

## MARKETING INNOVATION THROUGH THE IDENTIFICATION OF BUSINESS MODEL CANVAS IN ORDER TO ENHANCE THE COMPETITIVENESS OF MICRO, SMALL, AND MEDIUM ENTERPRISES IN BONDOWOSO REGENCY

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### Abstract

*This study focused on the identification of marketing innovation model using the Business Model which was introduced by Alexander Osterwalder. The preparation of the marketing innovation model was based on the data and information obtained from interviews and secondary data (literature reviews) in the form of books, magazines, newspapers, the internet, and journals. The study was divided into 2 (two) stages: (1) identifying Marketing Characteristics of SMEs in Bondowoso; and (2) establishing a model of Marketing Innovation through Business Model Canvas. In this study, it was found that being passive in marketing and having limited access were the main problems faced by SMEs. Based on the data obtained, the marketing model offered was by classifying some of the elements involved in the marketing of SMEs to the Business Model Canvas having nine important factors. The first factor is Value Proposition by taking the government, distribution partners, investors, and suppliers as the elements. The second is Key Activities in the form of production, promotion, and distribution. The third is Key Resources in the form of human resources. The fourth is Value Proposition in the form of effective, efficient, and competitive marketing. The fifth is Customer Relationship in the form of bonus, discount, and total quality management. The sixth is Channel in the form of delivery service and the bureau of tourism. The seventh is Customer Segment in the form of customers from all economic, social, and cultural classes. The eighth is Revenue Stream in the form of profits from revenue. The ninth is Cost Structure in the form of cost incurred for the implementation process.*

**Keywords:** Innovation, SMEs, Marketing, Competitiveness, Business Model Canvas.

## 1. INTRODUCTION

The essence of the success of SMEs marketing is experiential knowledge on how to develop a sustainable way of doing businesses (Grant et al., 2001). Characteristics of SMEs marketing are derived from the knowledge, experience, managerial styles, business characteristics, independence, ownership, limited resources, scale and scope of operations (Carson and McCartan Quin, 1995). Under these conditions, small business marketing must think creatively to deal with changing market conditions.

Marketing in SMEs is not to be simply conducted by the 4Ps (Product, Price, Promotion, Place) and 7Ps (4P with Physical evidence, Process and Personal), but it also needs other types of support. Businesses should emphasize on the promotion and word of mouth and should be able to identify the unique selling

point making a product unique, as well as taking the right distribution channels so that products are conveyed properly. It is not only about accuracy, but it further deals with whatsoever called as being efficient and competitive. Stokes (2000) suggests the concept of 4I (information, identification, innovation, and interaction) in improving the competitiveness of SMEs.

SMEs in Bondowoso mostly still use the non-high-tech production process. A formulation of the right strategy is required for SMEs to have high competitiveness despite their using simple technology. Marketing Innovations are able to provide competitively high value, regardless of the production process that is still using simple technology. Research conducted by O'Dwyer (2009) provides evidence that marketing innovation with an emphasis on environmental orientation, on the customer, on a competitor, and on the capability of decision making are highly competitive. This

is supported by research conducted by Laforet (2009) in which the non-high-tech SMEs should pay attention to the marketing and managerial characteristics to be highly competitive. Based on the logical framework, this study is very important to explore the model of marketing innovation to improve the competitiveness of traditional SMEs (non-high-tech) in Bondowoso.

## 2. LITERATURE REVIEW

### 2.1. Characteristics of SMEs

Small businesses in Indonesia has the characteristics of a) nearly half of small companies only use 60% or less of installed capacity, b) more than half of the small companies are established as a small business development, c) capital, marketing, managerial capabilities and availability of raw materials are their main problems, d) very high dependence on the government, e) almost 60% use traditional technology, f) almost 70% do direct marketing to consumers and, 8) have a hard time with banking procedures (Karjantoro, 2002).

Community empowerment can be done by forming partnerships with competent parties. The concept of establishment of SMEs is one of the alternatives to facilitate cooperation and partnership with various parties. The problems that arise is that many SMEs, especially in developing countries, are facing constraints in investment to improve technology development.

Salavou et al. (2004) in their research shows the importance of innovation for small businesses in order to increase competitive advantages. Doole et al. (2006) assert that small businesses should do relationship building with large companies and other strategic partners in order to improve their capabilities. Garengo and Bernardi (2007) also state that the organizing capabilities of SMEs will help to improve the competitiveness of the organization. Metts (2007) has found that the good management of a small business will have an impact on the overall performance of SMEs.

