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Blue Ocean strategy for creating value innovation: A study over *Kedai Digital* in Yogyakarta, Indonesia

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Abstract. In Yogyakarta, merchandise business has been developing rapidly in recent years. The phenomenon has made entrepreneurs in the industry compete to retain customers, by which most of them fall into a price war. To create a new market and make the competition irrelevant, *Kedai Digital*, a merchandise manufacturer in the region, has attempted to implement Blue Ocean strategy, wherein value innovation has a critical position. This study aims at analyzing current value innovation in the company, in which it is supposed to determine value innovation and identify value drivers. A mix-method approach is taken, by which qualitative approach is adopted in conducting an in-depth interview with 12 decision makers from 6 companies currently participating in the merchandise business in Yogyakarta, while quantitative approach is conducted by spreading questionnaire to 100 persons based on a purposive sample over the *Kedai Digital*'s customers. Canvas Strategy and Four Framework Analysis are taken as the tools for analysis. Findings show that 8 value standards serve within the competition, *i.e.* volume, price, prestige, quality, promotion, service, variation and on-time delivery. Most companies attempt to win the competition in these area. In particular, the *Kedai Digital* has been creating 3 distinguished value innovation instead of playing in the red ocean. These value innovations are a free design, a unique location and a one-stop shopping concept. These values have made *Kedai Digital* to be a leading company in the industry and may have made the competition irrelevant.

INTRODUCTION

The rapid advances of technology and the increasing demands from customers have triggered a tight competition in many industrial sectors. The situations have forced companies to work harder for being able to compete. To win the competition, most companies attempt to focus on quality improvements, while others try to conduct cost-efficiency practices. In an extreme situation, companies with the later strategy aims at decreasing price to get more customers despite sacrificing profit margins. It results in a decline of corporate profits, which in turn may lead to a bankruptcy. When most companies fall into the price war, the situation is hence known as a red ocean.

Kim & Mauborgne (2007) have described two kinds of market universe, *i.e.* Red Ocean and Blue Ocean. A red ocean represents all industries in existence today – known market space. In the Red Ocean, competitive rules of the game are known, while industry boundaries are defined and accepted. In a red ocean, companies try to outperform their rivals to grab a greater share of product or service demands. Eventually, the market space gets crowded, and prospects for profits and growth are thus reduced.

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Products have merely become commodities and a cutthroat competition turns the ocean bloody. However, a company may achieve a success not by battling others, but rather by creating a "blue ocean" of uncontested market space. It may declare that the strategic moves create a leap in value for the company, its buyers, and its employees, while unlocking new demand and making the competition irrelevant.

On the other hand, Indonesia has been recognized as a country with a wide range of art and culture. In particular, Yogyakarta is known as a distinguished cultural and creative region in the country. It has quite an advantage in the creative economy and the tourism industry, by which creative economy has become an active driver of economic activities in the region. Looking at these facts, merchandise business has produced quite an intense competition in the creative industry. It is pretty tempting, which has then made a numerous number of entrepreneurs enter the industry. Some of known brands are *MerchanDase*, *UGD*, *Treelable*, *Mangrove*, *Pino* and *Mugmento*. In fact, the market has been quite crowded. Most of them steadily meet a decreasing number of customers and an increasing cost. The attractive market has now become unattractive. Thus, they need to deliver a more unique product, which is different from others', to win customers' heart.

Furthermore, *Kedai Digital* (hereinafter is referred as KD or the Company) is a personal merchandise manufacturing company in Yogyakarta. Its uniqueness comes from the concept it brings, *i.e.* "Personal and Corporate Merchandising", meaning that it produces souvenirs or merchandises for either personal or corporate usages. Despite being a new player, the Company has been able to be a leading entity in the business. It has even made an uncontested market instead of a head-to-head competition. The KD has attempted to create and capture new demands instead of exploiting the existing ones. The company aligns itself to the whole system of corporate activities with its strategic choice between product differentiations or low costs instead of aligning its business in a pursuit of both choices. In fact, value innovation is a cornerstone of the Blue Ocean strategy, which has been a key success of KD.

The current study has an objective to determine value innovation and identify value drivers in the Company. The creation of value innovation requires an extensive process from introducing a product to potential buyers until consumers become loyal to the product. Value innovation is a key to the success, which is difficult to imitate by other companies. This study aims at understanding what values have driven existing value innovation in the Company, which may then lead to increasing profitably and revenues in such an unattractive environment.

