

Assessing Entrepreneur's Business Model of Family Firm Within the Context of Batik Industry

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Abstract

This paper is directed to review and assess the existing business model of family firm within the context of batik industry and identify its deficiencies, if any. Business model is conceived as the logic of doing business for value creation. Therefore business model is sometime understood as a construct, a mental model or a business paradigm, to be used as a guide on how to do every day's business.

This study is carried out by using a single case that is the case of "Perusahaan Batik Gabovira" – a small medium sized family business producing and selling specifically batik products. We identified that the growth strategy implemented by Perusahaan Batik Gabovira was not based on an appropriate business model. The strategy may potentially create product cannibalism so that the survival and ongoing success of this firm is in a big question. Therefore we proposed a new business model configuration with the hope loyal buyers remain with the firm and at the same time firm can still maintain its growth.

Key words: business model; family firm; strategy

Introduction

The purpose of establishing business venture is to deliver valuable product or service to customers, entice customers to pay for value, and convert those payments to profit. However, it not uncommon that business venture fails to generate profit despite the presence of market opportunities, adequate resources, and talented entrepreneurs. One possible explanation is the underlying model driving business (1). For example, in the dotcom era of 1990s investors and business people indeed entered into click-and-mortar-businesses to tap new opportunities for business expansion. Beginning the mid-2000, as the stock market bubble began to evaporate, the term dotcom became a synonym with Web businesses that failed or suffered cutbacks. According to Vickers (2) this failure was caused by utilization of inappropriate business model; that is, the click-and-mortar-business still utilized the old conventional brick-and-mortar-business as a way of doing business assuming the characteristics of these two businesses are the same (3).

The term business model which has gained popularity among academicians and business people alike since, is conceived as a construct, a mental model or a business paradigm that guides management on how to do everyday's business. It reflects management's hypothesis about what customers want, how they want it, and how the enterprise can organize to best meet those needs, get paid for doing so, and make a profit. In this sense therefore a good business model is essential to every successful business venture, whether it's a new venture or an established player (5). It is essential because business model can guide an organization on how to deliver services, create values and make money (4). It can itself be a pathway to competitive advantage if the model is sufficiently differentiated and hard to replicate for incumbents and new entrants alike (6). Meanwhile Osterwalder and Pigneur (7) said that understanding and use of business model is essential in an increasingly dynamic and uncertain business environment for the following reasons:

1. The process of modeling social systems or an ontology – such as a business model – helps identifying and *understanding* the relevant elements in a specific domain and the relationships between them.
2. The use of formalized business models helps managers easily *communicate and share* their understanding of a business among other stakeholders.
3. Mapping and using business models as a foundation for discussion facilitates *change*. Business model designers can easily modify certain elements of an existing business model.
4. A formalized business model can help identifying the relevant *measures* to follow in a business, similarly to the Balanced Scorecard Approach.
5. Business models can help managers *simulate* businesses *and learn* about them.

It is clear that selection of appropriate business model is critical for the survival and ongoing success of business venture (4). Therefore every organization should have its own unique, rare and difficult to imitate business model (8) (9) so that it can effectively compete externally, coordinate internally, manage human resource strategically and arrange organizational architecture properly. Otherwise, it might be out of business. Accordingly, for the nascent entrepreneurs, it is suggested to formulate and choose an appropriate business model even before starting new business venture and indeed before solidifying the intention to start new business venture. In the same manner, as environment is changing, mapping and assessing business model is considered of importance for old establishment especially to identify its deficiencies and modify it if necessary.

For business venture to realize the potential benefits of business model mentioned above, the model needs to be properly formulated. One possible means to assist business model formulation as proposed by Morris et al. (1) is to use a framework, known as entrepreneur's business model (EBM) that addresses the key component of business model. Arguably, this framework can be practically applied to measure the business model of ventures in a wide variety of industries. However there is still a gap in research in which the EBM framework does not appear to have been applied to small medium sized family firm with less than 100 employees. This paper therefore adopts the EBM Framework offered by Morris et al. (1) and qualitatively applies it to an Indonesian SME within the context of batik industry in order to explore whether EBM framework has relevance and applicability to smaller firm.

To achieve the abovementioned purpose, the rest of this paper is organized in the following sections: the first section briefly provides literature review of business model. Section Two offers a qualitative application of EBM Framework to Perusahaan Batik Gabovira, an Indonesia based entrepreneurial SME. The business model of this firm is mapped and assessed using the EBM framework. Finally, discussion and implications are explored in the last section.