### 2.2. Characteristics of Small Business Marketing

The function of small business marketing is merely often to fulfilling demand, weak promotion impacts on sales decline. This is

based on the perception that small businesses are often run without clear plans and strategies (Stokes, 2000).

Small business marketing can be sustained to follow the rapid movement of life cycle products through innovations and changes in product design that is more oriented to customer needs. The long-term impact is on customer satisfaction, by considering the characteristics of the product and customer behavior, by being able to synergize the company, the position of the technology used, and the limited resources available.

The essence of marketing for small business according to Grant et al. (2001) is the experiential knowledge on how to optimize their business processes. Comprehensive experiential knowledge becomes an alternative strategy to continuously provide benefits in the long run. The combination of the characteristics of small businesses will help to improve their competitiveness through marketing initiatives that can provide greater value for the benefit of these small businesses.



Figure 1. Characteristics of Small Business Marketing

### 2.3. Overview of SMEs Conditions in Bondowoso

The result of the data collection shows that the number of SMEs closing down is relatively small compared with the number that continues to run the business. SMEs in the regency continued to increase both in terms of number, capital, turnover, average turnover, and capital turnover from year to year. This has resulted in an increase in demand for labor in the field of

SMEs. More detailed information is presented in Table 1.

Table 1. Development of SMEs in Bondowoso Regency

Year	Number	Capital	Turnover	Average Turnover	Cycle	Number of Workers
2010	25,949	149,899,786,571	488,132,755,000	18,811,236	3.3	10,693
2011	27,394	152,624,716,000	477,956,791,000	17,447,499	3.13	22,804
2012	28,236	221,166,427,000	1,207,124,968,000	42,751,274	5.46	29,434

Source: Department of Trade and SMEs Bondowoso 2013 (data processed)

#### 2.4. Problems of SMEs in the Regency

The development of SMEs in the regency is quite rapid seen from several sides. However, it does not mean there has not been any problem accompanying their growth and development. The general issues include a managerial system that is still traditional, competition, human resources, product innovation, capital, and marketing. The main problem faced by SMEs in the regency is that they are less able to implement an integrated marketing, making them difficult to expand market access. The reason underlying this problem is the tendency of SMEs businesses to not proactively manage marketing strategies and to not cooperate with various parties to market their products outside the region. As the result, many of the products of SMEs in the regency are not known in other areas. If they are known by the outside communities, this is not because of the efforts of the business, but from the initiative of individuals or institutions. One of the ways is through exhibition organized by the department and guests from outside Bondowoso buy souvenirs to take home. This way, the new SME products are known by the outside communities.

This study focused on discussing the issue of marketing innovations that may be applied to overcome the problems of marketing in SMEs in the regency. Thus, SMEs in the regency are expected to be able to overcome the marketing problems faced, so that they can market their products effectively, efficiently, and competitively. Other problems are not to be examined in this paper.

#### 2.5. Integrated Marketing

Integrated marketing is marketing that involves the whole set ranging from employees, distribution channels, partners, customers, and stakeholders to the maximum. All of the elements have an awareness of their existence as part of the marketing itself. Thus, within these conditions, the marketing process can be carried out effectively and efficiently.

Integrated marketing is absolutely necessary for a business organization to its business continuity and for SMEs are no exception. Yet, integrated marketing in SMEs in Bondowoso has not been done to its fullest. The SMEs do have a strong entrepreneurial spirit, but it is limited only to their ability to produce. Marketing entrepreneurial spirit is not shared by all SMEs in Bondowoso, so the business is less developed in accordance with the desired maximum. Hallback and Gabrielson (2013) assert that entrepreneurial marketing is very influential in the establishment of marketing strategies that support the success of SMEs.

The business often relies on a portion of cheap promotional bias considered effective, that is the word of mouth. In fact, the technique is indeed the cheapest and the most effective, but the process is known to limited and certain groups and is rather slow. Other promotional techniques must be done, if not then SMEs will not be able to evolve and this kind of stagnancy in a business organization is very dangerous; it is a threat that will destroy the efforts undertaken at any time.