LITERATURE REVIEW

Strategy

Thompson, Strickland, & Gamble (2010) have defined strategy as consisting of "*a collection of competitive movements and approaches related to business management in order to produce the successful performance*". An absolute strategy is taken as a means to determine company targets. A strategy may address all problems in a plan that will run, how to form a business that shall run, what products and corporate goals shall exist, and what kind of actions shall run to reach a target or goal. Strategy may not apply merely in a planning process, but must continue during operational level and supervision.

Furthermore, Anthony & Govindarajan (2007) have suggested that a strategy is the general direction taken by a company with its plan to achieve its goals. It is then divided into two levels, *i.e.* corporate level strategy and business level strategic unit. In short, a strategy is an interconnected planning of a company as a whole, including an operational oversight for being integrated and functioned as a basis to achieve targets or goals of the company.

Blue Ocean Strategy

Strategy is a set of competitive strategy, competitive benchmarking, building competitive advantage in the face of competition (Kim & Mauborgne, 2005). When a company desires to build a competitive advantage, the set taken is to see and compare what the competitors currently are, then it may strive to perform better to win the competition (Kim & Mauborgne, 1997).

Furthermore, Kim & Mauborgne (2005) have pointed that the approach of strategy may have been the distinguishing factor between successful companies with ones that do not work well. Companies generally use conventional approaches, while their strategic thinking is dominated by the idea of being a leader of the competition, which is known as the Red Ocean strategy. In contrast, successful companies focus on things outside a competition to make it irrelevant. The goal is not to find opportunities arising from an existing industrial competition, but to create a new market properly fit to the strength of the company. Choice as such is known as the Blue Ocean strategy. In

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TABLE I. Comparison between Red Ocean and Blue Ocean

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

particular, the strategy is a set of strategic principles, tools and methodologies that may help organizations create a leap in value and profit by looking beyond the limitations of traditional competitive strategies. It may open the minds of those who work in strategic and marketing planning to look beyond existing demand, redefine the marketplace and make the competition irrelevant. According to Thompson *et al.* (2010), the Blue Ocean strategy describes the business realm into two types of market space:

1. Create new markets, including any type of market that has not been having an established industry. Without any competition, it offers a great opportunity to make profits and a rapid growth, providing a strategy in which the company has the opportunity to form a new request rather than competing an existing demand.
2. Re-create existing ones, including the state of market wherein a clear industrial boundary exists. In fact, there is a competition but a company may try to capture a greater demand (bigger market share).

Kim & Mauborgne (2005) have stated that the Blue Ocean strategy also attempts to minimize risks while maximize opportunities. Six principles in the strategy expressly addresses how to mitigate each risk:

1. Reconstruct market boundaries – Addresses the search risk of how to identify commercially compelling Blue Ocean opportunities out of the haystack of prospects.
2. Focus on the big picture, not numbers – Tackles how to mitigate the planning risk of investing lots of effort and time but delivering only tactical Red Ocean moves.
3. Reach beyond existing demand – Addresses the scope risk of aggregating greatest demands for a new offer.
4. Get the strategic sequence right – Addresses how to build a robust business model for ensuring a healthy profit over a Blue Ocean idea, thus mitigating business model risk.
5. Overcome key organizational hurdles – Tackles how to knock over organizational hurdles in executing a Blue Ocean strategy addressing an organizational risk.
6. Build execution into strategy – Tackles how to inspire people to execute a Blue Ocean strategy to the best of their abilities, overcoming management risk.

These six principles aim to make the formulation and execution of a Blue Ocean strategy as systematic and actionable as competing in the red oceans of existing market space. In creating blue oceans, they may guide companies in a way by maximizing opportunities and minimizing risks.

Value Innovation

Gaynor (2002) has stated that innovation refers to discovery and exploitation, while invention includes activities bringing new ideas and combine them into a brilliant idea. Exploitation includes any processes and stages during the commercialization, application and transfer, which may include a focus on the ideas or inventions that lead to specific goals, and evaluate the goals for directing any research and diffusion of technology required to produce a new one. Besides, Gaynor has also stated that innovation may form a continued invention followed by implementation and commercialization. Discovery is a process of digging an idea and develop it into a concept, which then leads to the rising of innovations. Innovations include the discovery of ideas, development of those ideas into concepts, concept development into an invention, and the implementation and exploitation of the invention. In particular, four elements are required in building a culture of innovation, *i.e.* culture, resources, processes and infrastructure. Furthermore, Moore (2004) has distinguished seven types of innovation:

1. Disruptive Innovation. It receives much attention due to the creation of extensive resources in delivering prosperity. For example, Motorola has provided first mobile products in the market.
2. Application Innovation. It includes the application of existing technologies into other purposes or in other areas, *e.g.* the use of computers f ATM banking.
3. Product Innovation. Innovations of this type provide new offerings in existing markets to a higher level, for example: Toyota issued a hybrid car.
4. Process Innovation. It makes existing processes more efficient and effective, *e.g.* Toyota's lean production.
5. Experimental Innovation. It includes any innovation to build the consumer experience over a product.
6. Marketing Innovation. It is related to some marketing

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functions, *e.g.* communications and the applications of consumer transactions. An example is the Amazon e-commerce.

