

## INDUSTRIAL VALUE CHAIN IN INDONESIA'S SME CREATIVE BUSINESS: AN EXPLORATION RESEARCH

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### **Abstract**

*The creative industry is currently growing very rapidly in developing countries. This is indicated by various government policies to increase the competitiveness of this industry. Value chains are needed to gain the competitive advantage within this industry at every additional step of the chain. However, there is no comprehensive research on the creative industry value chain in developing countries, such as Indonesia, especially in small and medium enterprises (SMEs). This study attempts to explore the concept of industrial chain values to narrow the gaps that exists in the literature. The research method used is a qualitative approach through semi-structured interviews and observations of 11 SMEs consisting of 5 creative business sub-sectors, namely the culinary, fashion, craft, photography, and visual communication design sectors. The results of this study indicate that, in creative industries, co-creation is the differentiator on the value chain activities, especially those that offer customization. Meanwhile, the use of social media is also considered as an important value chain activities that must be used to effectively communicate the value of the business. The results of this study can be used by stakeholders in Indonesian SMEs as a reference for formulating competitiveness strategies for this creative industry.*

**Keywords:** Creative business, Industrial value chain, Small and medium enterprises (SMEs), Exploratory research, Indonesia

### **Abstrak**

*Industri kreatif berkembang sangat pesat di Negara-negara berkembang. Hal ini ditandai dengan berbagai kebijakan pemerintah untuk menaikkan daya saing industri kreatif. Rantai nilai dibutuhkan untuk mendapatkan keunggulan kompetitif, dimana aktivitas penambahan nilai dilakukan pada setiap fase dalam rantai nilai. Namun, belum ada penelitian komprehensif terkait rantai nilai pada industri kreatif di negara-negara berkembang termasuk Indonesia, terutama penelitian pada usaha dengan skala kecil dan menengah (UKM). Penelitian ini mengeksplorasi konsep nilai rantai industri untuk mempersempit kesenjangan yang ada dalam literatur. Metode penelitian yang digunakan adalah pendekatan kualitatif melalui wawancara semi terstruktur dan observasi pada 11 UKM yang terdiri dari 5 subsektor dalam bisnis kreatif, yaitu kuliner, fesyen, kerajinan, fotografi, dan desain komunikasi visual. Hasil penelitian ini menunjukkan bahwa pada industri kreatif, co-creation ditemukan sebagai pembeda pada kegiatan rantai nilai, terutama pada bisnis yang menawarkan nilai customization. Penggunaan media sosial juga dinilai sebagai aktivitas penting pada rantai nilai untuk mengkomunikasikan nilai bisnis secara efektif. Hasil penelitian ini dapat digunakan sebagai referensi untuk merumuskan strategi daya saing bagi industri kreatif oleh para pemangku kepentingan yang terkait dengan UMKM di Indonesia.*

**Kata Kunci:** *Bisnis kreatif, rantai nilai industri, usaha kecil dan menengah (UKM), Penelitian Eksplorasi, Indonesia*

JEL: M2

## **1. Research Background**

The creative industry is a highly prospective future industry. This industry is currently believed to contribute significantly to the economy of a country (Colapinto & Porlezza 2012; Anderson, Potocnik, & Zhou, 2014). Setiawan (2018) reported that the average contribution of the creative economic sector to the Indonesian economy has grown steadily through its added value, sectoral contribution to GDP, provision of employment, and sectoral absorption of national labor. The middle-class society is a potential customer of the creative industry. The growth of the middle-class society in Indonesia is one of the reasons that the creative industry has a large potential to develop.

Even though the prospects are good, the competitiveness of Indonesia creative economy, however is still weak compared to ASEAN countries and the world (Setiawan 2018). Subagja (2017) found that one of the obstacles within the creative industry sub-sector is the limited workforce with expertise and specialized knowledge. Sasongko, Rifa'I, and Sayekti (2018) suggested that urgency of creative economic development for job creation by establishing centers of creative industries and increase added value in order to generate competitive advantage through the development of cultural resources and the potential to have value added were necessary to develop the creative economy. Utilization of technology and innovation in the production process becomes a supporting factor in increasing the added value of production.

In upstream activities of the industrial value chain, creative industries involve knowledge-based higher value-added inputs, for example, digital content, knowledge, and skills (Cunningham 2002). Therefore, the creative industries are necessary to gain a competitive advantage and define the added value at every step of the chain. Furthermore, the creative industries must understand their industry value chain and assess their position in the value chain structure (Henry 2007). Madudová (2017) stated that creative industries' value chains are varied and complex, and have no structured mechanism to manage the complexity. By implementing a value chain concept, creative businesses can identify their sources of uniqueness and apply it in the products and services. Furthermore, they can create better strategies and identify better scenarios to compete and strengthen their competitive position in the market.

The latest research discussed the urgency to improve the competitiveness of Indonesia creative economy, thus increasing added value to a creative business becomes an important matter. However, the direction on how to add value to the creative business value chain in Indonesia so far is still unclear. The literature review reveals a gap related to research in the value chain of creative industries in developing countries, especially small and medium scale businesses. The creative industry value model refers to large-scale businesses in developed countries. Therefore, this study aims to narrow the gap in the literature regarding the value of the small and medium scale creative business industry chain.

This research aims to explore the implementation of industrial value chain concept in the creative business subsector. We also willing to gain insight on value added delivered by the creative business within its value chain process. Eventually, this research will bring insight on how value chain and value added impact on distinguish a business from its competitors.

