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EFFECT OF ADDING NEW PRODUCTS ON A COMPANY'S BUSINESS MODEL: A CASE STUDY IN INDONESIA

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ABSTRACT

Business model is a basic description of how an organisation creates, delivers, and captures existing values. It likes a blueprint of strategies that will be implemented to an organisation, including processes and systems. This study explained the effect of adding new products on the changes in the business model of the company 'XYZ', which started its operations in financing durable goods by setting its sales targets based on the previous historical performance data and using the existing business model without making any changes. This study was aimed at mapping the business model of durable goods that was implemented by XYZ using the business model canvas, and at formulating improvements of the business model canvas. The research was conducted by carrying out literature reviews, in-depth interviews, focus group discussions, and questionnaires to gather the opinions of the experts. Data analysis was done by using importance-performance analysis to determine the scale of interests of which business model elements need to be changed. The results showed that there are three elements of the business model canvas (Key Activities, Key Partnerships, and Key Resources) that need to be improved.

KEY WORDS

Business model canvas, pairwise comparison, importance performance analysis.

XYZ is one of the largest finance companies in Indonesia that focuses its business activities on motor vehicle financing. It has been running a new financing business process for durable goods, which was previously of another line of business (ABC), based on the strategic policy of its holding company since August 2015.

At the ends of 2015, 2016, and 2017, the company distributed new financing for durable goods at averages of IDR 46 billion, IDR 55 billion, and IDR 69 per month, respectively, of which around 44% of the total were for computers and gadgets, 18 % for home appliances, 16% for audio-video equipment, 15% for furniture, and the rest was for other equipment. At the end of 2017, the effective interest rate for this financing product, averagely, was 54% per year (XYZ, 2017).

Figure 1 – Chart of achievement of durable goods financing from August 2015 to December 2017
(Source: durable goods financing data, processed data)

The achievement of new financing for durable goods since August 2015 has been still very low when compared to the target set, which was IDR 200 billion per month or by 28%. In terms of quality, when ABC performed this service in 2014, the average delinquency value of 30+ was 6.62%, and the average NPL value was 3.56%. Meanwhile, in 2017, conducted by XYZ, the average delinquency value of 30+ was 4.22% with the average NPL value of 1.86%. The increase in the quality of financing was only 2% for each parameter.

The development of durable goods product financing, carried out by XYZ, based on sales achievement data was lower than when done by ABC. Under the control of ABC and XYZ, the amounts of new financing, averagely were IDR 145 billion and IDR 57 billion per month, respectively.

Table 1 – The average amount of new financing for durable goods (ABC: 2013 & 2014), (XYZ: 2015, 2016 & 2017)

Company	New financing (billion/month)	Outlet (number)	Customer (people)
ABC	145	47	748 thousand
XYZ	57	155	3.3 million

Source: ABC (2013 & 2014), XYZ (2015 & 2016).

From the data described earlier, it appears that in terms of growth in financing for durable goods, the achievement of business targets was still not as expected. This condition shows that the business model for durable goods is not optimal. XYZ needs to improve its business model to make the durable goods offered grow more and meet the targets set. For this objective, it needs to identify, evaluate, and improve existing business models to be more appropriate. The business model canvas (BMC) is one approach that can be used to carry out the process of identifying, evaluating, and improving business models. It also can be used to determine changes occurring as a result of the addition of new products.

LITERATURE REVIEW

The business model with a canvas approach developed by Alexander Osterwalder and Yves Pigneur is present in a visual form, namely a canvas painting, to make it very easy for readers to understand. At present, many organisational actors are deepening and trying to implement this method. Osterwalder & Pigneur (2010) made a canvas model approach, namely Nine Building Blocks, including Customer Segments, Value Propositions, Customer Relationships, Channels, Key Resources, Key Activities, Key Partnerships, Cost Structures, and Revenue Streams, which make it easy for people to build and develop their business.

