). Creating a business model can help SMEs to understand, predict, and describe how things work by analyzing a simplified representation (Frick & Ali, 2013). Osterwalder had developed a model that can be easily understood, which is named Business Model Canvas. (Lund, 2013).

The object of this paper is Hani Mandiri - a SME in the jeans sewing services. This research analyzes the nine building blocks of Business Model Canvas (BMC) to examine which part of the BMC that should be developed. The findings of this research are expected to contribute to the business sustainability.

## 2 LITERATURE REVIEW

BMC analysis is an analytical model that outlines how an organization creates, provides, and captures its values (Osterwalder et al., 2010). Through this approach, nine elements will be displayed on the business model in nine blocks. The use of BMC has advantages in the analysis of business models, namely being able to describe in a simple and comprehensive

manner about the current condition of an organization based on consumer segments, value offered, value offer paths, customer relationships, revenue streams, key resources, key partners, and cost structure owned (Osterwalder, 2010)



**Figure 1. Osterwalder's Business Model Canvas**  
Source: Business Model Generation (Osterwalder et al., 2010)

- a. **Customer Segments**  
Customer segment can be described as different groups of people or organizations an enterprises aim to serve and reach (Osterwalder et al., 2010). Segmentation is a process of classifying markets into potential costumers groups that have the same needs or similar characteristics and have the same response in spending money (Kasali, 1998).
- b. **Value Propositions**  
This building block describes the bundle of products and services that create value for a specific customer segment (Osterwalder et al., 2010). Value proposition is how the company gives the best value to customers according to the values in the company by creating superior customer value. The company creates customers who are satisfied and loyal (Kotler, 2007).
- c. **Channels**  
Channels describe how a company communicates with and reaches its customer segments to deliver a value proposition (Osterwalder et al., 2010). Kotler (2007) states that the distribution channel can be explained by how much the distribution level is involved.
- d. **Customer Relationships**  
The customer relationships building blocks describe the types of relationships a company builds with specific customers (Osterwalder et al., 2010). Customer relationship is a comprehensive process of building and maintaining profitable customer relationship by delivering customer value and satisfaction (Kotler & Armstrong, 2007).
- e. **Revenue Streams**  
This building block constitutes the cash a company generates from each customer segment (Osterwalder et al., 2010). It out-

lines the activities and pricing of the offered values with which a company improves its revenues (Muhtaro, 2013).

- f. **Key Resources**  
Key resources building block describes the most important assets required to make a business model work (Osterwalder et al., 2010). It is a capability that a firm needs in order to deliver values to its customers (Muhtaro 2013)
- g. **Key Activities**  
This building block describes the most important thing a company has to do to make its business model work (Osterwalder et al., 2010). It represents the actions a firm performs in order to create and offer values to its customers (Muhtaro, 2013).
- h. **Key Partnerships**  
It describes the network of suppliers and partners that make the business model work (Osterwalder et al., 2010). It has an essential role because the firm does not have all resources and activities to make and deliver values by itself (Coes, 2014).

- i. **Cost Structure**  
The cost structure building block describes all the costs incurred to operate a business model (Osterwalder et al., 2010). It describes all costs incurred by the firm for delivering value propositions to its customers and doing all business activities (Muhtaro, 2013)

### 3 METHOD

This research was adapted from the Business Model Canvas – a practical and theoretical concept developed by Alexander Osterwalder and Yves Pigneur (2010). This is a case study of a SME in a jeans sewing services “Hani Mandiri” in Jakarta, Indonesia. The primary data were obtained through in-depth interviews and observation with the owner and the Head of Production. The interviewees were selected based on their knowledge about the business process in the company. The interview and observation guides consisted of nine main issues based on the research objectives. It included questions concerned with what customer segments the firm point towards, what value propositions the firm provided, what channels used by the firm, what type of relationships the firm builds with its customers, where the revenue of the firm came from, what the resources the firm needs, what kind of activities conducted by the firm, who the key partners of the firm are, and what costs are needed in the firm. After the in-depth interview and observation, the content is analyzed.