### **1.1 Creative business in Indonesia**

A creative industry is an industry that originated from the use of creativity, skills, and talents by empowering the creation and production of the involved individuals to generate economic advantage and job opportunities (Department of Trade of Indonesia 2008, 2009). According to the United Nations Educational, Scientific and Cultural Organization (UNESCO 2000), the term "creative industry" tends to emphasize individual creative talent and innovation and exploitation of intellectual property. In support of this term, Müller, Rammer, and Trüby (2009) state that creative industries are those that depend on the production of goods and services to produce added value based on creativity and knowledge (intellectual) originating from ideas, art, and forms of technology managed to create prosperity. A creative industry combines the creation, production, and commercialization of creative contents that are intangible and cultural in nature (Department of Trade of Indonesia 2008; 2009). The contents include goods or services and are usually protected. The Department of Trade of Indonesia (2009) stipulates that creative industries in Indonesia are classified into 16 business sub-sectors as shown in Appendix 1.

Creative industry is expected to be a future national economic contributor for Indonesia. Data from BeKraf (2017) reports that, by 2015, this sector had achieved 4.38% annual growth and contributed 7.38% to the national GDP. The highest contributions come from the culinary, fashion, and crafts subsectors. In the national export balance, the value of exports generated by the creative industry is included in the non-oil and gas exports category. During the period of 2014-2015, the non-oil and gas exports value had declined; however, the export value of the Indonesia's creative economy had increased by 6.60%. Most creative economy entrepreneurs in Indonesia plan to undergo capacity building in the form of improving business capacity (86.93%), product innovation (80,63%), and increasing expertise (79.97%) (BeKraf 2017).

Indonesian government undertakes creative economy development strategy; it seeks to reach the acceleration stage, as the creative economy is expected to contribute 9%-11% of the national GDP with 9%-11% average growth during the period of 2015-2025 (Department of Trade of Indonesia, 2009). The acceleration of the creative economy will become a foundation for a strong economy in Indonesia. The government also aims to increase the number of companies that have a strong competitive advantage in the creative industry, so it can survive and lead in both national and international competitions. Furthermore, global competitiveness will enable the product and services of the creative industry to be recognized as a national image or identity from a global perspective (Department of Trade of Indonesia 2009).

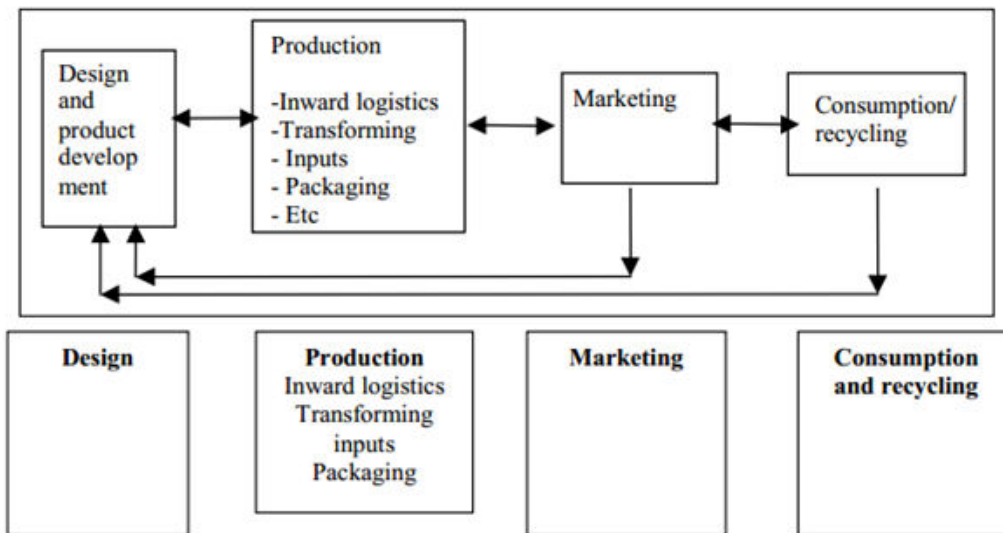
The most discussed approach to define the most important factor and the strengths and weaknesses of the creative industry is the sectoral approach, in which all jobs in each creative sector are considered to be "creative," even when many functions within these sectors are arguably not creative (such as administrative functions in creative enterprises). Creative industries are viewed as an economic sector with distinctive value chain and important economic impact (UNCTAD, 2008).

### **1.2 Value chain in creative industry**

Value chain analysis is essential for industries' success in maintaining business sustainability and to gain competitive advantage and continue survive and overcome the business competition. The *value chain* describes the full range of activities which are required to bring a product or service from conception through the different phases of production, involving a combination of physical transformation and the input of various producer services, delivery to final consumers, and final disposal after use (Kaplinsky & Morris 2000). Value chain is also considered to be a beneficial tool in achieving a competitive advantage

and formulating competitive strategy (Stofkova, Madlenak, & Repkova 2015; Stofko, Soltes, & Stofkova 2016). In the industrial value chain model for businesses that produce a tangible product, physical inputs rely on large investments in production capacity and raw materials, but businesses in the service sector rely more on human assets as the main way to create value (Cartwright & Oliver 2000)

There are three main reasons value chain analysis is important in this era of rapid globalization: (1) With the growing division of labor and the global dispersion of the production of components, systemic competitiveness has become increasingly important; (2) Efficiency in production is only a necessary condition for successfully penetrating global markets, and (3) Entry into global markets which allow sustained income growth requires an understanding of dynamic factors within the whole value chain. Figure 1 shows the idea of four links in a simple value chain as proposed by Kaplinsky and Morris (2000). Analysis of added value activities conducted in the value chain analysis, including the process of procurement, storage, utilization, and delivery to the consumers, which provide added value to all involved persons, stimulates action in the process (Machfoedz, 2004).