7. Business Model Innovation. It creates the proportions of values to consumers and companies in establishing the role of a value chain together.
8. Structural Innovation. It capitalizes on disruption to restructure a relationship between industries.

Furthermore, customers perceive any value assigned by a company. Thus, customer value is a customer's perception on the balance between benefits received to costs incurred (Hinterhuber, 2008). In other words, companies providing superior values will be attractive to consumers. Kotler & Keller (2009) has defined customer value as the difference in return customers as compared to costs incurred. In fact, two ways to generate superior value are by giving more benefits to consumers or by reducing sacrifices paid by them. The concept of customer value may give an overview of a company's customers, considering what they want, and believe that they benefit from a product.

Kim & Mauborgne (1999) have stated the value of innovation is a cornerstone in the Blue Ocean strategy. It gives an equal emphasis on value and innovation. Value without innovation tends to focus on a value creation on a large scale, something that increases the value but not sufficient enough to make a company superior in the market. On the other hand, innovation without value tends to be relying on technology, market pioneering or futuristic, and often aims at something that has not been readily accepted and consumed. In short, value innovation is supposed to provide value for consumers and enterprises. It is not focused on competition but rather on making the competition irrelevant. Value innovation is in fact different from either value creation or technological innovation. Value creation as the concept of strategy is too broad because there is no specific restriction that directs a company to act lead to success. Creating a value in an incremental scale may yield the value but may not deliver a higher performance. On the other hand, technological innovation triggers the formation of value innovation, yet innovation value itself may form without the support of a technology; hence, it is not so important in shaping the innovation value. Tools and analytical framework taken to identify the value of innovation (Kim & Mauborgne, 2005) include:

1. The Strategy Canvas
   It is a diagnosis of action framework for building a Blue Ocean strategy. Besides, it has two main functions: (1) it summarizes the current situation in a known market space. This enables companies to understand where a competition is currently happening, what factors are taken as a platform to compete in products, services and delivery, and what consumer have obtained from existing competitive offerings on the market. While the horizontal axis shows competing factors, the vertical axis of strategy canvas covers the obtained bidding level by buyers in all competing factors. A high score indicates better company's offers to consumers, while also shows that the company spends more investment in those factors. In the case of price, a higher score indicates a higher price. In particular, the strategy canvas provides a curve that describes the value of a company's relative performance with respect to competing factors in the industry.
2. Four Framework (Eliminate-Reduce-Raise-Create Grid)
   The four-step framework is taken to reconstruct the elements of buyer's value, to break the exchange between differentiation and low cost, and to create a new value curve. Four key questions to make the logic of the strategy and business model of an industry are:
   a. Which factors the industry have taken 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 the industry have never offered should be *created*?

Research Methodology

This study uses a mix-method approach. Qualitative approach is adopted in conducting an in-depth interview to 12 of decision makers from 6 companies currently participating in the merchandise industry in Yogyakarta, *i.e. MerchanDase*, *UGD*, *Pino*, *Treelable*, *Mangrove* and *Mugmento*. Quantitative approach is taken by spreading questionnaire to 100 respondents selected through a purposive sample of the KD's existing customers. Data are analyzed qualitatively and quantitatively. The age of respondents ranges between 21 to 30 years old in parallel with the age group of college students as its targeted market.

RESULTS

The interview to 6 companies reveals standard values in the merchandise Industry. The values are mapped and given the weight of each order, hence they may visually illustrate a value curve to see the relative position of KD within the industry. Standard values taken as competing factors include:

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TABLE 2. Standard values for the merchandise industry

Competitive Factors	*Kedai*	*Mangrove*	*Pino*	*MerchanDase* (%)	*Mugmento*	*UGD*	Average
Price	25%	20%	0%	18%	50%	20%	22.17
Quantity	0%	80%	90%	80%	60%	80%	65.00
Promotion	70%	40%	40%	40%	40%	30%	43.33
Quality	65%	30%	40%	50%	30%	45%	43.33
Quickness and on-time delivery	60%	40%	40%	40%	50%	30%	43.33
Service	75%	50%	40%	20%	50%	30%	44.17
Prestige	25%	50%	60%	45%	40%	50%	45.00
Product variety	75%	40%	40%	30%	50%	30%	44.17