### 4 RESULTS AND DISCUSSION

**Table 1 Comparison of Previous and New Business Model Canvas**

Building Block	Previous	New
Customer Segments	B2B. Companies that need jeans in a large	B2B. Companies that need jeans in a large

	quantities to resale, local and international. B2B2C consumer with casual clothes, all ages, man and woman, middle economy)	quantities to resale, local and international. B2B2C consumer with casual clothes, all ages, man and woman, middle economy)
Value Propositions	Jeans sewing services, custom model according to customer request, on time service, and competitive pricing	Jeans sewing services, custom model according to customer request, on time service, and competitive pricing
Channels	Direct contact via telephone, whatsapp, SMS	Direct contact via telephone, whatsapp, SMS, and website
Customer Relationships	Contact (direct contact via telephone, whatsapp, SMS, word of mouth), and customer retention via price promotion)	Contact (direct contact via telephone, whatsapp, SMS, word of mouth), customer retention via price promotion and product catalog online through a website with a new logo
Revenue Streams	The revenue of making jeans (sales via offline channels)	The revenue of making jeans (sales via offline and online channels)
Key Resources	Physical (machine and operational equipment), non-physical (human resources)	Physical (machine and operational equipment), non-physical (human resources)
Key Activities	The service of making jeans, purchase of yarn and jeans fabric, delivery	The service of making jeans, purchase of yarn and jeans fabric, delivery

	service, contact customers	service, contact customers
Key Partnerships	Yarn and jeans fabric suppliers, delivery service	Yarn and jeans fabric supplier, delivery service, and website administrator
Cost Structure	Fix cost (salary expense, building rent costs), variable cost (water, electricity, sewing machine maintenance, transportation expense)	Fix cost (salary expense, building rent costs), variable cost (water, electricity, sewing machine maintenance, transportation expense)

a. Customer Segments

Customer segments of Hani Mandiri based are companies needing jeans in large quantities for resale. Based on psychographics, the products are suitable for consumers with casual clothing. Based on demographics, jeans are made for both sexes, all ages, and middle economy. Geographically, Hani Mandiri has customer segments both locally and internationally. This building block remains unchanged.

b. Value Propositions

The value of SME Hani Mandiri is that it provides jeans services with customized models on their customer preferences. Hani Mandiri will carry out the sewing process of the jeans on time and try to minimize any mistakes that can occur by checking the sewing results before the jeans are sent or taken by the customer. In addition, the price offered is also competitive when compared to other MSMEs engaged in the same field. There is no revision in this block.

c. Channels

Customers can order jeans sewing services by visiting the Hani Mandiri factory directly. By coming directly, customers can see the process of making jeans from the beginning to the end. Hence, they can be more confident about the quality of Hani Mandiri products. Even though the orders are generally made directly at the Hani Mandiri factory location, customers can also order by telephone, WhatsApp, and SMS. After process analysis, channels are added to the website because Hani Mandiri wants to optimize online channels and strengthen their digital marketing.

d. Customer Relationships

In terms of reaching and contacting customers, Hani Mandiri uses direct contact to meet their potential customers. Several media used to contact customers are via telephone, WhatsApp, or SMS. In terms of maintaining customer loyalty, they give special prices for large quantities purchasing. A product catalog online through a website with a new logo is added because Hani Mandiri wants to strengthen their digital

marketing especially through website.

e. Revenue Streams

Hani Mandiri's revenue comes from the cost of making jeans that are obtained from customers. There is no change in this building block.

f. Key Resources

The resources owned by Hani Mandiri are divided into physical and non-physical resources. Physical resources consist of machines and production equipment for making jeans. Human resources include the owner, his wife, and Hani Mandiri employees amounting to approximately 100 people. There is no revision in this building block.

g. Key Activities

The key activities carried out by Hani Mandiri begins with finding and contacting prospective customers. After customers make the order, Hani Mandiri carry out activities to purchase yarn and jeans from trusted suppliers. After the material is complete, the sewing process start. The last activity is sending the product to the customer through an expedition or it can be taken directly by the customer. There is no significant change in this building block.

h. Key Partnerships

In running this business, Hani Mandiri must have a partner for the continuity of its services. The partners needed are yarn suppliers and suppliers of jeans. Then, a website administrator is added to manage the website.

i. Cost Structure

Certain costs are involved for Hani Mandiri to run its business. Fixed cost are salary expense and building rental costs. Variable costs include water, electricity, sewing machine maintenance, and transportation expenses. This building block also remains unchanged.

## 5 CONCLUSION

The Business Model Canvas can be used to describe the strategies and operations of what a company applies. In Hani Mandiri's case, by using the Business Model Canvas, the owner can get information on how to improve the business. This BMC tool can be used by Hani Mandiri to scheme new strategies to improve the sustainability of the business.

From the results of the business analysis of the Hani Mandiri's business model canvas, it can be concluded that the channels used are not optimal because they still rely on offline marketing channels. Hani Mandiri can expand customer segments to the upper middle class, for example by adding channels related to digital media such as website creation. Thus, it can increase brand awareness and increase sales of Hani Mandiri. The application of the Business Model Canvas in Hani Mandiri reveals that the BMC can be used by SMEs to help the owner and management design strategies to expand their business.

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