NETWORK-BASED BUSINESS MODEL INNOVATION IN FASHION INDUSTRY IN INDONESIA, CASE STUDY OF THE GOODS DEPT, INDONESIAN FASHION CHAMBER, AND ZALORA INDONESIA

Laurentia Livia, Dina Dellyana
School of Business and Management
Institut Teknologi Bandung
laurentia.livia@sbm-itb.ac.id
dina.dellyana@sbm-itb.ac.id

ABSTRACT

The role of collaboration within network in creating business model innovation has not been well acknowledged among fashion industry actors in Indonesia. In fact, by taking part in a network, a company could acquire profitable relationship and decrease rivalry in the industry. A fashion practitioner can join three different types of networks, which are vertical, horizontal, and multidimensional value net. The research methodology used is qualitative method, which applies case study method. To collect the data, the author used semi-structured interview and secondary data. The author selected three cases, which represents each of the network type, which are The Goods Dept, Indonesian Fashion Chamber, and Zalora Indonesia. The three cases show that collaborating within network brings many advantages, such as increasing profit and expanding business. Nevertheless, the fashion industry actors initially need to understand their current business model and determine which potential networks they can join.

Keywords: : Network, Business Model, Business Model Innovation, Fashion Industry

INTRODUCTION

Fashion has become a lifestyle that cannot be separated from society. The human's basic needs for fashion certainly causes the development of the fashion industry has never stopped. According to McKinsey Global Fashion Index, the world fashion industry is estimated to be worth US $ 2.4 trillion in 2016. The tremendous influence of fashion indeed affects Indonesian socio-economic aspect. The fashion industry is the second largest of national gross domestic product (GDP) producer of 15 creative industry sectors in Indonesia. The vast industry of fashion and its complex processes certainly require a lot of human resources to run it, for the process of creation, production, distribution, and sales.

In recent years, it has been proven that business model innovation has changed the dominant logic across industries. Established companies realized that innovation solely in products and processes is not enough to survive in the competitive world of business today. Innovation should be applied to the core idea of the company's business, specifically to the business model itself (Massa and Tucci, 2014). Firms that apply innovation to their business models are proven to have more advantages (BCG, 2008). Company could perform lots of strategies to innovate its business model, one of which is by collaborating through networks (eg, Amit and Zott, 2001, 2012; Giesen et al., 2007; Markides and Oyon, 2010; Mitchell and Coles, 2004a).

Collaborating in networks with other creative business players will bring many benefits. In fact, Chesbrough (2006) says that companies that want to survive for long-term should be willing to take the opportunity to collaborate, leaving behind their old traditional and closed business model. Nevertheless, one of the causes that obstruct the development of Indonesian fashion industry is the lack of socialization and understanding of the industry players about business model innovation. Many fashion industry players are still not aware of the available networks they can join and use to develop their businesses. Therefore, this research aims to give a picture from the three representative networks for fashion industry actors in Indonesia in order to develop network-based business model innovations.

LITERATURE REVIEW

2.1. Fashion Industry

Fashion is a lifestyle in appearance that aims to express the identity of a person or group. The fashion industry covers all activities related to manufacture and sales of fashion products, ranging from the process of creation, production, distribution, and commercialization. Constant change in fashion demands endless renewal and innovation. The swift change requires all fashion industry players to be able to adapt and survive in the industry. The industry of fashion is always growing. The development of the fashion world is greatly influenced by the social conditions of society that occurred at the time (Major, John and Steele Valerie, 2007).

2.2. Network

Network is an adaptive complex organizational form in a set of integration between organizational and social relations (Möller and Rajala, 2007; Anand and Khanna, 2000). Currently, network is widely used to pursue and expand a series of growths for the company (Moller et al., 2007).

