

Analyzing Business Model for Innovative Rattan Creative Industry Center in West Java and Central Kalimantan Province

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ABSTRACT

This study aims to analyze the practice of business models (BM), particularly the use of business model innovation (BMI) in the rattan creative industry centers in Katingan Regency, Central Kalimantan Province, and Cirebon Regency, West Java Province. Additionally, the study will compare the practice of BM/BMI between the two provinces. This research uses qualitative approach in a case study method. Primary data has been obtained through interviews with several businessmen, workshop owners, home industry owners, exporters and craftsmen. Meanwhile, secondary data has been obtained through literature studies. The results show that centers in both of the provinces have differences in terms of their BM practice, market segments, products, value proposition, competitiveness, and types of innovation. The center of the Katingan rattan creative industry is the local market which is classified in the form of BM. Meanwhile, the business orientation of rattan entrepreneurs in creative industry centers in Cirebon is a global market that produces export products, especially furniture. Its business practice is a type of innovation business model (BMI) as an effort to face competition, both from foreign and domestic competitors. However, in general Cirebon rattan handicraft products are products of imitation designs of buyers so that the value proposition is less strong. This practice of imitation can be a weakness in the face of global business competition in the creative industry which demands creative, innovative, novelty, and value proportion. However, these elements are the competitive advantage of BMI.

Keywords: Business model innovation, Creative industry, Handicraft, Rattan, Value proposition.

Introduction

Indonesia's rich and abundant natural resources are a source of potential creative industries. One of them is the rattan plant which is widely found in the forests of Sumatra, Sulawesi and Kalimantan. Indonesia supplies about 85% of the world's rattan and around 90% of it comes from forests in Kalimantan, Sumatra and Sulawesi (Gencil News, 2020). It seems that this amount will continue to increase due to the increasing demand for rattan raw materials. The increasing demand for rattan goes

hand in hand with the increasing number of creative industry products that use rattan as their raw material because it is easy to shape, durable, and attractive. Rattan is used to make furniture and various other products for interior design and decoration.

Over the last two decades, Indonesia's creative industry has continued to develop and has made a significant contribution to the national economy since the enactment of Presidential Instruction Number 6 of 2009 concerning Creative Economy Development in Indonesia (Hidayat

and Asmara, 2017). The export value of furniture and handicraft goods reached 2.5 billion US dollars in 2019 (Catriana, 2020). According to Agency for the Assessment and Application of Technology (BPPT) data from the Central Bureau of Statistics (BPS) at the end of 2018, it was estimated that the contribution of the creative economy was IDR 1,105 trillion and that by the end of 2019 it could reach IDR 1,200 trillion (Dwijayanto, 2019). These estimations show that Indonesia's growing creative economy sector has business potential that needs to be developed.

The definition of creative industry according to the Indonesian government is an industry that relies on human creativity; that utilizes people's talents and skills so that their standard of life can be improved through the materialization of ideas (Siswanto and Santoso, 2017). Creative industry is a driving force for regional economic growth (Furkan and Odate, 2015; Creative Economy Report 2010, 2011) and it is increasingly important for economic prosperity (Kembaren et al., 2014). Lafzi and Goede state that in a creative economy, production requires creativity and innovation, and draws its inspiration from others (2017).

In Indonesia there are 8 rattan plant tribes, namely *Calamus*, *Daemonorops*, *Khorthalsia*, *Plectocomia*, *Ceratolobus*, *Plectocomiopsis*, *Myrialepis*, *Calospatha* with a total of approximately 306 species (Nainggolan, 2018). Rattan cultivation is found in various regions in Indonesia, such as in Sumatra Province, Central Sulawesi Province, South Kalimantan Province, and Central Kalimantan Province. Katingan Regency (hereinafter Katingan), Central Kalimantan Province is the third largest rattan producer in Indonesia, especially in Katingan Regency, which produces around 600–800 tons / month of rattan. The area of rattan gardens in Katingan is around 1.5 million hectares, which is spread across almost all of its areas (Fathurahman, 2020).