Literature Review

Definition of Business Model

The discussion of business model has gained more attention from business scholars as well as practitioners since the emergence of the dot.com businesses (10). Internet boom provides investors and business people an opportunity to do click-and-mortar business (it is also called e-business, e-commerce or i-business) as an alternative to old, conventional brick-and mortar business. Many investors indeed entered into this new business invention but they failed to make money. Some of them even went bankrupt. The reason behind this bankruptcy is that they are still using old paradigm (old business model) for a new invention (2). Based on this experience, before entering into this new business invention, investors then usually raise questions: what business model is to be used, how it creates values and how it makes money. Since then, as stated earlier, business model has become the most discussed term and gained popularity particularly among e-business practices. However, it does not mean that this construct can only be applied in e-business but also in conventional business (4) (5) (10) (11).

Despite its popularity, in fact business model is perhaps the least understood term (12) (13). This is so probably because the concept itself is still in infancy (14). Therefore it is not surprising if it is seldom defined explicitly (15). Some definitions are quite abstract and outward looking (5) (16) (17) while others are detail and encompassing of business functions (4) (7) (8). In addition, the term is often used when really only one aspect of a business model is intended to be conveyed (18). To have better understanding on what business model is, table 1 provides some definitions of business model.

Table 1
Some definitions of business model

Authors	Definition
Magretta (5)	A story that explain how an enterprise work
Petrovic et al. (13)	A description of the logic of a “business system” for creating value that lies behind the actual process
Osterwalder and Pigneur (7)	A description of the value a company offers to one or several segment of customers and the architecture of the firm and its network of partners for creating, marketing and delivering this value and relationship capital, in order to generate profitable and sustainable revenue streams
Weill and Vitale (19)	A description of the roles and relationships among a firm’s consumers, customers, allies and suppliers that identifies the major flows of product, information, and money, and the major benefits to participants
Timmers (16)	An architecture for the product, serviceand information flow, including a description of the various business actors and their roles; and a

	description of the potential benefits for various actors; and description of the sources of revenues
Rappa (17)	The method of doing business by which a company can sustain itself – that is generate revenue. The business model spells-out how a company makes money by specifying where it is positioned in the value chain
Chesbrough & Rosenbloom (4)	A description of how your company intends to create value in the market place. It includes that unique combination of products, services, image, and distribution that your company carries forward. It also includes the underlying organization of people, and the operational infrastructure that they use to accomplish their work
Mahadevan (8)	A unique blend of three streams that are critical to the business. These include the value stream for the business partners and the buyer, the revenue stream, and the logistical stream.
Linder and Cantrell (19)	The organization's core logic for creating value

What these definitions share is that a business model “...seems to influence the potential revenues and the future success of the business initiative” (12). In addition, it is also a logic and an effort of organization to create value for the benefit of constituents it serves. This effort however should be unique, differ from other organization's effort and more specifically should be difficult to imitate (8). In other word, business model is basically a model of a business (20). It is therefore a construct that guides an organization on how it delivers services, create values. As a construct, business model is only an artificial representation of reality. It has to detract focus from certain aspects while concentrating on others. It is impossible for all the variables that comprise reality to be adequately and consistently represented (13).

Petrovic et al. (913) furthermore said that a model can be descriptive or predictive, but in many cases people would not rely on the outcomes of the model only when making decision. This means that for organization to succeed, constructing merely business model is not enough. It must be followed by management actions such as proper strategic implementation, structure and system that align with the model. Constructing a business model, to certain extent however, is beyond rational justification. Rather, it is sometime subjective and intuitive without formal standard of measurement. A lack of measurement is therefore the main problem of proposing a new business model. The effectiveness of this model at the time it was constructed is unknown. We have to wait for several periods of time until this model is implemented in practice and prove to be really effective. Despite this limitation, business model does matter (5).

Components of Business Model

Afuah and Tucci (21) suggest that, “A business model can be conceptualized as a system that is made up of components, linkages between the components, and dynamics.” The components of the business model are customer value, customer segments, scope of products and services, pricing, revenue sources, connected activities, implementation, capabilities, and sustainability. In a similar vein, building on the technology management literature, Chesbrough and Rosenbloom (4) present the business model as a construct that mediates between technological inputs and economic outputs. The functions of a business model are to (a) articulate the value proposition; (b) identify a market segment, as well as the revenue generation mechanism for the firm; (c) define the structure of the value

chain; (d) estimate cost structure and profit potential; (e) describe the position of the firm within the network linking suppliers, customers, complementors, and competitors; and (f) formulate a competitive strategy.