**Figure 1. Four links in a simple value chain**

Source: Kaplinsky and Morris (2000)

The value chain in the creative industry will prioritize design in each creativity process and outcome. Value chain mapping will enable industry stakeholders to gain better understanding about the position of the industry and therefore provide better direction for improvement and development. There are 4 factors in the process of industrial chain value, namely creation, production, distribution, and commercialization (Department of Trade of Indonesia, 2008; 2009), which are illustrated in Figure 2.



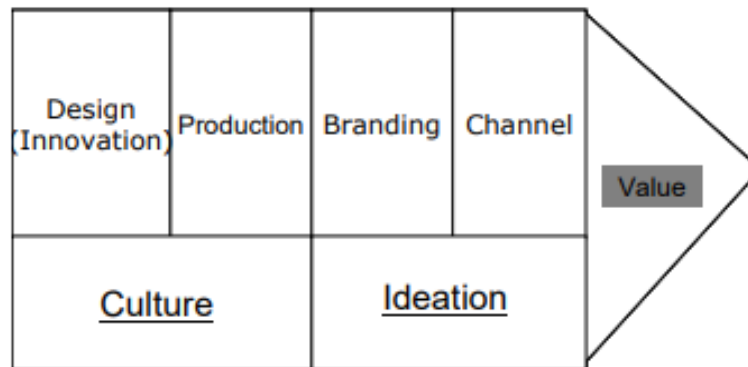
**Figure 2. Value chain in creative industry**

Source: Department of Trade of Indonesia (2008; 2009)

Creation refers to creativity as the supply (input factor) in the creative industry and involves any related ways to obtain, store, and process the input. Production refers to all

activities needed to transform the raw material (inputs) into output, both in the form of products or services. The nature of production is to replicate the existing creations. Distribution refers to all activities within the output storage and distribution. Lastly, commercialization refers to all activities necessary in order to provide knowledge for consumers (users) regarding the products and services provided. Commercialization also includes activities to persuade consumers to buy the products or services.

Other models, including the generic creative-based value chain offered by Horng, Chang, and Chen (2016), consist of six key components of value creation, namely culture, ideation, design, production, branding, and channel. The first two components are the foundation on which the other four value chain activities will create value for consumers. This model is shown in Figure 3.



**Figure 3. Generic culture creative-based value chain**

Source: Horng, Chang, and Chen (2016)

### 1.3 Small and medium scale enterprises (SMEs) in Indonesia

Small and medium enterprises (SMEs) are included in a field that makes a significant contribution to Indonesia's economic growth. This is because SMEs have a very large absorptive capacity and are in close proximity to the common people (Kuncoro, 2008; Sripo, 2010). Minister of Finance Sri Mulyati said that SMEs are the backbone of the Indonesian economy (WIFE, 2016). The Ministry of Cooperatives and SMEs in the 2015-2019 policy said that there was a need to increase the competitiveness of SMEs because the growth of SMEs in the creative economy was very high, with dominance in the culinary, fashion, and craft industries (Ministry of Cooperatives and SMEs, 2015).

Based on the definition of BPS (2004), SMEs are a form of business that is seen from the scale of household businesses and small businesses with 1-19 employees, while medium businesses have 20-99 employees. Based on Law Number 20 of 2008, a small business is a business that has a net worth of more than IDR 50 million up to a maximum of IDR 500 million, excluding land and buildings on company premises, or those that have annual sales of more than IDR 300 million to a maximum of IDR 2.5 billion. A medium-sized business is a business that has a net worth of more than IDR 500 million up to a maximum of IDR 10 billion, excluding land and buildings on company premises, or has annual sales of more than IDR 2.5 billion up to a maximum of IDR 50 billion.

## 2. Research Method

This research is designed to explore the concept of industrial value chain in Indonesia's creative business. The research design that explores a concept is exploratory research (Malhotra, Hall, Shaw, & Oppenheim, 2008). Therefore, the qualitative research methods are very appropriate to be used in this data collection technique by conducting in-depth interviews (semi-structured interviews) and observations. Semi-structured interviews were

chosen because they enable researchers to easily explore concepts deeply. With the right questions and depth, respondents can explain their answers and describe their responses (Silverman, 2013). The object of this research are the small and medium-sized (SMEs) creative industries in Indonesia that were selected using “non random sampling” method. This method was applied because it would provide deeper insight for this research (Suri, 2011). This research involves 11 SMEs from 5 creative business sub-sectors, namely the culinary, fashion, craft, photography, and visual communication design sub-sectors. We selected these SMEs based on the size of their businesses classified in SMEs according to Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises. Then, we sorted them based on their market domination in the creative industries that they focus on.

These SMEs are located around the Jabodetabek Indonesia megapolitan area, namely Jakarta, Bogor, Depok, Tangerang, and Bekasi. We chose this area because the location is the center of the Indonesian economy and also to overcome the obstacles of time and costs in conducting interviews and observations of this research. Participants interviewed included founders, CEOs, and business managing directors, as the unit of analysis. These participants were chosen because the position they held in the organizational structure would provide appropriate insight into the topic of the research. In this position, they have deeper experience and knowledge of all business processes in the creative industries that they work on. The result is that data collection will be more targeted and efficient (Gilham, 2005).