2.2.1. Network Type

According to Moller et al. (2002), there are three types of network:

1. Vertical Value Net
   Vertical value nets are value systems that are vertically integrated, such as suppliers, customers, and channels nets. The objectives of vertical value net are generally to increase value system's operational efficiency, improve product or process in value system, and integrate the value system comprehensively.
2. Horizontal Value Net
   Horizontal value nets are value systems which includes same-leveled actors, among others competitor alliances, cooperation alliances, networking forums, and institutional actors. The main objectives is to provide accessible existing resources as well as developing new resources, since horizontal value net commonly combines companies' resources and capabilities.
3. Multidimensional Value Net

Multidimensional value nets are value systems, which involve actors from various industries. It comprises a hub organization that integrates products and services from diverse types of suppliers and channels to create its market offering.

2.2.2. Network Element

According to Moller et al. (2005), the elements of networks are:

1. Behavior
   Network behavior is how the members within network act toward each other's. Shuman and Twombly (2010) stated that network behavior has several elements, namely active/passive communication, transparency of internal information, sharing resources, and collaboration time period.
2. Governance
   Network governance is the process of determining and implementing decisions within the network. The elements of network governance are review and evaluation, decision-making authority (Shuman and Twombly, 2010), collaboration guidance (Bititci et al, 2004), and transaction between networks (Shehota and Hakansson, 1995).
3. Structure
   Network structure can be defined as a relationship arrangement within the members of the network. The elements of network structure include network ties, configuration, and stability (Inkpen and Tsang, 2005).

2.3. Business Model

A business model is an approach to describe how an organization/company creates, delivers, and captures value economically, socially, and others (Osterwalder and Pigneur, 2009). According to Wu and Zhang (2009), a business model is the representation of how actors in the network exchange value and arrange the value flow.

2.3.1. Value Exchange

The mechanism of value exchange is built from series of frequent interactions, which create coordinated, cost-efficient, and safeguard actor's interaction condition (Williamson, 1985). The actors must coordinate with mutual relationship to optimize the value exchange activity, even though there will be intersecting and conflicting demands within actors (Berglund and Sandström, 2013).

2.3.2. Value Flow

The actors are tied by the value flow and create network structure and business model. Afterwards, the value flow creates the arrangement that links internal and external actors in order to create, deliver, and capture value (Wu and Zhang, 2009).

2.4. Business Model Innovation

Amit and Zott (2010) define business model innovation as a process of redesigning or modifying a system within a company. The purpose of business model innovation is to create distinctive business models, which are different from the previous practices and the competitors'. Research from IBM Global CEO in 2006 also proves that business model innovation brings greater profit than other business models. Innovation business model is the core in creating superior performance and competitive advantage, both in new industry and mature industry (Amit and Zott, 2012).

2.4.1. Business Model Innovation Type

Giesen et al. (2007) identified three main types of business model innovation. The business model innovation types can be used independently or in combination. The types of innovation are in industry model, in revenue model, and in enterprise model.

1. Industry Model
   The industry model approach focuses on innovating the value chain of the industry. The process can be accomplished by doing one of these several activities, which are implementing horizontal moves into the new industry, redefining the existing industry, or developing the entire new industry segments.
2. Revenue Model
   Innovating a revenue model involves reconfiguring the company offerings (product/service/value mix) to generate revenues. Applying new pricing model could also do this approach. This dimension leverages customer experience, customer preference, and new technologies.
3. Enterprise Model
   This approach includes innovating the company's structure and its role in the value chain. Enterprise model innovation concentrates on redefining organizational boundaries. The dimension can also be accomplished by focusing on the core competencies and do outsourcing for the rest. Lastly, enterprise model innovation can also be achieved via network plays.

2.4.2. Business Model Innovation Process

Frankenberger et al. (2013) divides the business model innovation process into 4 steps, namely initiation, ideation, integration, and the last is implementation.

1. Initiation
   Initiation is the stage to understand and monitor the surrounding ecosystem of the company. The environments that must be identified are customers, competitors, government, universities, and all parties that can affect the company's operations.
2. Ideation
   The ideation stage focuses on creating ideas for potential new business models. Companies must transform the opportunities that have been identified in the initiation stage into new ideas for the business model.
3. Integration
   The main activity in the integration stage is to develop new business models based on the ideas that have been generated in the ideation stage. All ideas will be formed into a complete and feasible business model.
4. Implementation
   Once the initiation, ideation, and integration processes are completed, the business model will be implemented for trial and error. To avoid risk in the implementation process, the company must perform some tentative activities, such as pilots test, trial and error, and experiment.