The rattan creative industry center in Cirebon Regency, West Java Province is the largest center in Indonesia. About 60% of rattan products come from the production of craftsmen in Cirebon Regency (hereinafter Cirebon). The location of the large factories, workshops, rattan home industry is located in Tegal Wangi, Weru, and Plumbon Districts. Most of the rattan entrepreneurs and craftsmen produce furniture products that are exported to various countries. From January to August 2020 the export value of Indonesian rattan products reached USD 357.16 million, an increase of 4.35 percent compared to the same period in 2019. There has been a consistent increase in the export value of rattan products between

2015 to 2019 with a value reaching 2.11 percent. However, the export value of Indonesian rattan products ranks third (6.11%), with Vietnam ranking second (12.49%), and China ranking first (45.15%).

Since 2011 the Ministry of Trade Regulation No. 35/2011 on the Export Policy of Rattan and Rattan Products has been enforced, which prohibits the export of raw and semi-finished rattan, but not finished rattan. The government's goal is to increase the profit margins of rattan entrepreneurs and craftsmen and maintain the stability of the rattan raw material for the domestic rattan industry. If raw rattan is allowed to be exported, it can cause the domestic rattan industry to experience a shortage of raw materials or even a halt in rattan craftsmanship altogether.

Therefore, entrepreneurs and rattan craftsmen in Katingan and Cirebon must innovate, for example, using the innovation business model (BMI). After all, BMI is a major source of competitive advantage recognized by experts (Anwar, 2018; Gassman et al., 2016; DaSilva, 2014). Meanwhile Stewart and Zhao (2000) define a business model of how firms make money. In the literature the terms BM and BMI can be used interchangeably (Anwar, 2018). In general, this study aims to analyze the practice of business models in the rattan creative industry centers in Katingan and Cirebon. More specifically, the main objective of this study is to analyze the differences between the two business models, in particular, the value proposition and innovation process.

Literature Review

Creative Industry

The term "creative industries" was originally used by Paul Keating, the Australian Prime Minister during his opening address for the "Creative Nation" project in 1994. He pointed out the opportunities to promote the national economy based on the local culture associated with digital media technology as a response to the globalization movement production (Shiray et al., 2017). The term creative industries are applied to a much wider productive set, including goods and services produced by the cultural industries and those that depend on innovation, including many types of research and software development. There is some understanding of the term "cultural economy" in academic circles. Each of these closely parallels the notion of "cultural industries" (Creative Economy Report, 2013). The term "creative economics" is derived from the term "creative industries," also referred

to as “cultural industries” (Lafzi and Goede, 2017). Tepper (2002) has argued that it is very difficult to achieve a consensus about the boundaries of the creative industries (Jones et al., 2004). Creativity is an overused term that is impossible to explain or understand and is often associated only with art (Landry, 2005). The creative industries represent a set of interlocking, knowledge-intensive industry sectors focusing on the creation and exploitation of intellectual property (Hyz and Karamanis, 2016). The definition of the creative industry according to the Creative Industries Task Force, UK (CITF) is derived from the creativity, skills and talents of someone who has potential wealth, and provides employment through the generation and exploitation of intellectual property (Liu, 2015). Garnham (2005) pointed out “creative industries” feature the merit of inheriting the legacy first developed in 1970 to promote the “information” or “knowledge” economy (Liu, 2015). According to the Indonesian government the definition of creative industries is an industry that relies on human creativity, by utilizing the talents and skills possessed to improve the standard of living through the creation (or ideas) and exploitation of IPR (intellectual property rights) (Siswanto and Santoso, 2017). Ross (2009) explained that work in creative industry environments is uncertain (De Klerk, 2015). Ghazi and Goede state that in a creative economy, production requires creativity and innovation, and draws its inspiration from others (Lafzi and Goede, 2017).