Gavrilova and Alsufyev (2014) visualised a mind map of BMC for fast food companies to provide understanding for the company management to understand their business logic. The elements of BMC, combined with the mapping of four large groups, namely Product, Environment, Finance, and Customer, make it easy to understand the specific characteristics of the business. Research has generated positive reactions from management. The mind map visualisation of BMC provides motivation and experience to improve performance and simplifies information from complex business models to reduce stress behaviour on business thinking and, further, enhance positive mentality. Birgitta (2015) examined that BMC functions as a business model tool in expanding the reach of business segments, creating products that prioritise quality and design, expanding distribution channels, improving customer relationships via direct telephone such as online communication services, and improving company performance in corporate activities. However, good business development will not run optimally if not supported by a good strategy. It is necessary to select which business element segments will be improved to create priority strategies in carrying out and optimising the business model that has been described.

Figure 2 – Business Model Canvas

Tjitradi's research (2015) evaluated the home industry business model of cake industries. Mapping of business models provides improvement and development in each business element that has not been noticed by the company. The improved business model canvas is a new form of innovation from the existing activities and business models run by companies. New things added to the Improved BMC in the value propositions are how to faster an impression of the existence of the cake shop and the addition of dessert table decoration services, while those in the element Channel are to open a business and consignment branch, then apply switching costs to the element Customer Relationship and eliminate gifts to the customers or suppliers. In the element Revenue Streams, improvements are made by creating other revenue streams and applying a payment system upfront as a guarantee. Other new components in the element Key Activities are handling inventory and standardising production activities, while in the element Key Resources is having access to information on rising raw material prices and cheaper raw material costs.

Qatsharin (2016) used BMC to map business models in social enterprise, finding that the nine elements in the business canvas had not adopted all the needs yet. Two crucial elements, namely mission and impact and measurement on the business model canvas, were considered necessary to include. Mission explains the purpose of social enterprise, which is the current reason. Impact and measurement explain the benefits of social enterprise to consumers as measured by the success and development of the social enterprise business. This research, however, had not provided clarity on the benefits and effectiveness of the use of BMC. Further researches for other types of social enterprises are necessary.

METHODS OF RESEARCH

The data obtained in this study were primary and secondary data, both qualitative and quantitative. The primary data in this study were the analysis of nine elements of the durable goods financing business model and the scale of importance of the strategies implemented. The secondary ones were company profiles and durable goods data through literature studies, websites, and company databases. Data collection was conducted from October 2017 to December 2017, using the focus group discussion (FGD) method, in-depth interviews, questionnaires, observation, and documentation studies.

The identification of business models was done by mapping and capturing the models implemented currently into nine elements of the business model canvas (Hong 2013). Developing a product business model requires one to understand how an existing product business model is implemented. This understanding is crucial for determining and developing

the business elements that form the basis of attention (Wallin 2013). The measurement method used was a Likert scale, which is a scale used to measure attitudes by expressing agreement or disagreement on a particular subject, object, or event. The selection of business elements to be developed was done, besides based on the performance of the existing business model, through the scale of importance for the BMC elements. The measurement method used in this stage was the pairwise comparison method. Oyeka and Nanatu (2014) defined it as a method used to select the scale of interests with a measured scheme and assessment by comparing one parameter with another one.

Determination of the Improved BMC elements was intended as a repair strategy for BMC of durable goods financing in the next stage (Tatiana *et al.* 2014). The determination was done using the important performance analysis (IPA) method, which considers the performance and scale of importance. This method describes the performance of the existing business model, compared to the scale of importance of the Improved BMC. According to Martilla (2019), each quadrant of the IPA method can be interpreted as follows:

- **Concentrate here.** Factors in this quadrant are considered as Important and/or Expected Factors by consumers, but the current Perception and/or Actual Performance conditions are not yet satisfactory, so that management is obliged to allocate adequate resources to improve the performance of various factors. The factors located in this quadrant are priorities for improvement;
- **Keep up with the good work.** The factors that are located in this quadrant are considered important and are expected to be a supporting factor for customer satisfaction so that management is obliged to ensure that the performance of the institution under its management can continue to maintain the achievements;
- **Low priority.** Factors located in this quadrant have a low level of perception or actual performance as well as being considered not too important and or too expected by consumers, so that management does not need to prioritise or pay too much attention to them;
- **Possibly overkill.** Factors that are located in this quadrant are considered not too important and/or not too expected, so the management needs to allocate the resources associated with these factors to other ones that have higher handling priorities that still need improvement, such as in the quadrant B.