2.4.3. Business Model Innovation Level

According to Bucherer (2012), there are four degrees of innovativeness:

1. Incremental Innovation
   Incremental innovation focuses on creating a business model which is completely different from the previous one, yet does not show many differences in the market and in the industry. Incremental innovation involves adjusting the previous business model and combines new technical capabilities and additional offerings.
2. Industry Breakthrough
   Industry breakthrough means creating a new business model which enter a new industry, yet will still receive similar response from the market. Industry breakthrough includes a discontinuity of the firms in the affected industry, but incremental changes for customers in the market.
3. Market Breakthrough
   Market breakthrough means that the company still provide the same offering, but targeted to a new customer segment. It confronts a discontinuity of the customers in the affected market, but incremental changes for the firms in the respective industry.
4. Radical Innovation
   Radical innovation implicates changes both in the industry and the target market. Thus, the previous market will be dealing with totally different offerings.

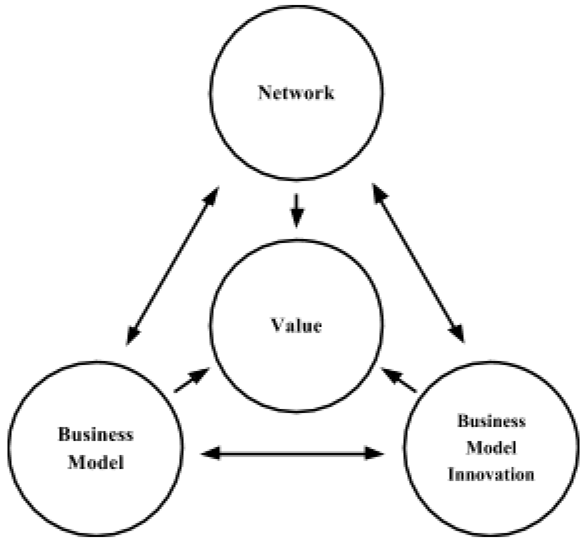
2.5. Value

Value is the expected result of the network's business model innovation, and need to be delivered to the end-customer in order to gain maximum value captured for the members of the network. Business model's definition cannot be separated from creating, delivering, and capturing value process (Wu and Zhang, 2009).

1. Value Creation
   Value creation is focusing on increasing the worth of offerings of a company. There are two types of value creation, which are tangible and intangible. Value creation depends on the amount of value that is subjectively realized by target users who are the main focus of the value creation, whether an individual, organization, or society (Lepak et al., 2007).
2. Value Delivery
   The collaboration aims to increase the benefits of internal value to the shareholders, and also deliver the value to the end-customer. Delivering value involves activities to ensure the satisfaction of a customer, as well as in order, delivery, troubleshooting, and others.
3. Value Capture
   Value also needs to generate wealth for the organization (Martinez, 2003). Therefore, the organization not only need to create and deliver value to customers, but also make sure that the members of the network could capture the value from the implementation of the business model.

METHODOLOGY

3.1. Conceptual Model



The author used the conceptual model by Dellyana (2016) for this research. It combines the four dimensions which have important roles and complement each other. The dimensions are:

1. Network, which represents the people who conduct the business model innovation. It also explains the structure, government, and behavior of the network (Moller, et al., 2005).
2. Business Model, which represents the current business model used in the network, also the value exchange and value flow that occur in the network (Wu and Zhang, 2009).
3. Business Model Innovation, which defines the type, process, and level of the business model innovation implemented in the network (Giesen, et al., 2007; Frankenberger, et al., 2013 ; Bucherer, 2012).
4. Value, which identify the output of conducting the business model innovation, which consists of value creation, value delivery, and value capture (Wu and Zhang, 2009).

Different characteristics of network will have a different business model process. This will lead to different business model and will result different output of value. In other words, network, business model, and business model innovation led to one result, which is value. One change in either one of the three dimensions will cause change in the value dimension (Dellyana, 2016).