In-depth interviews and observations were carried out from March to July 2018 as part of the project within the Knowledge of Creative Business course at Universitas Prasetiya Mulya. During these four months, we had a meeting with all participants at their business location. We made observations about their production process and then continued with face-to-face interview sessions. The questions that we asked to participants used Indonesia language (Bahasa), with the main questions as follows:

- (1) What is the concept of industrial value chains in the creative industry subsector?
- (2) What is the concept of value added at every step of the industry value chain process offered by the creative industry to its customers?
- (3) What are the industry value chain processes in each step of the industry value chain process that distinguishes their business from competitors?

In this exploratory study, a triangulation strategy was used to ensure no bias in the study. Triangulation in this research is conducted by comparing information from interviews, observations, and secondary data to ensure that the data obtained is valid. The concept of triangulation is in accordance with the concept given by Denzin (1978; 2018) and Patton (1999). In addition, we conducted a triangulation process by sharing transcripts with all participants. The process will be able to eliminate bias by ensuring that what we capture from the interview is in accordance with participant's understanding and interpretation. By sharing transcripts, participants can also offer additional comments regarding terms or understanding concepts so that it is easy for researchers to interpret (Denzin & Lincoln, 1994; Tracy, 2010). However, the process was full of challenges where we were sometimes constrained by quite busy participant schedules. It was difficult for us to meet face-to-face with the participants in sharing the transcripts we had prepared. Therefore sometimes we shared these transcripts via email and discussed via telephone or skype channels. The use of the same language namely Bahasa in an interview session or a transcript comparison session was very helpful to prevent the occurrence of bias. Researchers also triangulated data sources by collecting written documents obtained related to these SMEs, namely by searching for comparative secondary data.

The research data was analyzed based on the Krueger (1998) method within the initial stages of raw data processing. At this stage, the interview was formally recorded, then the researcher listens to the recording and is transcribed, according to the specified time limit.

Transcripts that have been made are then distributed equally to the researchers. The next stage is a description analysis in which the results of interview transcripts and observations are mapped into summary tables. We used Microsoft Excel software that is connected to Google sheet. With this application we created a table column that matches the answers to the questions in the research question that is in the in-depth interview guide. The use of google sheet at this stage has been very useful for researchers to collaborate with each other to do targeted and accurate mapping and correction of existing results. The final stage is interpretation and recommendations. Data that has been mapped in the previous stage is analyzed based on the concepts from literature studies related to the industrial value chains.

### 3. Result and Discussion

Using the value chain framework adaptation from Department of Trade of Indonesia (2008; 2009), Table 1 shows the value chain analysis of SMEs’ culinary businesses in Indonesia. In conducting the value chain analysis for creative business focusing on the culinary business sub-sector, observation has been done by visiting the business location. Moreover, an interview has also been conducted with the founder of the businesses. All of the observed companies include affordable price and menu specialization as a business value proposition. The differentiation between the observed companies lies in the value of quality, healthy food perception, outlet ambience, and service.

**Table 1a. Value chain analysis on SMEs’ culinary business**

Value Proposition	Creation	Production			Commercialization	Distribution
		Pre-Production	Production	Post-Production		
<ul style="list-style-type: none"> <li>• Low price</li> <li>• High-quality food</li> <li>• Specializing in seafood</li> </ul>	<ul style="list-style-type: none"> <li>• R&amp;D</li> <li>• Food testing</li> <li>• Raw material selection</li> </ul>	<ul style="list-style-type: none"> <li>• Raw material preparati on and quality control</li> </ul>	<ul style="list-style-type: none"> <li>• Cooking process by the chef and cook</li> <li>• Drink preparati on by the barista</li> </ul>	<ul style="list-style-type: none"> <li>Quality control on the ready-to-serve food</li> </ul>	<ul style="list-style-type: none"> <li>• Free flow offering for rice and drinks</li> <li>• Pay as you wish promotion (on applied period)</li> <li>• Organize a competition in social media and invite people to participate in the competition</li> </ul>	<ul style="list-style-type: none"> <li>• Direct selling and dining service in the outlet location</li> <li>• Delivery service (using online delivery provider: Go-Food and grab food)</li> </ul>
<ul style="list-style-type: none"> <li>• Fast serving</li> <li>• Healthy food</li> <li>• Affordable price</li> <li>• Specializing in Korean fast food</li> </ul>	<ul style="list-style-type: none"> <li>• Raw material &amp; packagin g selection</li> <li>• Supplier selection</li> </ul>	<ul style="list-style-type: none"> <li>• Raw material preparati on</li> <li>• Incoming customer order through cashier</li> <li>• Customer payment</li> </ul>	<ul style="list-style-type: none"> <li>• Raw material cooking process into ready-to-serve food by the chef and cook</li> <li>• Food plating</li> </ul>	<ul style="list-style-type: none"> <li>• The cashier serves the food to the customer</li> </ul>	<ul style="list-style-type: none"> <li>Social Media (Instagram &amp; Facebook)</li> </ul>	<ul style="list-style-type: none"> <li>• Direct selling</li> <li>• Dining service in the outlet location</li> </ul>

Value Proposition	Creation	Pre-Production	Production	Post-Production	Commercialization	Distribution
<ul style="list-style-type: none"> <li>• Resto and Bar providing a comfortable place</li> <li>• Affordable drink price</li> <li>• Friendly service</li> </ul>	<ul style="list-style-type: none"> <li>• Raw material &amp; packaging selection</li> <li>• Supplier selection</li> </ul>	<ul style="list-style-type: none"> <li>• Incoming customers</li> <li>• Customer welcoming and escort by the waiter</li> <li>• Customer choosing the table</li> <li>• Customer ordering</li> <li>• The waiter inputting the customer's order into the system</li> <li>• The waiter printing the order from the system</li> </ul>	<ul style="list-style-type: none"> <li>• Cooking process by the chef and cook</li> <li>• Drink preparation by the barista</li> </ul>	<ul style="list-style-type: none"> <li>• The chef calls the waiter</li> <li>• The waiter serves the food/drink to the customer</li> </ul>	<ul style="list-style-type: none"> <li>• Printed advertising</li> <li>• Social media</li> </ul>	<ul style="list-style-type: none"> <li>• Direct selling</li> <li>• Dining service in the outlet location</li> </ul>