Figure 3 – The Importance-Performance Matrix

RESULTS AND DISCUSSION

In marketing durable goods financing, XYZ used a segmented category business model in the Customer Segment element into two types of consumers, namely existing and new customers. The existing ones were those who had or currently had financing at XYZ, both for durable goods or automotive products (cars or motorcycles) while the new ones were those who had never been recorded as having any financing at XYZ. Each of these types of consumers must meet the minimum credit parameter requirements; (a) aged 21 - 55 years, (b) having a minimum regional minimum wage income of up to 20 million, and (c) having the employment state of being private employees, civil servants, or entrepreneurs. The existing consumers of durable goods financing were 61.56% while the new ones were 38.44%.

Value propositions that will be obtained by consumers by using durable goods financing are (1) the ease of consumers to have the desired goods with instalments, (2) competitive interest and affordable instalments, and (3) one-stop shopping service for other financings for other products at XYZ. The value proposition of durable goods financing makes the opportunity for consumers to have durable goods by instalments greater. XYZ also facilitated by providing financing services whose operational processes are overseen by the Financial Services Authority (OJK).

The distribution network conducted by XYZ to offer value propositions for durable goods financing was carried out through offline and online channels. For the offline one, XYZ prioritised sales of financing through outlets of merchants who had partnered through cooperation agreements. At these outlets, XYZ sales forces were placed to provide financing as well as assisting consumers in undergoing the credit acquisition process.

Customer relationships are ways in which XYZ can communicate and establish good relationships with consumers. Customer relationship is a place for a company to keep in touch and strengthen relationships with consumers. XYZ as a provider of financing services was very concerned about the best way to deal with its customers through (1) merchant gathering, (2) customer loyalty program, and (3) platform access.

Revenue Stream is an element of the business model canvas, seen from the company side. In this element, XYZ mapped elements that can be used as sources of corporate revenue from durable goods financing. There are two components mapped on XYZ's durable goods financing business model canvas: (1) increase of fee-based income and (2) interest income or interest financing.

In the business model canvas, Key Resources is an element where the company manages all business resources involved to achieve the desired target. XYZ divided the types of resources it had into (1) Funding, (2) Outlets or branches that run durable goods product financing, (3) Customer database (4) Credit policies, and (5) Marketing employees.

Key Activities is an element of the business model canvas which is a mandatory activity carried out by the company to produce value propositions offered to consumers. By describing the main activities in selling products and offering value propositions to customers in the canvas, the company can operate itself and sell its business well. XYZ described activities in four criteria, namely sales acquisition, credit underwriting, account management and collection activities. Sales acquisition activities include selling and offering value propositions for financing durable goods for consumers and designing together with the marketing division at the head office regarding credit schemes and programs that attract consumers and merchants. Credit underwriting activities are to conduct the credit process, since the consumer submits a financing application form until a feasibility analysis process is carried out and the credit decision is made. Account management activities involve transaction management activities that occur since consumers become consumers of XYZ until they completely settle the instalments.

In a business, Partnership is very influential in achieving the target. In terms of the business model, it is also illustrated so that later it can reduce the uncertainty and business risks associated with partners. It can also provide additional money, support, and expertise.

The partnership elements of the business model canvas of durable goods financing are (1) Parent company and (2) Merchants.

In the Business Model Canvas, Cost Structure is an important element that must be explained in detail in the business model mapping phase of a product. Likewise, XYZ, which offered to finance for durable goods to consumers, incurred costs to sustain its business, particularly in financing durable goods. The cost components that support the business of financing durable goods products are operational costs, cost of funds, and cost of credit.

Key Partnership	Key Activities	Value Propositions	Customer Relationship	Customer Segments
<ul style="list-style-type: none">• Merchant• Parent company	<ul style="list-style-type: none">• Customer acquisition• Credit underwriting• Account management• Collection management	<ul style="list-style-type: none">• Easiest ways for customer to get the products• Competitive installment• One stop shopping for all financing product	<ul style="list-style-type: none">• Gathering merchant• Customer loyalty program• AKSES platform	<ul style="list-style-type: none">• Existing customer• New customer
	Key Resources		Channel	
	<ul style="list-style-type: none">• Marketing agent• Customer database• Credit policies• Funding• Branch outlet		<ul style="list-style-type: none">• Offline (Merchant, Branch ,Exibition)• Online (E-commerce, company website).	
Cost Structure			Revenue Stream	
OPEX Cost of fund Cost of credit			Interest income Fee based income	

Figure 4 – (Existing) Business Model Canvas

The first basic consideration in selecting elements of the business model canvas was the portrait of the performance of the existing models. A likert scale was used by distributing questionnaires containing questions to respondents to illustrate the performance of the existing business model of XYZ's durable goods financing. Besides portraying the performance of the existing business model, scaling the interest of each element is also a basis might be taken. This scaling aimed to illustrate how significant the elements are to improve.