Business Model Innovation

The confusion around business model innovation begins, quite appropriately, with confusion about the term “business model” (Christensen *et al.*, 2016). Porter (2001) argues that the use of empirical concepts has been criticized for being unclear, not deep, and theoretically unfounded (Hedman and Kalling, 2003). Kim and Mauborgne (1997) explain that business model innovation is considered very important for companies to create new market space (Enkel and Mezger, 2013). Gassman, Frankenberger and Sauer (2016) define six functions of a business model, namely value proposition, market segment, value chain, cost structure and profit potential, value network, and competitive strategy (Gassman *et al.*, 2016). According to von Hippel (1988) it involved with existing and potential customers, then they can determine a new value proposition (Enkel and Mezger, 2013). The term “business model” often appears to encompass everything from, among others, strategy, economic model, and revenue model (DaSilva, 2013). BMI refers to a company’s various creative practices such as process, structure, execution and engagement that are carried out to achieve sustainable

competitive advantage and superior performance (Anwar, 2018). Businesses must be more focused on customers, especially as technology has advanced to enable the provision of information and customer solutions at a more economical cost (Teece, 2010). Bashir and Verma (2017) suggested that BMI is a significant predictor of competitive advantage (Porter’s competitive strategy) (DaSilva and Trkman, 2014). Amit and Zott (2012) state that business model innovation can lead to – compared to product and process innovation – efficient costs and opportunities as well as increase the company’s competitive position (Clauss *et al.*, 2020). They explain that a business model is a system of corporate activity through interconnected and interdependent components and a parallel market is needed (Mace, 2016). Entrepreneurial firms must develop high-performing business models both to generate sustainable profits and to survive in competitive environments (Haggège *et al.*, 2017). The business model (BM) has captivated scholars and managers for over twenty years (Massa *et al.*, 2018). The obscurity of this phenomenon is caused by the inconsistency of the conceptual framework of the business model itself, which lies between the economy and business strategy without strong supporting theoretical processing in both fields” (Spieth, 2014). In describing company efficiency, business models may play a key role (Zott *et al.*, 2011).

Method

This study aims to analyse the process of business model innovation in the creative industry sector in rattan handicraft centers in Katingan Regency, Central Kalimantan Province and Cirebon Regency, West Java Province. Both research objects have a business relationship between producers or suppliers of rattan raw materials with consumers who produce finished products. In addition, they are both the largest rattan producers and the largest exporters of rattan furniture products in Indonesia. Although both of them do rattan business, they have different products, different market segments, and different business models. Therefore, this study will compare the types of business models between the two research objects.

In general, this study aims to analyze the practice of business models in the rattan creative industry centers in Katingan and Cirebon. More specifically, the main objective of this study is to analyze the differences in business models between them, especially the value proposition and innovation process.

This research employs a qualitative approach in a case study method. As stated by Baskarada (2014), case

studies are the method most widely used by researchers interested in qualitative research (Rashid et al., 2019). Most qualitative research is an inductive approach (Yin, 2011) to analyze phenomena, generate hypotheses, and validate methods using case studies (Teegavarapu and Summers 2008). Therefore, case studies are good for describing, comparing, evaluating and understanding different aspects of a research problem (McCombes, 2019).

In fact, random or representative samples are not required in robust case studies, which focus on unusual, overlooked, or hidden cases that can shed new light on research problems (McCombes, 2019). The samples in qualitative research tend to be chosen deliberately, which is known as purposive sampling (Yin, 2011: 88). Primary data was obtained through interviewing several factory entrepreneurs, SME entrepreneurs and workshop owners or home industry entrepreneurs. One of the important respondents is the owner of the company Indah Rotan, which has been established since the 1970s. This company is one of the pioneers of the Cirebon rattan industry with a lot of information and experience. Other respondents are home industry owners who are sub-contractors of large local companies and rattan craftsmen who work on wholesale projects. These empirical data are important for qualitative research. Interviews use open-ended questions that aim to get in-depth answers as well as positive responses. Meanwhile, secondary data were collected through literature study, research journals, and the internet. Purposive sampling was used to fit the research objectives.