3.2. Case Selection

Since this research focuses on network-based business model innovation, the case selection is based on the three types of the network type by Moller et al. (2002), which are (1) vertical value net, (2) horizontal value net, and (3) multidimensional value net. The case differentiation used in this research aims to compare the intensity level of each dimension in the fashion industry network.

There are three criterias used in selecting the respondents for this research, which are (1) located in the focal point of the network in the fashion industry, (2) have more than two member within its network, and (3) meet the criteria and characteristics of vertical value net, horizontal value net, and multidimensional value net as described above. The three cases that meet all the criteria are:

1. The Goods Dept, which represents vertical value net
2. Indonesia Fashion Chamber (IFC), which represents horizontal value net
3. Zalora Indonesia, which represents multidimensional value net

3.1. Data Collection

The author used qualitative approach for research methodology, which is case study. Case study is suitable to seek an understanding of situation or process by identifying one or more cases (Yin, 2014). To collect the data, the author conducted interviews and secondary data. The interview applied semi-structured interview technique, which aims to build two-way communication, ensures the validity of already known statements, as well as digging the information deeply. After conducting the interview, the author collected data about the selected companies from their websites and Internet articles, which are relevant to the topic.

3.2. Data Analysis

The data obtained will be processed and analyzed in this step. The analysis was done for each case. The data is based on the interview transcript and the secondary data. According to Yin (2014), there are five techniques in analyzing qualitative data. The author used within case analysis and cross case analysis. Within case analysis aims to link the data obtained with the propositions. Then, after gaining the result by using within case analysis, cross-case analysis was used to compare each case (Eisenhardt, 1989).

FINDINGS AND ARGUMENT

Table 1 Cross Case Analysis in Business Model Dimension

Construct	Sub Construct	Case 1: The Goods Dept	Case 2: Indonesian Fashion Chamber	Case 3: Zalora Indonesia
		Vertical Value Nets	**Horizontal Value Nets**	**Multi-Dimensional Value Nets**
Network	**Structure**	An intermediary between retailers and end-customers. It stands in the focal point of supplier nets. There is a curation process, which is very strict. The formal contract is determined by The Goods Dept.	A fashion association that consists of Indonesian designers and entrepreneurs. It has many chapters which It conducts a grand meeting each year. There is curation process and contract, which are less rigid for designers who want to be member.	A fashion e-commerce platform, which partner with various industry including logistics firms and financial institution. It has different formal contracts for every partner.

	Governance	Review and evaluation is conducted every three months. Decision maker is the The Goods Dept, yet negotiable. The retailers need to follow the rules from The Goods Dept.	Review and evaluation is conducted for each chapter Decisions are made based on discussion of all members.	Review and evaluation is conducted every month. The decision-making is the negotiable depends on agreement of each party. Collaboration guidance is written in the contract.
	Behavior	It conducts two-way communication with the retailers. Level of transparency of internal data is high. It shares sales data and brand performance.	Communication is active within network. IFC shares most of the resources. Internal data is transparently shared, including member's data and event report.	It conducts two-way communications. Resources are shared in accordance with the agreement. Transparency level is high within the network.
Business Model	**Value Exchange**	**Tangible**: money, products, services **Intangible**: information and brand awareness.	**Tangible**: programs **Intangible**: information, and knowledge of business practice experience	**Tangible**: money, products, services **Intangible:** information and brand awareness
	Value Flow	Kind of value flow: - The Goods Dept to retailers - Retailers to The Goods Dept	Kind of value flow: - IFC to members - Members to members	Kind of value flow: - Zalora to partners - Partners to Zalora
Business Model Innovation	**Type**	Revenue Model	Enterprise Model	Revenue Model
	Process	Initiation - Integration - Implementation	Initiation - Implementation	Initiation - Integration - Implementation
	Level	Incremental Innovation	Incremental Innovation	Industry Breakthrough
Value Outcome	**Value Creation**	Tangible value creation: - Increase quality of products - Simplify customer's shopping activity Intangible value creation - Increase customer's satisfaction	Tangible value creation: - Increase product quality - Increase number of services Intangible value creation - Increase customer experience - Increase customer knowledge	Tangible value creation: - Increase quantity of products - Reduce the price of the products - Simplify customer's shopping activity - Technology integration Intangible value creation - Increase customer experience