1. Quantity. A merchandise company sells goods with a minimum number of orders. The more the number of items in an order, the lower the price per unit.
2. Price. It is an important determining factor because consumers tend to consider price differences, particularly there is a striking difference. A stronger influence occurs over corporate consumers.
3. Quality, including product quality, durability and safety (made from non-harmful materials). Maintaining quality is important to maintain loyal customer.
4. Promotion. It includes how the customer may find out how to get the product, *e.g.* brochure, flyer, website, television, newspaper.
5. Service. It includes service at as well as outside official outlets. A company may give free delivery or a pickup design for a large number of orders. A friendly service may also act as an attractive experience for ensuring customers to come back to buy more products.
6. Prestige. A merchandise company may try to give an image to consumers in which a product is unique and solely owned by companies who have purchased the product for branding purposes, *e.g.* T-shirt with a Bank Commonwealth's logo is owned by the customer of the Bank only. It may then foster a certain prestige that others don't have.
7. Product Variety. The range of products is critically important. More diverse product offerings may expand the reach to more targeted markets.
8. Quickness and on-time delivery. The dedication of a company to deliver products to its consumers as quickly as possible, including appropriate procedures or appointments taken by the company. Companies engaged in the merchandising business state that the processing speed may also an important determinant factor for consumers when those consumers decide to order merchandises. Customer often does not order a single product/item because a longer processing time than their expectation.

By identifying their values, the industry may reveal standard values, which are then given a score by each company to determine the average (Table 2). Next, the average score is drawn into the strategy canvas (Figure 1) to discover the strategy based on current situation in the known market space. Using this data companies may understand where the competition is currently happening, what factors are taken as a platform to compete, and what consumers have obtained from existing competitive offerings in the merchandising market. The horizontal axis shows the factors of competition, while the vertical axis shows the scores.

After discovering the strategy canvas of the industry, the value curves of KD is mapped to investigate its relative position within the industry. Apparently, the values are indicated as typical create, eliminate, raise and reduce or known as the Four-Action Framework. An analysis over the value innovation in KD indicates several elements identified from some questions, *i.e.*

1. How is the business concept in KD?
2. How does KD decide the location?
3. How pricing strategy is conducted in KD?
4. How the product innovation process is taken in KD?
5. How employees state their experience working in KD?
6. What is the marketing strategy in KD?

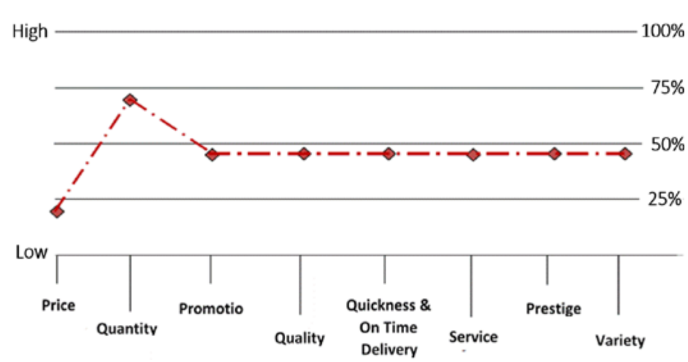

FIGURE 1. Canvas strategy of the merchandise industry

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7. How Digital Shop respond to imitation made by rivals?

Answers for these questions may reveal the strategy canvas of KD relatively to the industry (Figure 2).

To reconstruct the elements of customer value in creating new value curve, a four-step framework is developed, which produces these following results:

1. *Eliminate.* All competitors sell a product in a minimum order or number, while KD does not implement it. Thus, KD eliminates the quantity value. KD applies a new "Personal Merchandise" concept. Its customers may order even only 1 pcs, because each order is unique and may come from an artist, so KD thinks that merchandise is for everyone, not merely for company or someone who has a privilege to have it. KD is known by a tagline "*Bikin Mug Satoe Saja*" (order 1 pcs mug).
2. *Reduce.* Factors reduced by KD is the prestige branding, *i.e.* the perceived prestige for a particular community only. KD with the concept of "pieces" has made anyone possible to have any desired merchandise, even with an extreme design. KD provides a unique experience to consumers that as personal, they can have a merchandise. The reduced prestige value may have made KD to reduce the cost of marketing to corporate parties. KD targets personal customers, so they may optimize the use of word of mouth (WOM).
3. *Raise.* KD has made a huge and higher investment in terms of quality, promotion, service, quickness and on-time delivery than others. In term of quality, KD uses the best printing machine to maintain the quality of their pictures and graphics. In terms of promotion, KD uses flyers, local television, radio, and booths in some event. Besides, KD uses e-marketing, *e.g.* email, website (www.kedaidigital.com), chatting services, texting and call center, which with the combination of friendly staffs may have improved its services. Then, KD reveals that one-day service is an attractive service for its customers. An order of 1-200 pcs may finish in 1 day despite a customer having to pay a more expensive fee.
4. *Create.* To give the best service for customers, KD implements a free-design, so KD does not have to pay at all for any design. In contrast, other merchandise entrepreneurs charge an additional fee for a design into the final price of a product. Furthermore, KD chooses unique locations for its merchants, *e.g.* near a campus. Then, KD delivers not only merchandise but also related services, *e.g.* Photo Studio, Close Cutting and Wedding Invitation that may have made KD as a one-stop shopping. In fact, analyses over company interviews and consumer questionnaires discover three additional value well received by the customers of KD (Figure 3):