Results and Discussion

Rattan Handicraft Trading System in Central Kalimantan Province

Most of the Katingan rattan commodity is used to meet local market demand, namely to supply rattan raw material needs at the center of the creative rattan industry in Java. One of them is Cirebon rattan creative industry center. So far, the rattan raw material for the Cirebon creative industry center comes from outside Java, including from Katingan because in Cirebon and Java there is no rattan plantation. The need for raw rattan for industry in Cirebon is around 9,000 tons per month. The large demand for rattan raw materials is because many produce large furniture products for export. In addition, the volume of orders is also high and fills up at least one container.

Rattan creative industry centers in Central Kalimantan are spread across almost all districts and cities, namely as many as 14 districts and cities as shown in table 1:

Table 1: Number of Rattan Handicraft Industries in Central Kalimantan

No	City/ Regency/City	2015	2016	2017	2018	2019
1	Kotawaringin Barat	24	27	28	26	29
2	Kotawaringin Timur	—	—	—	—	5
3	Barito Selatan	31	28	39	116	117
4	Barito Utara	17	17	6	74	74
5	Barito Timur	10	10	13	22	37
6	Lamandau	11	9	8	27	28
7	Katingan	34	34	34	18	52
8	Kapuas	10	9	9	19	15
9	Pulang Pisau	41	32	33	—	89
10	Palangka Raya	5	6	5	17	15
11	Gunung Mas	10	10	27	31	31
12	Murung Raya	23	23	27	50	77
13	Seruyan	—	—	—	75	65
14	Sukamara	—	—	—	—	—

Source: Industry and Trade Office of Central Kalimantan Province, 2019.

Table 1 above shows an increase in the number of rattan business units in Kotawaringin Barat (29), South Barito (117), East Barito (37), Gunung Mas (31), Murung Raya (77), and Katingan (52). The increase in the number is due to the following factors:

1. The increasing number of entrepreneurs, craftsmen, and consumers of rattan products;
2. The increased raw material for rattan produced by the community;
3. Transportation costs from the location or garden to the place of the buyer.

Katingan Regency, Central Kalimantan Province, is the third largest and good quality rattan producing area in Indonesia. Katingan Regency has 13 Districts of which 10 Districts are rattan producing areas. Rattan cultivation is located along the Katingan river basin, the Mentaya River, and in the Barito river basins such as South Barito, East Barito, North Barito, and Murungraya. The rattan cultivated in Katingan is the *Taman* type rattan (*Irit* and *Sega*), *Sabutan* rattan, and *Marau* or *Manau* rattan with quality stems and is easy to process.

So far, the rattan commodity is a regional superior product that is of high selling value – a source of income for the Dayak people as well as for the region. The Dayak tribe takes rattan for various functional products – for example, backpacks or kitchen utensils – from the forests around where they live. Now rattan is cultivated because its needs are increasing and it has economic value.

Most of the rattan commodity is sold in the form of raw rattan by farmers. But after the enactment in 2012 of the regulations by the Ministry of Trade Regulation No. 35/2011 on the Export Policy of Rattan and Rattan Products which prohibits the export of raw rattan, washed and sulfured (W/S) round rattan, and semi-finished rattan, the raw rattan raw material industry has collapsed and rattan farmers have suffered huge losses. Before the regulation above was implemented, it was the golden age of rattan farmers in Indonesia.

The harvest volume has increased but the market and domestic rattan industry's absorption capacity is low, around 20%, which causes rattan farmers to suffer losses. As a result, smuggling of rattan abroad happens frequently because the market is large and the price is higher. Most significantly, the rattan commodity smuggling has benefited the main competitors of Vietnam and China.

Apart from being sold as a commodity, it is also used to produce medium-sized local rattan handicraft products such as decoration pieces, household products such as mats, backpacks, women's bags, lampshades, hats, clothes baskets, placemats, and the like. Currently, the most popular consumption products are household products and fashion products such as bags and shoes. The products are decorated with Dayak traditional ornaments.