#### 2.6. Marketing Innovation Model

After doing research and judging from the regency SMEs issues, the researcher then offers

a Marketing Innovation model that may be relevant to be applied by the SMEs in Bondowoso. The model is based on discussions with stakeholders related to SMEs in the regency. By adopting the business model proposed by Alexander Osterwalder and Yves Pigneur (2010), the Marketing Innovation Model proposed in the study is outlined in Figure 1.

The figure involves a variety of elements that will be connected to one another through the diagram, so that the readers are able to understand the images contained within. The key elements include Partnership, Key Activities, Key Resources, Cost Structure, Value Proposition, Customer Relationship, Channel, Customer Relationship, Customer Segment and Revenue Stream.

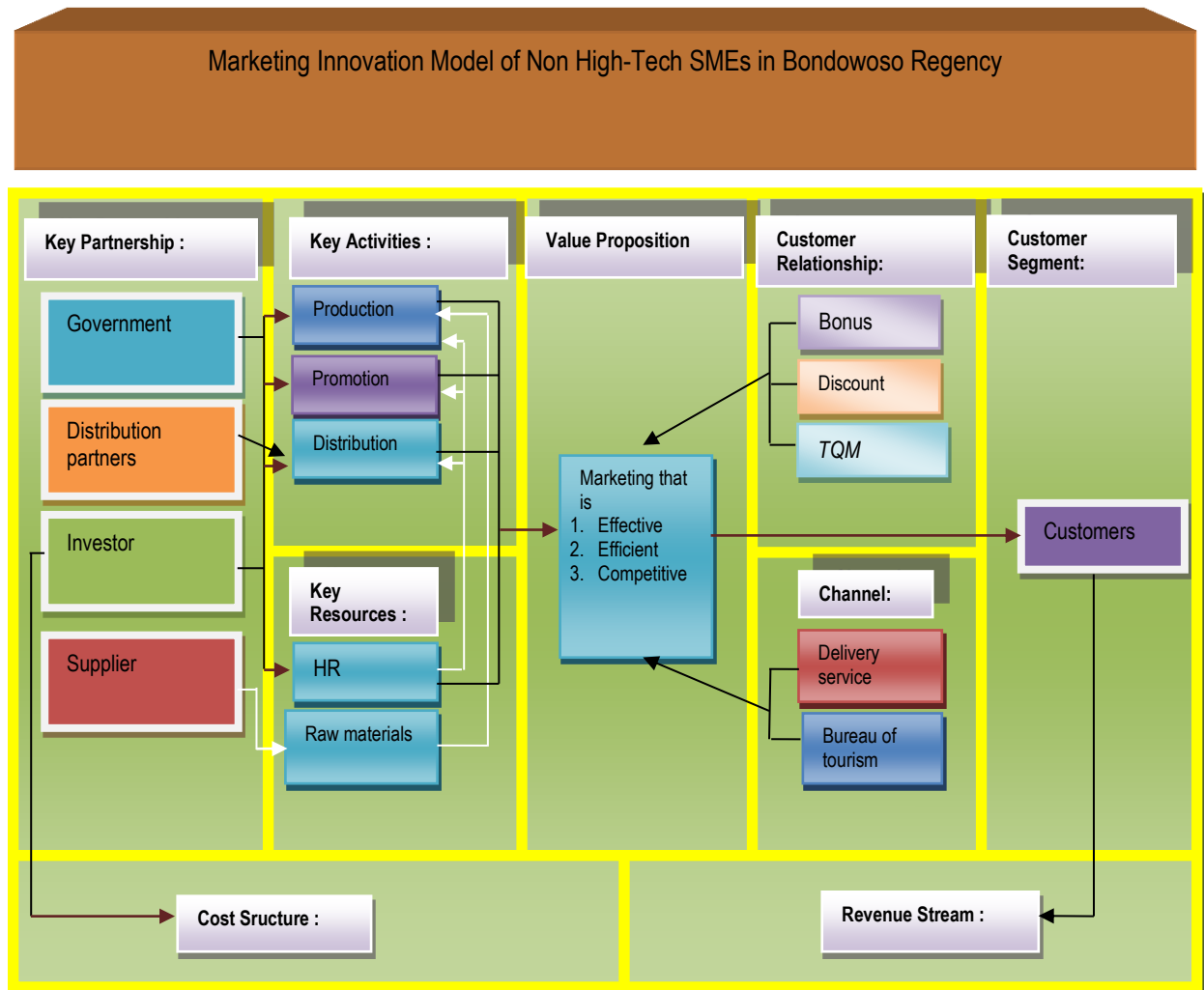


Figure 2. Marketing Innovation Model of SMEs in Bondowoso Regency

### **Key Partnership:**

#### **1. Government**

Government through the relevant agencies in this model plays a very important role, both as decision-maker, license-giver and as a consultant for SMEs. The relevant department of which is the Department of Industry and SMEs, the Department of Tourism, Department of Business Licensing, Department of Labor,

and so on. That way SMEs will feel secure in doing business.