Source: Adaptation framework from Department of Trade of Indonesia (2008; 2009) and Horng, Chang, & Chen (2016)

Value-added activities that are emphasized in the creation process of culinary business include raw material selection and supplier selection. These activities enable the business to maintain quality and food safety, while offering affordable price for the customers. Research and development (R&D) and food testing are also identified as additional activities that are considered to create value in the business, especially for companies that highlight high quality as one of the value propositions.

The main activities of the culinary business production are food preparation and serving. For businesses that offer fast service and comfortable ambience, the pre-production activities include the procedure for welcoming, and the ordering process is considered important and is highlighted. Post-production activities that are found to be value added include the final food serving. Procedural quality control activity is not always found in all businesses. Tejaningrum (2016) found that SMEs have lack of quality culture which result in low competitiveness of SMEs. Only culinary businesses that state high quality in the value proposition include and consider that standard and procedural quality control process to be necessary as added value. As mentioned by one of the culinary business owners:



*“We do have logistics center so we can control every materials or ingredients to ensure they are in accordance with our standards before we distribute them to our outlets...” (Interview)*

The most common commercialization activities which aim to deliver knowledge for customers regarding the products and persuade them to buy are delivered through social media. However, printed advertising is also found as part of the commercialization process. Moreover, price reduction is a promotion strategy used by the culinary business to stimulate customer intention to buy.

Product distribution is mostly performed using a direct selling method centralized in the business outlet. The utilization of technology in product distribution activities increases the product value by reaching and serving the broader customer base outside the outlet by using the service from the most common online transportation provider (GoJek and Grab). For example, one of the culinary business owners made the following statement:

*“In the past, we can only sell our products through food bazaar, but nowadays we can sell our products everywhere. Thanks to Go-Food, it enables us to sell products through online channels....” (Interview)*

The value chain analysis of the SME fashion business in Indonesia, as illustrated in Table 2, is a local brand and a fashion maker who emphasizes value proposition in the design and high quality of products. Having emphasized their value on the design, the ready-to-wear fashion maker offers a unique design and story behind the collections to attract the customer while the tailor-made fashion maker offers a personalized design.

**Table 2. Value chain analysis on SME’s fashion business**

Value Proposition	Creation	Pre-Production	Production		Commercialization	Distribution
			Production	Post-Production		
<ul style="list-style-type: none"> <li>• Local brands</li> <li>• Ready-to-wear clothes</li> <li>• Unique design</li> <li>• High quality</li> <li>• Story behind the collections</li> </ul>	<ul style="list-style-type: none"> <li>• Market research</li> <li>• Idea generation</li> </ul>	<ul style="list-style-type: none"> <li>• Clothing design</li> <li>• Raw material preparation: fabrics and accessories</li> </ul>	<ul style="list-style-type: none"> <li>• Create pattern</li> <li>• Cutting</li> <li>• Sewing</li> </ul>	<ul style="list-style-type: none"> <li>• Quality control</li> <li>• Revision and product finalization</li> </ul>	<ul style="list-style-type: none"> <li>• Product photo shoot</li> <li>• Photo upload to Instagram</li> <li>• Media Promotion (social media, targeted magazine)</li> <li>• Fashion show</li> </ul>	Direct selling
<ul style="list-style-type: none"> <li>• Local brand</li> <li>• Tailor-made clothes</li> <li>• High-quality</li> <li>• Personalized design</li> </ul>	<ul style="list-style-type: none"> <li>• Market research</li> <li>• Idea generation</li> <li>• Consultation</li> </ul>	<ul style="list-style-type: none"> <li>• Clothing design</li> <li>• Raw material preparation: fabrics and accessories</li> </ul>	<ul style="list-style-type: none"> <li>• Create pattern</li> <li>• Cutting</li> <li>• Sewing</li> <li>• Fitting</li> </ul>	<ul style="list-style-type: none"> <li>• Quality control</li> <li>• Product revision and finalization</li> </ul>	<ul style="list-style-type: none"> <li>• Product photoshoot</li> <li>• Photo upload to Instagram</li> <li>• Media Promotion (social media, targeted magazine)</li> <li>• Fashion show</li> </ul>	Direct selling

Source: Adaptation framework from Department of Trade of Indonesia (2008; 2009), Horng, Chang, & Chen 2016)

In order to deliver the value proposition into the products, research and idea generation are important activities for fashion makers to bring creativity into design. Moreover, co-creation is added into the creation process through consultation and discussion between the tailor-made fashion maker and the customer to create more personalized design. As stated by one of the tailor-made fashion maker:

*“We have to know the personality of my customers, thereafter we can understand what their needs are. Then we usually provide a couple of designs to be selected by our customers and let them choose the material and color as they preferred...” (Interview)*

Janteng, Tan and Fernando (2017) confirmed that the value co-created together in product and service design led to both supplier and customer satisfaction, furthermore the engagement of customers in value creation also led to higher loyalty to the company.

The production, commercialization, and distribution processes are considered to be similar. The process of transforming the raw materials into fashion products starts with the design process and raw material preparation. The design is executed into fashion products through the pattern creation, cutting, and sewing processes. Both observed businesses include quality control process as the final stage of the production activities. Different activity found in the production phase is the fitting activities which occur only in the tailor-made fashion business.