				- Increase customer knowledge
	Value Delivery	Tangible value delivery: - Decrease cost of delivery Intangible value creation: - Increase engagement with customers	Tangible value delivery: - Contribute on national employment Intangible value delivery: - Increase engagement with customers	Tangible value delivery: - Increase delivery service - Decrease cost of delivery - Speed up delivery process Intangible value delivery: - Increase customer experience
	Value Capture	Tangible value capture: - Profit from sales Intangible value capture: - Increase brand awareness	Tangible value capture: - Increase number of contact Intangible value capture: - Increase knowledge and skills in fashion industry - Gain business practice experience	Tangible value capture: - Profit from sales - Increase number of customers - Commission fee - Increase number of contact Intangible value capture: - Increase brand awareness

In The Goods Dept, there is a curation process and formal contract for retailers who want to cooperate with The Goods Dept. The Goods Dept has higher bargaining power compared to the retailers. The Goods Dept determines most of the agreements, yet the retailers are allowed to negotiate. On the other hand, in IFC's network, the bargaining powers of all members are equal. The agreements are made through discussions of IFC management team and the members. However, the network is considered as unstable since there is no certain time period of collaboration, which can cause the members to disappear easily. In Zalora Indonesia's multidimensional value net, the network structure consists of partners from various industries. Each partner has different agreement and contract. Zalora maintains the relationship with all parties to preserve the entire network.

The business model in The Goods Dept's vertical value net involves value exchanges in the form of money, products, services, information, and brand awareness. The Goods Dept shares money, services, information, and brand awareness, while the retailers need to supply products. In IFC's network, the values that are being exchanged are programs, information, knowledge, and business practice experience. IFC conducts programs and business practices that generally useful for the members. The information and knowledge are freely shared between members. Lastly, the value exchange happens in Zalora Indonesia's network includes money, products, services, information, and brand awareness. Those values are shared regarding the agreement of each partner.

The business model innovation of The Goods Dept has several strategies, which are integrated with the retailers. The type of business model innovation is revenue model, since it is intended to gain more profit. By creating new offerings, the level of innovation of The Goods Dept's business model is considered as incremental. Next, IFC's business model innovation includes inviting young designers and actors from different industries. Therefore, the type of the business model can be categorized as enterprise model. IFC conducts incremental innovation, since it is innovating on its network structure and programs. The purpose of Zalora Indonesia's business model innovation is to gain more profit, which can be categorized as revenue model type. Zalora Indonesia is implementing industry breakthrough innovation by combining various industries in one network.

In The Goods Dept's vertical value net, the value creation consists of increasing product quality, simplifying shopping activity, and increasing customer satisfaction. To deliver the value, The Goods Dept decreases delivery cost and increases customer engagement. Then, the retailers will gain profit from sales and brand awareness as the value capture of the network. Meanwhile, in IFC's horizontal value network, the value creation includes increasing product quality, number of services, customer experience, and customer knowledge. In delivering the value, IFC contributes on national employment and increases customer engagement. Then, the members of IFC could capture the value of increased networking, knowledge, and business practice experience. Zalora Indonesia creates more values compared to the two other networks. In creating value for customers, Zalora increases service quality and product quantity, reduces price, simplifies shopping activity, integrates technology, and increases customer experience and knowledge. Then, Zalora delivers the value by increasing delivery service, decreasing delivery cost, and speeding up delivery process. Lastly, values that can be captured by the members are profit, increased number of customers, commission fee, and brand awareness.