The government has the authority to make policy and licensing. Of course, it is very clear that the government has the right to provide guidance and issue licenses to businesses to make products. In addition, as a policy maker, they have the right to classify SMEs both based

on the amount of capital, the number of workers, products made, and so on.

Being a consultant is a very vital role played by the government towards SMEs. The government is not only required as an institution that is able to facilitate the needs of the business, but they are expected to be a partner to share their knowledge, especially knowledge about production, promotion, distribution, finance, and human resources of SMEs.

This knowledge can be passed on to businesses through a variety of training and various activities. Training on making quality products can be done by bringing in experts and field visits. Training materials will not only cover the making of products, but also on how to make attractive packaging. The purpose is to help SMEs in making competitive and marketable products for a wider audience.

Promotion is a part that should not be underestimated in the process of training for SMEs. Up to the present days, the weakness of SMEs is not in the production, but on post-production process, good promotion, and marketing. Therefore, it is hoped that the training provided by the government will create independence for SMEs to be able to seek their own market. So far the government facilitates the promotion of SMEs simply through exhibitions at local and national levels. However, follow-up of these exhibitions has not been considered to the fullest.

Distribution is associated with the delivery of products from SMEs to end users. The constraint faced by entrepreneurs is their dependence on shipping service whose cost is very expensive. It would be much better if the government is to provide a means of distribution for SMEs, thus helping them to run their business easily and smoothly without having to bear the high costs that can reduce the profit of SMEs.

Financial issues to solve for SMEs are the ease to obtain additional capital or man capital and professional financial management procedures. SMEs find it difficult to gain capital for the development of their business. In addition, financial management is still relatively conventional, without them being able to distinguish between the finance for families with business, and this could threaten the existence of SMEs.

Human resources need to be trained both at the managerial and technician levels. With the managerial training, it is expected that businesses are able to set up their activities, to continue to exist and develop even during hard times. Technical training is done in order to prepare for the skilled and responsive workforce to new designs to meet the market needs.

## **2. Distribution Partner**

The role of distribution partners in this model is as a support for the smooth distribution of SMEs products from production centers to end users. Without a distribution partner, it is impossible to make products known to the public. Unfortunately, SMEs in Bondowoso have not yet able to reach the national level distribution. SMEs in Bondowoso are already satisfied with one or two partners staying in a particular region. They are less bold in developing their marketing efforts because there is a tendency to less believe new distribution partners or prospective distribution partners.

There should be transparency between SMEs and distribution partners to cooperate in making the products be widely known. This transparency may be done by giving credence to the distribution partners to market the products of SMEs. The problem so far is on payment. SMEs repeatedly ask to follow the system of "no money no goods", while the distribution partners normally ask for a system of "goods sold, payment to follow." Both SMEs and distribution partners could take win-win solution by first paying half price of the products, and the rest of the payment is to be done after the products are all sold. With this solution, then both parties will benefit a wider market, and SMEs will gain additional distribution partners. SMEs do not have to worry about the marketing network since distribution partners typically have a wider network. Business partners are usually also willing to pick up products to the place of production.

## **3. Suppliers**

The relationship between SMEs and supplier is very close. It can be said that suppliers are key for production activities, especially related to the production process. Therefore, indirect marketing also depends on suppliers. Suppliers are very important for

SMEs, making the business to maintain a harmonious relationship with them.

Constraints faced in the relationship between suppliers and businesses are that suppliers send raw materials to businesses. This condition results in businesses being not able to process the materials directly to be a finished product. On other words, the production process takes a long time and incurs a lot of costs.

Supposedly, suppliers can change the system into the supply of semi-finished materials (already processed). Many benefits will be obtained by suppliers when supplying semi-finished materials, one of which is that the price is relatively more expensive compared to raw materials since the processing costs are taken by the suppliers. In addition, this process can make faster production process of SMEs.