In recent years, both types of products are in great demand by consumers because their designs and motifs are adapted to market tastes. Women's bags and shoes can provide value propositions, namely by offering innovative products and new designs that combine rattan with modern designs. So far, many rattan products use Dayak ornaments but some consumers want a modern design appearance. The practice of product innovation in the context of BM is an effort to create new markets (Enkel and Mezger, 2013) and increase the company's competitive position (Clauss *et al.*, 2020). Nowadays, value creation is the main objective of any company which generates economic wealth, namely getting increased performance, increased sales, or decreased costs (Hindarsah, 2019). However, the demand for handicraft products is not much because the market segment is small. Therefore, innovative BM is needed in order to be able to create new markets.

The rattan industry can be classified into two groups, namely: 1. processing industry group; and 2. handicraft industry group. The rattan processing industry includes the business of processing rattan into semi-finished materials, such as polished rattan, W/S round rattan, rattan

hearts, and rattan bark. The rattan handicraft industry in Central Kalimantan can be classified as follows: 1. rattan craftsmen or farmers who process raw rattan for middlemen or dealers; 2. a craftsman or dealer who processes rattan into semi-finished rattan which is ready to be processed in a processing factory; 3. craftsmen who make finished products. Most of the businesses fall under the first and second categories, while the business of craftsmen for finished products is still small. Therefore selling raw rattan or semi-finished rattan is more practical and does not have much risk of loss. Raw rattan is mostly sold to rattan creative industry centers in Cirebon, West Java Province.

Several problems in the rattan creative industry center in Central Kalimantan in producing finished products made from rattan, include: 1. capital difficulties; 2. marketing difficulties; 3. human resources in the creative industry are limited, specially woven craftsmen because the regeneration program failed; 4. lack of skilled workers for furniture products such as those in Cirebon; 5. the quality of the finished products produced by local craftsmen is unable to meet the demands of local consumers and foreign buyers; 6. production volume is limited so it cannot meet market demand, both local and export markets. Several years ago, the Katingan District government tried to solve the above problems by building a rattan processing factory and holding training with facilitators from Cirebon. However, the program was unsuccessful and eventually the factory was closed.

So far, the penetration of the Central Kalimantan rattan market is in the creative industry of Cirebon rattan. By selling rattan raw materials, the profit margin is small because it cannot provide a value proposition to the buyer. The case is different if the rattan is made into a product, as has been done so far by Cirebon rattan producers and craftsmen. The export value of raw materials for wicker from Central Kalimantan in 2019 was 8,700,433 tons with a value of USD 569,878 (Central Kalimantan Statistics Bureau, Period 2015–2019).

In general, the rattan production process among craftsmen, SMEs, and the home industry Katingan entails using simple production tools which combines low technology with craftsmen's skills. This simple production process makes it difficult to meet export demand because there are many requirements such as high quality, large volume, and the right time. In addition, there is a major obstacle, namely large capital which is an obstacle for most local entrepreneurs and SMEs. A rattan furniture entrepreneur must have a capital of at least one third of the order of one container of IDR500 million.

Rattan Creative Industry Center in Cirebon Regency: Export Furniture Products as Superior Products

The rattan creative industry center in Cirebon Regency, West Java is the largest in Indonesia. Most of the factories and workshops are located in Tegal Wangi, Weru, and Plumbon Districts. According to the Central Statistics Agency in 2018 in Cirebon Regency there were 1,408 companies in the rattan furniture / craft industry sector with 60 thousand workers (Nafi, 2020). The size of businesses vary, consisting of large companies, medium enterprises, and SMEs or home industries. Most rattan entrepreneurs and craftsmen produce furniture products that are exported to various countries. The average export of Cirebon rattan handicraft products reaches 1,200 containers/month. Meanwhile, the demand for raw rattan is around 9,000 tons per month. However, currently, this need is difficult to meet due to various factors such as fluctuating prices, and it is suspected that there is smuggling to foreign countries because the price of rattan raw material is higher than the domestic market. Currently, the price of raw rattan is between IDR 1,200 / kg and IDR 1,500 /kg. This price has decreased compared to the price 2 years ago, which was IDR 2,000 / kg. Meanwhile, for polished or semi-finished rattan, the price is IDR 20,000 / kg due to a decrease of Rp. 5,000 / kg. The impact of the ban on exports of raw rattan, W/S rattan, and semi-finished rattan causes rattan farmers to suffer losses because the absorption of rattan raw materials in the local furniture industry is still very low – around 20%.