Table 2 – Description of the performance of the existing business model

No	Segment	Average
1	Customer Segments	3.3
2	Value Propositions	3.0
3	Channel	2.9
4	Customer Relationship	3.0
5	Revenue Stream	3.0
6	Key Resources	2.4
7	Key Activities	2.0
8	Key Partners	2.4
9	Cost Structure	3.2

Table 3 – Pairwise comparison matrix

Elements	Importance
Customer Segments	0.06
Value Propositions	0.12
Channel	0.04
Customer Relationship	0.04
Revenue Streams	0.14
Key Resources	0.13
Key Activities	0.24
Key Partnership	0.14
Cost Structure	0.09

The method used was a pairwise comparison to assess the relative importance of two elements at a certain level concerning the upper one. This assessment is very crucial in affecting the scale of importance of the existing elements.

The results of the calculation of the performance portrait of the existing business model and the scale of interest of the improved elements form the basis for selecting the improved business model canvas elements. The method used was importance-performance analysis, which compared the performance of existing business models with the scale of importance of improving business model canvas elements and then portrayed in a cartesian quadrant, where the portrait of the performance of the existing business model functioned as X (performance), while the scale of interest of the element functioned as an element Y (importance). The results of the calculation of the importance-performance analysis method present in Table 4.

Table 4 – The results of the IPA calculation for each BMC element

Element	Performance (X)	Importance (Y)	Level of Conformity (LC) (LC divided by 100 100)
Customer Segments	3.3	0.06	55.53%
Value Propositions	3.0	0.12	25.79%
Channel	2.9	0.04	65.09%
Customer Relationship	3.0	0.04	79.90%
Revenue Streams	3.0	0.14	22.03%
Key Resources	2.4	0.13	18.25%
Key Activities	2.0	0.24	8.48%
Key Partnership	2.4	0.14	16.66%
Cost Structure	3.2	0.09	33.87%

The results in Table 4 illustrate that the elements Key Resources, Key Activities, and Key Partnerships have low performance and, at the same time, have a high level of importance to improve and develop.

Note:

1. Customer segments	6. Key resources
2. Value propositions	7. Key activities
3. Channel	8. Key partnership
4. Customer relationship	9. Cost structure
5. Revenue streams	

Figure 5 – Cartesian quadrants of business model canvas elements

When mapped into the importance-performance analysis quadrant, the three elements are in quadrant 1, meaning they have a high priority to improve, compared to other ones.

The selection of elements that need to be improved is also based on the basics and relevant data of those in the durable goods financing business model canvas.

Key Partnership	Key Activities	Value Propositions	Customer Relationship	Customer Segments
<ul style="list-style-type: none">• Merchant• Parent company(+) E-commerce	<ul style="list-style-type: none">• Customer acquisition• Credit underwriting• Account management• Collection management(+) Integration with 3rd Party(+) Digitalisation of credit underwriting	<ul style="list-style-type: none">• Easiest ways for customer to get the products• Competitive installment• One stop shopping for all financing product	<ul style="list-style-type: none">• Gathering merchant• Customer loyalty program• AKSES platform	<ul style="list-style-type: none">• Existing customer• New customer
	Key Resources		Channel	
	<ul style="list-style-type: none">• Marketing agent• Customer database• Credit policies• Funding• Branch outlet(+) Pefindo & Dukcapil data(+) New credit policies		<ul style="list-style-type: none">• Offline (Merchant, Branch ,Exibition)• Online (E-commerce, company website).	
Cost Structure			Revenue Stream	
OPEX Cost of fund Cost of credit			Interest income Fee based income	

Figure 6 – (New) Business Model Canvas

Selection basis: Integration with third party data, Digitalisation of the credit underwriting process.