Suppliers should also show high responsibility to maintain continuity of the supply of raw material to SMEs. Quality raw materials will produce a quality product as well. Quality products will result in positive public response and will result in the benefit of all parties involved in SMEs.

#### **4. Investor**

Investors play a very important role in this model of marketing innovation, that is a provider of capital to fund and provide all the needs of production and distribution activities undertaken by SMEs (Cost Structure). Not only that, investors should act as the controller of SMEs in order for the business to grow, develop, and survive.

These include the concern in giving assistance to SMEs. Assistance may include financial management, mentoring and assistance for distribution to promotion, and even assistance for training of human resources. This model requires investors to play the same function as the government; it is just that investors are not entitled to licensing policies to SMEs.

Therefore, the task for investors is not only to lend capital or investment function alone. Investors should participate in the running of SMEs, so SMEs do not just run as they are. The advantage coming out from the assistance given is that investors can supervise the capital invested to SMEs.

#### **Key Activities**

Key activities are activities directly related and affect the marketing of SMEs. Based on the research results, there are some core activities in need of attention. These activities include the production, promotion, and distribution.

##### **1. Production**

Production activities in this model refer to the process of producing products in accordance with market demand and customer expectations. In this sense, customer expectation is for quality products, reasonable price, and services in accordance with product attributes. With the good service and satisfaction (as expected), then customers will be loyal to the products offered.

In addition, production can be interpreted as maintaining the continuity of product existence in the market; this means continuous production and products should be made available any time customers need. There is no excuse for customers to have to wait for a very long time to look for a product when the product is needed. This will ensure the marketing balance between products made and products sold to the public.

##### **2. Promotion**

Promotion is very important to help customers to know the products created by SMEs. So far, the promotion system run by SMEs is much too simple and they put too much hope on government programs. The promotion system they use is the word of mouth and exhibitions through government programs.

It is less effective in promoting the products to the wider audience. Supposedly, SMEs should work with distribution partners and use electronic technology (the Internet) to make the product be widely known. When products are known by a wider audience, recommendation for prospective buyers or prospective customers will also emerge.

##### **3. Distribution**

Distribution network will facilitate the effective and efficient products to go from manufacturers (SMEs) to the consumers (customers) or end users. This distribution is characterized by the arrival of the right products when customers need them. This activity is interesting because it involves internal and external parties

**Key Resources**

Key resources required in this marketing model is Raw Materials (Natural Resources) and Human Resources (HR).

**1. Raw Materials**

Raw materials are a determinant of a product to be qualified or not. Therefore, the selection of raw materials is very important for SMEs, before determining the production system and production capacity. The main raw materials for SMEs in Bodowoso are available in the surrounding neighborhood. This means that supply is relatively abundant, so as to obtain raw materials at low prices and quality standards for production. Unfortunately, the suppliers provide raw materials in a way that they are still raw and result in the production process become much longer than when the raw materials are available in the half-finished state.

These conditions facilitate the smooth run of the marketing system as it is not hindered by the production process. No production inhibition means that there are not any product delays in the market. This means that, if managed correctly, this system of raw materials still have a competitive advantage.

**2. Human Resources (HR)**

The aspect of human resource is worth noting in this Marketing Innovation models. HR is very influential as a key resource to perform a variety of key activities such as Production, Distribution, and Promotion. Therefore, qualified human resources in order to obtain maximum results for each activity are very indispensable.

Trained and skilled human resources are obtained from recruit or training process in finished form. This training can be organized by the Department of Labor through the Training Center or under a system of learning by doing. The function of this training is to create human resources that have to be able to quickly response to changes in the market.

**Value Proposition:**

Value Proposition is the expected ideal of this marketing innovation model. A wide range of activities supporting the implementation process is needed to realize the ideal. With a variety of activities supporting the implementation process, then the Value Proposition in this marketing model is

"Effective, Efficient, and Competitive Marketing".

**Customer Relationship:**

Customer Relationship is necessary for the customer to get maximum service. The goal is for customers to feel satisfied with the performance of the products or services. Satisfaction toward the products and / or services will create customer loyalty so that the existence of SMEs can be maintained. Customer Relationship which can be applied, among others, is through the Bonus, Discount, and Total Quality Management (TQM).