Local brand fashion business owners educate and attract customers to buy their products by participating in fashion shows. They also use attractive pictures and post on social media as part of the commercialization activities. High social media activities demonstrate the value of facilitating triadic communications and co-creative activities around a brand in pursuit of stronger-tie relationships, enterprise growth and sustainability (Ashworth, 2016). Furthermore, the distribution is conducted through direct selling, which involves both the customer and the business.

The value chain analysis on the craft sub-sector was conducted within two types of businesses: craft makers and craft sellers, as illustrated in Table 3. The craft maker is also differentiated into specialized media (i.e., clay only) and multimedia (i.e., clay, wood, metal, flowers). Value proposition varies across businesses but clearly emphasizes design either in specialized art (i.e., indigo, impressive, and realist) or co-creation design that involves the customer through the made-by-order mechanism. Affordable price is also mentioned as one of the values presented by both art creator and seller.

**Table 3. Value chain analysis on SMEs’ craft business**

Value Proposition	Creation	Production			Commercialization	Distribution
		Pre-Production	Production	Post		
<ul style="list-style-type: none"> <li>• Home decoration</li> <li>• Indigo</li> <li>• Homemade</li> <li>• Bringing the beauty from perfection</li> </ul>	<ul style="list-style-type: none"> <li>• Inspired from "Learning by doing"</li> <li>• Afford education in Korea</li> <li>• Customer request</li> <li>• Raw material supplier selection</li> </ul>	<ul style="list-style-type: none"> <li>Raw material preparation (Clay)</li> </ul>	<ul style="list-style-type: none"> <li>• Clay forming and colouring (self – production)</li> <li>• Product baking using KILN (renting)</li> <li>• Packaging done by</li> </ul>		<ul style="list-style-type: none"> <li>• Product picture and posted via Instagram</li> <li>• Product catalogue</li> </ul>	<ul style="list-style-type: none"> <li>• Delivery service (Gojek)</li> <li>• Consignment</li> </ul>

Value Proposition	Creation	Production			Commercialization	Distribution
		Pre-Production	Production the vendor	Post		
<ul style="list-style-type: none"> <li>• Make to order</li> <li>• Customized design</li> <li>• Guaranteed Quality</li> <li>• Competitive price</li> </ul>	Pre-existing elements: History Cultural heritage Tradition Unique materials Human Resources: Creativity Traditional skills Innovation capacity • Painters' community • Portfolio collecting • Generating ideas • Direct marketing service • Consulting	<ul style="list-style-type: none"> <li>• Raw material preparation : Wood Clay Stone Natural fibers Fruits Herbs Flowers Others</li> <li>• Technology: Information Machine Equipment</li> </ul>	<ul style="list-style-type: none"> <li>• Woods and fibers drying</li> <li>• Fiber production</li> <li>• Metal processing</li> <li>• Leather processing</li> <li>• Others</li> </ul>	<ul style="list-style-type: none"> <li>• Craft exhibition National and International</li> <li>• Trade fairs</li> <li>• E-commerce</li> </ul>	<ul style="list-style-type: none"> <li>• Craft villages</li> <li>• Specialized stores</li> <li>• Retail stores</li> <li>• Furniture importers</li> </ul>	
<ul style="list-style-type: none"> <li>• High quality for Impressive and Realist art</li> <li>• Painting class</li> <li>• Art exhibitions</li> <li>• Elevate Indonesian potential artist creations</li> <li>• Art customization</li> <li>• Affordable price</li> </ul>			<ul style="list-style-type: none"> <li>• Portfolio selection</li> <li>• Plotting place to display</li> <li>• Setting price</li> </ul>	<ul style="list-style-type: none"> <li>• Production house</li> <li>• Curator</li> </ul>	<ul style="list-style-type: none"> <li>• Consignment</li> <li>• Curator</li> <li>• Gallery</li> <li>• Exhibition</li> <li>• E-commerce</li> </ul>	

Source: Adaptation framework from Department of Trade of Indonesia (2008; 2009) and Horng, Chang, & Chen (2016)

Sources of creativity within the creation process in craft businesses come from experience (learning by doing), education, cultural heritage, tradition, unique material, portfolios, community, customers, and capacity or talent within the human resource. Art gallery businesses that sell artistic products and conduct art exhibitions undergo idea generation through consultation and marketing as part of an added-value activity in the creation process to deliver art customization value for the customer and elevate Indonesia's potential artist creations. The co-creation activity can trigger soft innovation which innovates on the elements of 'aesthetics', the strength of the community in business development, and the strength of 'local experience' in creating products that sell high selling, unique and not easily imitated (Astuty, Rahayu, & Wibowo, 2018). For instance, one of the art gallery business owners made this following statement:

*“Realist style paintings are usually sought after by people who have a deeper understanding of painting, and these people often request custom paintings that contain the philosophy they want...” (Interview)*

To deliver high-quality art products at affordable prices, selection of suppliers and materials are also necessary. Within the art creator business, the general activities in the production are raw material preparation, transformation process, and packaging. Moreover, the art gallery conducts portfolio selection, plotting, and price setting. A wide range of activities in commercialization are identified within the craft industry, including preparation of the product catalog, social media, e-commerce, exhibition, national and international trade fairs, production house, and curator.