Business Model Innovation Practices of “Indah Rattan” Rattan Furniture Company

One of the pioneering rattan companies is the company “Indah Rattan” which was founded in 1970. Its location is in Bodesari Village, Bodelor Block, Plumbon District, Cirebon Regency. «Indah Rattan” is a medium-sized company or SME that runs its business on a sub-contract system. Ordered furniture products are given to several groups of craftsmen or home industry. They are business partners of “Indah Rattan” for many years. The type of work that is sub-contracted is the work of making chairs or table frames, working on rattan mats for sitting mats and chair backs and table mats. The painting and finishing process is done by the company itself through daily wage employees. The aim is to produce good quality export products and meet the value proposition of BMI. Most local rattan companies implement a sub-contract system because it is considered more practical and has lower risk.

An exception are companies owned by foreign entrepreneurs that produce themselves in order to maintain value drivers such as machine as tangible resources or trademarks, employees, competencies within the company as intangible (Hindarsah, 2019). In addition, foreign companies rely on modern technology as competitive value. As stated by Doganova and Eyquem-Renault (2009) studies on business models, innovation, and technology management have emphasized the importance of technological innovation for companies, but perhaps they do not guarantee company success (Zott *et al.*, 2011).

So far, *Indah Rattan* produces furniture products, laundry baskets, food baskets, lamp shades, and other products. Market penetration is the export market to Germany, Australia, India and Japan. The company’s turnover is around IDR 500 million/month with a profit margin of around 20–25%. Meanwhile, the average worker wages are IDR 20 million/week or around IDR 80 million/month. However, these costs do not include the purchase of raw materials. *Indah Rattan* has a freelance workforce of 150 people spread across several groups or home industries.

Conclusion

The two research objects have differences in the use of types of business models, namely the use of business models (BM) and business models of innovation (BMI). Most of the entrepreneurs and craftsmen of rattan handicrafts in the center of creative rattan industry in Katingan Regency, Central Kalimantan Province, practice this type of BM. The results of their analysis carried out sales transactions of rattan raw materials without carrying out novelty values. In fact, most of the businessmen sell raw rattan so that money can turn around quickly. Meanwhile, the craftsmen produce mostly consumption products, household products, and souvenirs which are marketed for the local market with a small amount of production. These products do not provide a new value proposition – an element of the innovation business model – to buyers. This condition is caused by less competitive local rattan business and a small market share.

On the other hand, business actors and craftsmen of the rattan creative industry in Cirebon Regency, West Java Province, need to apply BMI in the face of dynamic, complex and competitive global business competition. This is a claim to provide value to customers and persuade customers to pay that value and turn the payment into profit. Therefore, the innovation business model is one way Cirebon rattan companies face global competition.

The business activity of the Katingan rattan entrepreneurs is as a supplier of rattan raw materials to craftsmen in Cirebon centers. They do not have tough competition from other regional suppliers. Meanwhile, business activities of business actors and creative rattan industry craftsmen in Cirebon face a lot of business competition, both among exporters and global competitors such as Vietnam and China. Therefore, they must always be innovative in order to compete with all competitors. Some of the challenges of rattan entrepreneurs and craftsmen in Cirebon are in creating competitive advantages, new value propositions, and a new market.

Competing Interests Statement

All authors have read and approved the manuscript and take full responsibility for its contents. No potential conflict of interest was reported by the author(s).

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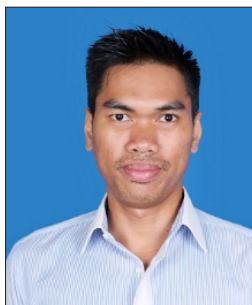
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