CONCLUSIONS

The Goods Dept has the most rigid network governance compared to the other two networks. The curation process of The Goods Dept is very strict. It is often difficult for the fashion retailers to join The Goods Dept. It determines the contract, collaboration guideline, and decisions. However, it also conducts two-way communication that enables the retailers to negotiate and give suggestions. Therefore, The Goods Dept's network characteristic does not close the opportunity of new innovations and ideas. The innovations applied in The Goods Dept's business model aim to gain additional revenue. The level of innovation is rather incremental. The Goods Dept creates the least value outcomes. Most of the values are created for the customers, and the value capture for the members is low.

IFC's horizontal value net has flexible structure and governance. The decisions are based on the discussion of all members. IFC is a non-profit organization and its business model focuses on innovating its network's structure, which leads to enterprise model type. This type of incremental innovation solely leads to the intangible value exchange, such as knowledge and contacts. Therefore, IFC is suitable for young and inexperienced fashion practitioner to gain experiences and knowledge.

Zalora Indonesia's multidimensional value net is also flexible and enables high number of cooperation. The contracts and decisions are made based on the agreements of all members within the network. The business model innovation can be categorized as the revenue model as it needs to gain profit to maintain and develop their business. Moreover, Zalora Indonesia has the highest level of innovation, which is industry breakthrough, since it can combines various industries in one network to produce fashion e-commerce platform. This network creates the most value outcomes, including value creation, delivery, and capture.

Based on the analysis, there are several recommendations that can be addressed for Indonesian fashion industry players regarding to business model innovation from network perspective. The recommendations are:

- Actors in fashion industry need to understand their current business model and their internal condition such as their resources, limitation, and potential
- Fashion industry players need to identify the potential networks that they can join, and find out the positive and negative aspects by joining the network
- It is very recommended for the fashion industry actors to join at least one network since it brings many advantages for the future business, such as increase profit, expand business, and others
- The collaboration guidance needs to be clear to create favorable cooperation and maintain the relationship within network
- It is advisable to create two-ways communication within the network to enables the occurrence of innovations and improvements

REFERENCES

Amit, R. & Zott, C., 2010. Business Model Innovation: Creating Value in Times of Change. *IESE Business School.*

Bititci, U. S., Martinez, V., Albores, P. & Parung, J., 2004. Creating and Managing Value in Collaborative Networks. *International Journal of Physical Distribution & Logistic Management Vol 34 No 3/4,* pp. 251-268.

Dellyana, D., 2016. A Network Perspective on Business Model Innovation in Music Industry. *PhD Dissertation, Institut Teknologi Bandung.*

Eisenhardt, K. M., 1989. Building Theories from Case Study Research. *Academy of Management Review,* 14(4), pp. 532-550.

Frankenberger, K., Weiblen, T., Csik, M., & Gassmann, O. (2013). The 4I-framework of business model innovation: an analysis of the process phases and challenges. International Journal of Product Development, 18(3/4), 249-273

Fu, R., Qiu, L., & Quyang, L. (2006). A networking-based view of business model innovation: Theory and method. Communications of the IIMA, 6(4), 81-87.

Midiani et al. (2015). Rencana Pengembangan Industri Mode Nasional 2015-2019. Jakarta : PT Republik Solusi.

Moller, K., Rajala, A. & Svahn, S., 2005. Strategic Business Nets-Their Type and Management. *Journal of Business Research,* pp. 1274-1284.

Patton, M. Q., 2001. *Qualitative Research & Evaluation Methods.* s.l.:SAGE Publication.

Patton, M. Q., 2005. *Qualitative Research.* s.l.:John Wiley & Sons, Ltd.

Schreiber, J. B. & Asner-Self, K., 2011. *Educational Research.* 1st ed. s.l.:Wiley.

Weill, P. & Vitale, M., 2001. *Place to Space: Migrating to E-Business Models.* Boston, MA: Harvard Business School Press.

Wu, X. & Zhang, W., April 15-17, 2009. *Business Model Innovations in China: From a Value Network Perspective.* Indianapolis and Bloomington, Indiana, US-China Business Cooperation in the 21st Century: Opportunities and Challenges for Entrepreneurs.

Yin, R. K., 2014. *Case Study Research Design and Methods (5th ed.).* Thousand Oaks, CA: Sage.