Compared to other subsectors in the creative business industry, the craft industry has a more diversified channel in the distribution process. Craft maker businesses use distribution channels to deliver products through consignment, craft villages, specialized stores, retail stores, and furniture importers. Online transportation providers are also involved in the product delivery activity as an added value for customers. Furthermore, the craft seller (art gallery) also uses curators, galleries, exhibitions, and e-commerce as distribution channels to deliver art products to the market.

The photography subsector contributed a small proportion of the economy value compared to other subsectors in Indonesia’s creative industry (0.45%) in 2015 (BeKraf, 2017). The value chain analysis on photography businesses is presented in Table 4. Customization or a focus on client characteristics is a common value proposition proposed by photography businesses. In addition, fast processing, intimacy, and honesty are also added as value proposition. The source of creativity as input within the creation process is a co-creation process between product creators and customers. Marketing function also plays an important role in the creation process.

**Table 4. Value chain analysis on SME’s photography business**

Value Proposition	Creation	Pre-Production	Production	Post-Production	Commercialization	Distribution
<ul style="list-style-type: none"> <li>• Wedding photography service</li> <li>• Concept building based on clients’ character</li> <li>• Intimacy and honesty</li> <li>• Fast processing photo</li> <li>• Customized</li> </ul>	<ul style="list-style-type: none"> <li>• Meeting</li> <li>• Concept</li> <li>• Pre-production briefing</li> <li>• Direct marketing activity</li> <li>• Specialized sales representative</li> <li>• Project Discussion with Photographer</li> <li>• Idea from customer</li> </ul>	<ul style="list-style-type: none"> <li>• Preparation: equipment human skill marketing channel technology</li> <li>• Admin data &amp; scheduling</li> </ul>	<ul style="list-style-type: none"> <li>• Photo shoot</li> <li>• Video shooting</li> <li>• Stylist</li> <li>• Layout</li> <li>• Photo sorting</li> <li>• Editing</li> <li>• Drafting</li> <li>• Printing</li> <li>• Photo shoot</li> </ul>	<ul style="list-style-type: none"> <li>• QC album</li> <li>• Packaging</li> <li>• Sending</li> <li>• Feedback and review</li> <li>• Finalized products</li> <li>• Photography editing</li> </ul>	<ul style="list-style-type: none"> <li>• Instagram</li> <li>• Website</li> <li>• Content reminder</li> <li>• Customer feedback</li> <li>• Online marketing support</li> </ul>	<ul style="list-style-type: none"> <li>• Online channel (social media)</li> <li>• Word of mouth</li> <li>• Direct selling via Instagram &amp; website</li> </ul>

*source: Adaptation framework from Department of Trade of Indonesia (2008; 2009) and Hornig, Chang, & Chen (2016)*

In the photography business, the input of the production process includes ideas and concepts. Production also involves both the customer and human resources within the company, thus scheduling is necessary following the creation process. The co-creation process is not limited in the creation process but continues up to the post production from styling, photo-shoot, photo selection, and quality control through the evaluation or feedback mechanism. The production activities that involved only internal human resources from the company are layout, editing, drafting, and printing.

Commercialization as a company effort to communicate value, educate, and attract market attention to the business products is accomplished through online channel marketing such as websites and social media (Instagram). The customer's involvement is considered beneficial in the form of customer feedback or testimonials for commercialization. The craft business also relies on online channels (social media and website) and customers' involvement in the form of word of mouth to successfully deliver the value of the products and services to the market. Karimi and Naghibi (2015) found that social media platforms can foster communication around brands and products, enhancing both positive and negative word-of-mouth around a business. As stated by one of the photographers:

*“Most customers know us from our website, social media and word of mouth, but people usually look at our instagram first, afterwards they visit our website...” (Interview)*

**Table 5. Value chain analysis on SMEs' visual communication design business**

Value Proposition	Creation	Production			Commercialization	Distribution
		Pre-Production	Production	Post-Production		
<ul style="list-style-type: none"> <li>• Marketing strategy and design</li> <li>• Coaching: marketing strategy execution</li> </ul>	<ul style="list-style-type: none"> <li>• Conduct research regarding the company profile, vision, mission, and history</li> <li>• Propose the concept building based on client interest through discussion between client and art director</li> <li>• Illustrate the concept in a sketch book</li> </ul>	<ul style="list-style-type: none"> <li>• Content visual and copy write</li> <li>• Model the concept using adobe software</li> </ul>	Design the agreed concept using adobe software in the form of jpg, jpeg, gif, png (logo, brochure, banner, etc.) for: <ul style="list-style-type: none"> <li>• Public Relation</li> <li>• Marketing communication</li> <li>• Branding strategy</li> <li>• Revision</li> <li>• Branding strategy final</li> <li>• Execution</li> </ul>	Coaching and follow up during execution	<ul style="list-style-type: none"> <li>• Social media (website, Instagram, Facebook, etc.)</li> <li>• Design exhibition/fair</li> <li>• E-commerce</li> </ul>	<ul style="list-style-type: none"> <li>• Production house</li> <li>• Gallery</li> <li>• Advertising agency</li> </ul>

Source: Adaptation framework from Department of Trade of Indonesia (2008; 2009) and Horng, Chang, & Chen (2016)

The visual communication design (VCD) sub-sector is not the greatest contributing sub-sector in Indonesia's creative business; nevertheless, it is considered one of four subsectors that grew aggressively in 2015 together with music, animation studio, and architecture (BeKraf, 2017). The service provided by the VCD business is not limited to marketing materials but also strategy development and coaching services during the execution. The value chain analysis on visual communication design business is illustrated in Table 5.