   a. Unique location,
   b. Free design and
   c. One stop shopping

Apparently, the analysis of value innovation taken by KD reveals the same perceived value by consumers. In particular, the KD's taglines "*Buat Merchandise Semau You*" and "*Bikin Mug Satoe Sajah*" have been quite clear and proven to attract consumers. Using these tagline is effective in communicating the goals and strategies of KD. In addition, any value innovation created is consistent to KD's emphasis on a strategy that attempts to focus on creating branches at unique locations, providing a free-design service and striving to meet more needs associated with merchandise so it may form a one-stop shopping.

Conclusion and Discussion

The *Kedai Digital* has been using a Blue Ocean strategy to create a new market and make the competition irrelevant. It has been creating three additional value innovations, which are inimitable by others, instead of

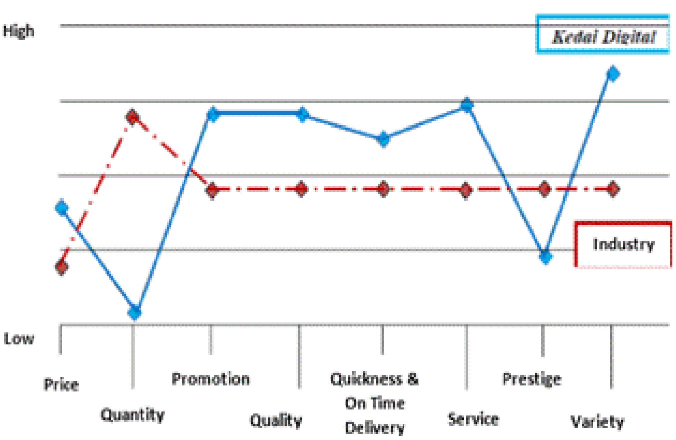

FIGURE 2. The position of value innovation of KD within the industry based on 8 indicators

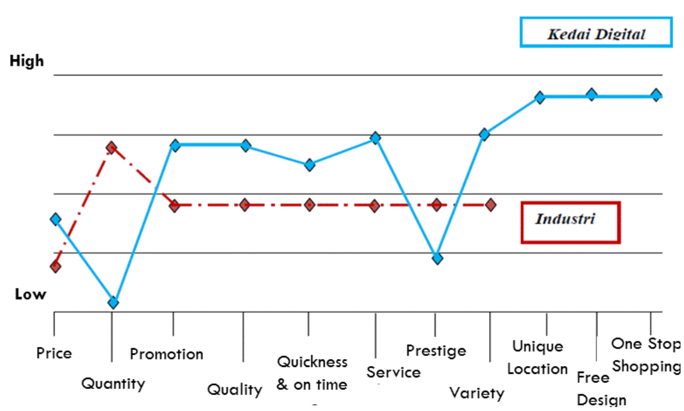

FIGURE 3. Three additional value Innovation of KD according to perceived customers

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playing in a Red Ocean. These value innovations are a free design, a unique location and a one-stop shopping concept. These values have made KD to be a leading company in the merchandise industry, despite charging a higher price than others. An analysis over value innovation taken by KD has also been perceived the same by its customers. In fact, the role of its taglines "*Buat Merchandise Semau You*" and "*Bikin Mug Satoe Sajah*" has been quite clear and proven to attract buyers. These taglines have been effectively used in communicating KD's goals and strategies.

This research applies the Canvas strategy and the four-action framework to construct value innovation. Canvas strategy is taken to capture the current state in the known market space, which allows users to clearly see factors that the industry competes on and wherein the competition currently invests. It may also push users to act by reorienting focuses from competitors to alternatives and from customers to non-customers within the industry. Value curve is a basic component in the strategy. It draws a graphical representation of a company's relative performance across many factors in the competition. A strong value curve indicates a focus, divergence as well as a compelling tagline.

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