XYZ, as one of the finance companies registered with the financial services authority (OJK), has the facility to utilise data from third parties as credit scoring material in the credit underwriting process. The credit scoring process is the core of credit underwriting, where prospective customer data is analysed whether or not it is feasible to be given financing facilities. The current operational practice at XYZ is the credit scoring process, which is still done manually through the credit analyst function. The impact of this manual process is that the standard level of service, in terms of the status of financing application from prospective customers, has not been able to compete with competitors. Through this integrated process, the company can minimise invalid data or fictitious prospective consumer data, which will potentially lead to bad credit. Through the integration of these two third-party data, XYZ can change the credit assessment process in the field survey process to a direct online checking process.

Digital network is one of the most frequently used mechanisms by companies in simplifying operational processes while, at the same time, making efficiency over manual processes, which still depend on humans. At present, XYZ, as a large multi-finance company, has not yet applied the digitalisation of the credit underwriting process. Submission of financing applications from prospective consumers still uses manual forms (hardcopy), which are filled in by handwriting. With the development of the web-based digitalisation process, XYZ can develop web-based financing application forms or platforms, where potential customers can fill data directly using smartphones. This change in digitalisation also provides a comforting effect for potential customers who no longer have to make an effort to write manually.

By making changes to the financing application form into a web-based platform, XYZ can also build the integration between the platform and the company's core system used for the credit underwriting process. The impact, XYZ can minimise the use of data entry staff on the back office team, and of course, the influence on the service level standards are increased because of the online process.

Parent company is also a potential partner to provide a database connection for potential customers. XYZ can integrate through the cross-selling process. The increased acceleration of business growth through cross-selling is ultimately expected to increase the

penetration of the durable goods financing market. Through this synergy, durable goods financing can be sold throughout parent company branch network so that offering durable goods financing value propositions to consumers is effective and efficient.

Today, the transactions of purchasing durable goods lead to e-commerce, with price discounts that are attractive to buyers. XYZ can be present in the e-commerce market as one of the payment channels by instalments using credit cards or transfer via banks. Collaborating with e-commerce, XYZ can improve its positioning as a finance company that is not only in the conventional market but also in the e-commerce market, which is a future market.

Credit policy for every finance company is an important resource that is a benchmark for the execution of the credit underwriting process. With the conditions of change in Key Activities and integration with third-party data and Partnership with e-commerce, XYZ can make changes to credit policies that are no longer relevant and are uncompetitive with the conditions, while remaining in control of risk management over the provision of financing facilities to consumers. Synergies in changes in credit policy and the technical side in the process of data integration and partnership with new markets in e-commerce are expected to increase the value proposition of XYZ in marketing durable goods financing.

CONCLUSION

The results of this study, which are related to the XYZ's durable good financing business model using the business model canvas approach, showed new business models and alternative strategies that are implemented in the business model. Of the nine elements, namely Customer Segment (CS), Value Propositions (VP), Channels (CH), Customer Relationship (CR), Revenue Streams (RS), Key Resources (KR), Key Activities (KA), Key Partnership (KP), and Cost Structure (CS), there are three improved elements which are then selected as priority that need to be improved using the pairwise comparison method, namely:

- Key Activities, by developing and adding components to the business model canvas, consisting of integration with third-party data and digitisation of the credit underwriting process;
- Key Partnership, with the development and addition of components of the business model canvas, consisting of parent company and e-commerce;
- Key Resources, with the development and addition of components of the business model canvas consisting of PEFINDO and Population and Civil Registration Agency data and changes in credit policy.

The improvement in the three elements is mapped into the business model of durable goods financing using the new and improved business model canvas. The product business model released by the company will not run optimally if there is no strategy made to run the business model.

RECOMMENDATIONS

Based on the research findings for the further research conduct an analysis of the positioning of durable goods financing for other payment facility providers in instalments currently, such as online loan providers. Specific detailed analysis is necessary so that business models and strategies developed can be profitable for the company. Besides, the value proposition needs to be considered in further research to prove that durable goods financing is statistically beneficial to both the company and customers. XYZ needs to apply this business model and strategy, along with serious implementation, to get maximum results.

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