**1. Bonus**

The bonus is the provision of the extra amount to the customer. Bonuses are given to customers under certain terms and conditions, for example, to buy in a certain amount and to become a subscriber within a certain time. Giving bonuses to customers will make the customers feel valued and regarded as a family in a business.

**2. Discount**

Discount or rebate is the same concept with a bonus; it is just that discount comes in a form of rebates, instead of increasing the number of items purchased. It is because there are customers who prefer discounts (rebate) than goods as the bonus. This can be said that a discount is a form of differentiation of services based on customer desires.

**3. TQM (Total Quality Management)**

TQM is a strategy that is addressed to every element of human resources to provide quality in all the elements of SMEs. By implementing this system, it is not only human beings become the center of attention in providing services. Products also have the same obligations in providing services to the customers in order to make them feel satisfied with the product performance. Thus, TQM Model Innovation Marketing is a combination of human resource services and products services provided to customers.

**Channel:**

Channel in this Marketing Innovation Model refers to how SMEs communicate with customers, elements which state on how organizations communicate with customers and deliver their value proposition segment. Communication, distribution, and sales

channels are the factors that allow interaction with customers. Channel describes the interaction with customers and plays an important role in the process experienced by the customers. The channel includes measures to increase awareness, to enable customers to assess, to help customers to buy products or services, to deliver products / services, and to provide after-sales support. Channel in this model is the Delivery Services and Tourism Bureau.

### **1. Service Delivery**

Service delivery is the way that is often used by SMEs to deliver products to customers outside of the area or abroad. This is the only way taken by SMEs to get their products to customers on time. The challenge remains; often there is no agreement between the shipping agent services and SMEs because of certain things, including the treaty system. In addition, the constraint faced is the high cost of shipping and it should be charged to the customers. As a result, there is an impression that the price of the products offered is relatively expensive.

### **2. Tourism Bureau**

Tourism agency is required in this model as a communicator or a campaign medium to bring in new customers for SMEs. There are times when travelers taken by the tourism bureau to the area are interested in the products produced by SMEs in Bondowoso. The first advantage is that SMEs can expand the market through these travelers. The second advantage is that the area of SMEs can become a tourist attraction because it has a particular icon.

#### ***Customer Segment:***

This refers to the users of the services or products of an organization that contribute to and provide income for the organization. In this case, it is the customers. Customers do not always have to pay directly to the organization, but without them, there would be no capital inflows.

#### **Customers**

Customers as a key partner of this marketing model is a party to respond to the products offered. Many benefits are provided by a customer to SMEs. Therefore, SMEs must maintain to meet the expectations of the customers. Hard work which needs to be done

by operators is to effectively and efficiently distribute their products.

By providing services and products in line with the expectations or even exceed the expectations of customers, then customers will be satisfied. Satisfaction is characterized by being a loyal customer of the products with any form of sacrifice, including financial sacrifice; therefore, Revenue Stream will be obtained from the customers to the fullest.

#### ***Cost Structure:***

Cost Structure describes all costs arising as a result of the operation of the business model. All efforts to realize the value proposition through reliable and appropriate channels, key resources, and key activities all need some costs. The cost structure is influenced by the strategy chosen by the company, whether the priority is to operate on low cost or on special benefits. These costs can be obtained from the investors or the capital of SMEs themselves.

#### ***Revenue Stream:***

Inflows (Revenue Stream) describe how the organization earns money from every customer segmentation. The flow of funds is what allows these organizations to maintain their existence. In essence, there are two types of income, transactional and repetition (Recurring). Profit comes from customers as a result of products and services of all the elements in the Model Innovation Marketing.

## **3. CONCLUSION AND RECOMMENDATION**

### **3.1. Conclusion**

This research found that an integrated marketing has not practiced in SMEs in Bondowoso. Owners of SMEs are simply waiting for chances offered; they are not making chances to emerge. Entrepreneurial marketing spirit is not yet formed and manifested. The method of selling used indicates that the concept of the business run is only innovative in production, without seeing the opportunities happening in the community. Furthermore, the author has created a model of the marketing innovations that may be applicable to SMEs in Bondowoso.



### 3.2. Recommendation

The suggestion recommended here is to train entrepreneurs about the importance of marketing innovation, so that they are able to independently develop their business without having to rely on the government. Furthermore, the researcher also expects that proposed design of marketing innovations can be practiced by SMEs.

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