As with the definition of business model, so far there is no agreement on what components that constitute business model. From various sources it is found that the number of components varies from three to eight (see: 22). According to Morris et al. (1) the previous framework tends to oversimplify the individuality of a business model at the firm level. The challenge is to produce a framework that is “applicable to firms in general but which serves the needs of the individual entrepreneur”. Furthermore, for a framework to be useful it must be “reasonably simple, logical, measurable, comprehensive and operationally meaningful”. The framework proposed by Morris et al. known as EBM could be used to fulfill this condition. It addresses the following six questions related to key strategic decision areas for the SME:

1. How does the firm create value? (factors related to the offering)
2. For whom does the firm create value? (market factors)
3. What is the firm’s internal source of advantage? (internal capability factors)
4. How does the firm differentiate itself? (competitive strategy factors)
5. How does the firm make money? (economic factors)
6. What are the entrepreneur’s time, scope and size ambitions? (personal/investor factors)

Each of these six main components is broken down to include several more specific decision areas, which Morris and colleagues call “factors”. These components and factors will be elaborated further in the paper when this framework is applied to a specific case study

The Case: Perusahaan Batik Gabovira

This paper uses a case study design to investigate the business model of Perusahaan Batik Gabovira – an Indonesian based, entrepreneurial, high-growth, small to medium sized family firm. Several different sources of evidence were used for the mapping and assessment process to provide a more accurate and robust understanding of the studied item (Yin, 1994). In 2010, semi-structured in-depth interviews were performed with both of the founder who at the time of interviewing was still the owner-manager of the business, and his successor. They were also asked to map their business model using the EBM framework.

Company Background

Perusahaan Batik Gabovira (PBG) is a successful small medium sized family firm located at Bandar Lampung City, Lampung Province of Indonesia. It produces and sells several varieties of batik product. The production is done in-house supported by 20 batik artisans and outsourced; while the marketing is undertaken by the firm itself through its eleven shop-fronts /galleries (nine in Lampung province and two in Jakarta) to serve local and national markets. Batik, from Javanese word *amba* (to write) and *titik* (dot or point), is a wax-resist dyeing technique use on textiles. There are three categories of batik that is “batik tulis”, “batik cap” and “batik print”. Batik tulis, literally means “writing batik” is the original, a high quality, hand-drawn batik. Producing a piece of batik tulis is time consuming (takes more than a month just to produce a piece of batik) and requires a high degree of skill. The second category is a medium quality batik cap. A cap is a stamp

made with narrow strips of copper that are twisted and shaped into batik designs, then soldered to an open metal base. Melted wax for stamping is kept in a flat-bottomed pan called a layang which contains a large folded cloth that absorbs the wax and acts like a stamp pad. The last category, batik print is the common name given to fabric that incorporates batik pattern without actually using the wax-resist dyeing technique. It represents a further step in the process of industrialization, reducing the cost of batik by mass-producing the pattern repetitively, as a standard practice employed in the worldwide textile industry. This low quality batik print in fact cannot be categorized as batik product, only the motif is batik. However because the price is cheaper compared to the other two categories, this category is in high demand.

PBG was established in 2000 by Gatot Kartiko (43 year) no longer after he had been forced to retire from his previous job. With only Rp. 3000,000.00 (equal to US\$ 300) at hand he started to do business focusing on batik product. He bought batik products from Pekalongan City (one of batik centers in Java Island) and sold them door to door in the local market. Having been able to penetrate local market, Kartiko then decided to use “Gabovira” as a brand name for all batiks he sells. In 2003, the Local Government through state owned company (PTP VII) provided him financial support to design and produce batik with local motifs known as “Batik Lampung”. Since then PBG produces and sells only a high quality Batik Lampung with several varieties of motifs. Kartiko himself was responsible to design the motif and the production was outsourced, done in Pekalongan due to lack of batik artisan in Lampung. It can be said that PBG strategically adopted differentiated business strategy.

Impressed with the design of Batik Lampung made by PBG, the Governor of Lampung Province decided Batik Lampung as the cultural identity of this province and appealed for locality to wear Batik Lampung as necessary, such as during the wedding party and other occasions officially or unofficially. This decision has a positive impact on the business of PBG. As a pioneer, Gabovira started to gain brand reputation as a high quality Batik Lampung. Its sales also increased exponentially from Rp 3 million to Rp. 100 million a month. The market was not only individual but also institutional buyers.

In 2009, UNESCO named Indonesia batik as a Masterpiece of Oral and Intangible Heritage of Humanity. This recognition has an impact on Indonesian batik industry. Until recently, the demand for batik products especially batik print is so high. As an opportunity-seeking and growth oriented entrepreneur, Kartiko whose dream is to maintain and grow his business to the next generation entered into this market segment. At the time this research was done, PBG offered three kinds of batik – batik tulis, batik cap and batik print using the same brand “Gabovira”. Strategically PBG adopted both differentiated and cost leadership business strategy.