Within the creation process, business understanding toward the customer's or client's characteristics is very important; thus, it is necessary for the business to conduct research regarding the client's company file, vision, mission, and history. Like the craft, photography, and tailor-made fashion businesses previously discussed, the VCD business also involves co-creation in idea generation and concept creation. The output of the creation activities is then visually illustrated in the sketch book before it continues to the production process.

The input for the production process in the VCD business is the agreed-upon design between the art director and the customer. The design based on the previous manual is illustrated and then transformed into a digital version using software (Adobe). The pre-production before transformation into the digital design version involves content visual and copyright collection. Continuous communication between the art director and customer is conducted through the evaluation, feedback, and revision of the marketing, branding, and public relation content, materials, and documented strategy. Adding the value of the marketing, materials, and documented strategy, the business provides coaching and follow-up on the execution on the post-production phase. Therefore, the final outputs and values delivered to the customer by VCD businesses include both products and service. As stated by one of the directors in VCD company:

*“Our company is confident to give good returns to our clients through increase in sales by providing new designs, marketing strategies and coaching services to provide clear direction in running the marketing strategies...” (Interview)*

VCD businesses communicate their value to the market online by displaying portfolios on social media, websites, and e-commerce. Chen and Lin (2019) believed that social media marketing activities has a significant influence on social identification and perceived value, which in turn affect satisfaction, continuance intention, participation intention and purchase intention. As businesses that offer value for business (B2B), they also appear in exhibitions and trade fairs. Production houses, galleries, and advertising agencies are chosen as distribution channels to deliver services to the market.

#### **4. Conclusion**

In the culinary sub-sector, businesses always consider services as adding product value. This can be applied both in the creation and post-production phases. Within the fashion business, co-creation is found as the differentiator in the value chain activities between ready-to-wear and tailor-made fashion makers. Like fashion businesses, design companies offer the foremost value through craft businesses, generated during the creation process. Co-creation practices are also added-value activities in businesses that offer customization. Even though art is often considered intangible and difficult to monetize, affordable prices are surprisingly found to be a common value proposition. Compared to other subsectors in the creative business industry, the craft industry also has more diversified channels in the distribution process. We also highlight that co-creation is an important added-value activity and is consistently involved along the value chain process in the photography and visual communication design (VCD) sub-sectors, not only limited to the creation process but also in production, commercialization, and distribution.

Another prominent findings from this study is the major role of social media in the commercialization of creative products and services. It appears that Instagram as the most commonly used social media platform is highly utilized in various sub-sectors to communicate the value of creative business. Previous study has shown that the use of social media can amplify word-of-mouth marketing; conduct market research; facilitate idea generation, new product development, and co-innovation; provide customer service, public relations, employee communications and reputation management (Karimi & Naghibi, 2015).

This study demonstrates some limitations in conducting the analysis, especially regarding business diversity, observed under each sub-sector and still focusing on the value-added activity identification within the value chain. Therefore, more focused examination can be carried out in future research. In addition, because of its exploratory nature, it provides the possibility for subsequent research to discuss or confirm the value-added opportunity and its linkage between businesses within the creative industry. For instance, the role of co-creation and social media in creative industry value chain should be empirically investigated whether they add value to the business.

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## Appendix

### Appendix 1. Explanations of each sub-industry in the creative industries, adopted from Ministry of Creative Economy of Indonesia.

No.	Types of Creative Industries	Explanation
1.	Advertising Services	Related to advertising services (one-way communication using a specific medium), including the process of creation, production, and distribution of the resulting advertising.
2.	Architecture	Related to services with building design, construction cost planning, conservation of heritage buildings, both overall construction supervision at the macro level (town planning, urban design, landscape architecture) and the micro level (construction details, such as architecture garden and interior design).
3.	Art Goods and Antiques Market	Related to trade-in original, unique, and rare goods and has a high aesthetic value through auctions, galleries, shops, supermarkets, and the Internet.
4.	Craft	Related to the creation of production and distribution of products produced by skilled craftsmen who started from the initial design to the process of settlement products.
5.	Product Design	Related to the creation of graphic design, product design, as well as the production of packaging and packaging services.
6.	Visual Communication Design	Related to the creation of visual arts and technology to communicate ideas. The use of VCD is often devoted to industrial design, corporate identity consulting, and marketing research services.
7.	Fashion	Related to the creation of clothing, footwear design, and other fashion

No.	Types of Creative Industries	Explanation
		accessory design, production of fashion clothing and accessories, consulting fashion product lines, as well as the distribution of fashion products.
8.	Video, Film and Photography	Related to the creation of production video, film, and photography services as well as the distribution of video recordings and films.
9.	Interactive Games	Related to the creation, production, and distribution of computer and video games that promote fun, agility, and education.
10.	Music	Related to creation/composition, performance, reproduction, and distribution of sound recordings.
11.	Performing Arts	Related to the business of content development, production performance.
12.	Publishing and Printing	Related to content writing and publishing books, journals, newspapers, magazines, tabloids, and digital content as well as the activities of news agencies and news search.
13.	Computerservices and Software	Related to the development of information technology, including computer services, data processing, database development, software development, systems integration, systems analysis and design, software architecture design, software and infrastructure design hardware, as well as design portals including maintenance.
14.	Television and Radio	Related to business creation, production, and packaging of television shows, broadcasting, and transmission and the content of television and radio shows.
15.	Research and Development	Related to innovative businesses that offer science and technology invention and application of science and knowledge for the improvement of products and creation of new products, new processes, new materials, new tools, new methods, and new technology that can meet market needs.
16.	Culinary	Related to the creative effort in the field of food and beverages and processed food and beverage products.

*Source: LPPM Unpad (2014) and Department of Trade of Indonesia (2008; 2009)*