Mapping the PBG Business Model

Through the data collection methods outlined previously, the PBG business model was mapped using the EBM framework. The interviewee considered each of the six key decision areas, or “components”, by selecting the most appropriate factors that make up each component. Table 2 below summarizes the PBG business model according to the EBM framework. Each table includes supporting information from the interviews with key PBG owner.

Component One: How do we create value?

The first component of the EBM framework, “How do we create value?”, covers the factors that are related to the firm’s offering: what the offering is, how it is produced, and how it is distributed. As Table 2 summarizes below, PBG offers a wide line of batik products, manufactured through a combination of internal processes and outsourcing, and are directly distributed to the end user.

Component Two: Who do we create value for?

The second component covers the market factors: “Who do we create value for?”. The five factors in this component specify the nature and scope of their market, and where the firm sits in the value chain. Table 2 below shows that PBG operates within a local as well as national market as a retailer. Whilst this business is mainly a relational B2C, it has an in-depth understanding of their customer like a B2B business does.

Component Three: What is our source of competence/advantage?

Component three looks at the internal capability factors: “What is our source of competence/advantage?”. This component covers the firm’s set of skills allowing it to “provide particular benefits to customers in particular ways” (Morris et al., 2006, p.34). As Table 2 shows, PBG identifies four key sources of competence outlined in the EBM framework: efficient production/operating systems, marketing, creative or innovative capability in terms of batik design, and a good social capital as a networking.

Component Four: How do we differentiate ourselves?

The fourth component of the EBM framework covers the firm’s competitive strategy factors, “How do we differentiate ourselves?” Importantly, according to Morris and colleagues (2006), the differentiation must be sustainable. As evidence in Table 2 below, the main sources of PBG’s differentiation according to the EBM framework are: their image of operational excellence/consistency/dependability, product quality/selection/features/availability, and innovation leadership.

Component Five: How can we make money?

Component five is centered on the economic factors of the business model, and asks the question “How can we make money?” PBG operates with fixed pricing and revenue sources, high operating leverage, medium volumes, and high margins as shown in Table 2 below.

Component Six: What are our time, scope and size ambitions?

The last component of the model concerns the *personal/investor factors*, that is, “What are our time, scope and size ambitions?” There are four main models included in this component: *subsistence*, *income*, *growth* and *speculative*. According to Morris et al. (2006), the aim of the *subsistence model* is to make enough money to meet basic financial obligations. The *income model* is where the business is generating an ongoing healthy income stream for the owners. If a *growth model* is operating, there is significant initial and ongoing investment in the firm in order to grow the value and generate major capital gain for the initial investors. Finally, the *speculative model* is adopted when the entrepreneur has limited time and wants to demonstrate the potential of the firm and then

sell it. As explained further in table 2 below, PBG has operated with each of these models at different stages in the business. Currently, the growth model is the main model at PBG.

Discussion and Conclusion

In this paper issues related to the survival, sustainability and development of PBG are assessed utilizing business model concept especially the concept proposed by Morris et al (1) known as EBM. Under this concept business model consists of six components within which each component should fit one to another. In the case of PBG, it seems that PBG does not appropriately utilize a good business model.

As the head of family and founder of PBG, Gatot Kartiko naturally expects that PBG sustains across generation. His expectation most likely comes true realizing that his daughter Jelvina already involves in the business and on the other hand batik industry is growing. However, one of the biggest mistakes aspiring entrepreneurs like Gatot Kartiko make, is not taking time to learn about and understand their industries or competitive environments, in order to know where the opportunities and threats are. In most cases entrepreneurs tend to perceive changing environment just as an opportunity not a threat (Chrisman et al., 2003). The same is true for Gatot Kartiko. Kartiko who was able to bring Gabovira as the icon for Batik Lampung because of its high quality and is aspired by high level society made wrong decision by entering into low quality batik print. For the mean time it seems it does not matter. But if we look closer and consider a long term impact, this decision may potentially create cannibalism. Gradually low quality batik print will eat up batik tulis and batik cap that already get brand reputation from middle up customers.

For PBG to be able to maintain its business it is suggested that PBG is to refine its business model. Gatot Kartiko should divide PBG into two separate line businesses in order to serve different target markets. The first line is to serve batik print and the other line is for batik tulis and cap considering that the characteristics of these businesses and their customers are different. Consequently the brand name of these batik products should also be redesigned. Let say, Gabovira remains for batik tulis and cap, and l'vira for batik print.

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