Value Creations Through Co-Creation and Collaboration Strategy in SMEs Creative Industry

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Abstract

The study focuses on fashion Small Medium Entreprises (SMEs) in Indonesia utilizing strategies and efforts to develop value creations. It is generated by co-creation and collaboration strategy which are supported by market attractiveness and dynamic capabilities. The objectives of this study are to perform analysis on co-creation, collaboration strategy and value creations of SMEs in fashion industry. The research method is descriptive and explanatory survey. The sample size are thirty one SMEs in Bandung and Partial Least Square (PLS) technique was used to test the hypothesis model. The unique findings is co-creation and collaboration strategy have influence on value creations. Market attractiveness or potential profitability be a major input in formulating and implementing both strategies. The phenomena depicted that optimizing market attractiveness and dynamic input capabilities can help SMEs formulate and implement co-creation and collaboration strategy more effectively to create value for customers (value creations). This research gave theoritical recommendation for fashion industry to enhance their value creations process and to develop co-creation and collaborations strategy.

Abstrak

Studi ini berfokus pada Usaha Kecil Menengah (UKM) yang bergerak di bidang industri fashion di Indonesia dalam menggunakan strategi dan upaya untuk mengembangkan penciptaan nilai. Hal tersebut dihasilkan oleh strategi co-creation dan kolaborasi yang didukung oleh daya tarik pasar dan kemampuan dinamis. Tujuan dari penelitian ini adalah untuk melakukan analisis pada co-creation, strategi kolaborasi dan penciptaan nilai UKM dalam industri fashion. Metode penelitian yang digunakan adalah deskriptif dan survei eksplanatori. Ukuran sampel sebanyak 31 unit UKM di Kota Bandung dan telnik Partial Least Square (PLS) digunakan untuk menguji model hipotesis pada penelitian ini. Temuan uniknya adalah co-creation dan strategi kolaborasi berpengaruh pada penciptaan nilai. Daya tarik pasar menjadi input utama dalam merumuskan dan mengimplementasikan kedua strategi tersebut. Fenomena ini menggambarkan bahwa dalam mengoptimalkan daya tarik pasar dan kemampuan dinamis dapat membantu UKM merumuskan dan menerapkan strategi co-creation dan kolaborasi secara lebih efektif untuk menciptakan nilai bagi pelanggan. Penelitian ini memberikan rekomendasi teoretis bagi industri fashion untuk meningkatkan proses penciptaan nilai mereka dan untuk mengembangkan strategi co-creation dan kolaborasi.

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INTRODUCTION

Globalisation and growing competition have made adaptation as one of the best business practice. Increasingly complex business environment along with the development of information technology have forced Small Medium Enterprise (SMEs) to become more responsive to changing market demand. The marketing strategy selected by SMEs must be in-line with the development or ongoing trend that meet the need and demand of the market. Fashion industry is one of the industry that is very dynamic, where products varies and customers have different preferences. Fashion trends changes quickly, where fashion is part of a customer’s lifestyle and not only a basic necessity. Changing fashion trend is an opportunity for SMEs engaged in this field to be more creative in developing and marketing their products. In 2016, the creative economy contribution for national economy is 7.44 percent or about 922.59 trillion Rupiah and projected to increase, exceeding to more than 1,000 trillion Rupiah in the 2017. The growth trend for labor in Indonesia’s creative industry is 5.95% or 16,91 million people (2016) working in this sector (Creative Economy Agency, 2018).

Bandung is one of the cities in Indonesia known as creative economy centre in which the fashion industry is part of the creative industry in Bandung, which can combine creativity, skill, and ability to produce a wide range of creative fashion, developing garments such as shirts, pants, jackets, and other similar products. In addition, the local fashion SMEs have strong competition with multinational department stores targeting the youth market in Indonesia’s major cities. These imported products have an advantage in terms of branding, product design and price. If there are no revitalization strategy in SMEs is developed, the competitiveness and performance of many enterprises will be weakened. In the long run, it will threaten the sustainability of the local fashion SMEs, therefore adjustment of the SME’s capabilities to match with the customer value is essential. This action is important in order to meet the ideal condition, which is a requirement to create superior customer value.

The SMEs in Bandung has a problem in their ability to match the firm’s capabilities or value with the increasingly complex dynamic of the changing industrial environment. Efforts to redefine and revitalize sustainable strategy are relevant to the fulfillment of effective strategies in facing the continual threats to the fashion industry. Observation and analysis of strategic factors in the dynamic environment, in particular internal capabilities and attractiveness of the market, have enable management to acquire the proper input in formulating strategies for creating and offering superior customer value (A. Rahayu, 2013).

Creative economy is an idea which products or services are processed with creative content and have economic value (Howkins, 2013). The economic value of a product or service in the creative era is no longer determined by the raw material or production systems such as in the previous industrial era, but by the implementation of creativity and innovation (Howkins, 2013). To increase the value of a company offering several strategies can be arise such as co-creation and collaboration strategy. The creation of superior value, from the perspective of markets or customers, requires effective interactions through co-creation and collaboration strategy between the enterprise and other elements in the market (Prahalad & Ramaswamy, 2004).

Co-creation is a term by Prahalad (2004) which describes a new approach to innovation. Prahalad & Ramaswamy (2004) served new ways to create products and experiences through collaboration with companies, consumers, suppliers, and channel partners which are interconnected in an innovation network. Co-creation acknowledges that every value created also depends on the involvement of others or, by definition, the value is co-created. A lot of value arise from the service made by several parties together (co-create). Recent developments in the logic of services by Varga & Lusch (2008) are focused on the creation of shared value also known as co-creation value. This means that the organisation does not provide value anymore but they actively participate in the process together with the customer in order to obtain the expected value from the interaction outcome.

Collaboration refers to any marketing term which is an activity that creates synergy, leverage resources, or overcome some of the problems with a single effort. This does not mean that there is no cooperative strategy, but in the contrary, their active development is at best sporadic and often unbalanced. The last decade showed how the cooperation extended beyond the traditional
boundaries of the organisation to include strategic partnerships and relationship marketing. The strategic partnership is developed based on the basic principle that it is everyone's responsibility in the given supply chain to actively contribute to the value of the end consumer. If there is someone who does not add value, he must be either eliminated or reduced until he adds value. Relationship marketing is developed on the principle that maintaining the relationship with the customer is easier than acquiring a new one. This area of marketing is still in a formative stage with companies has just started to explore how to establish and maintain strategic partnerships with them according to Bhalla (2011).

In general, companies have their own specific goal, which requires strategy to achieve it. The strategy is developed to reduce the failures and maximize the results (Urban & Star, 1991). A strategy is a basic guideline and objectives plan, resource allocation, as well as the organisation interaction with the market, competitors and other environments (Walker, Boyd, & Larreche, 2003). Jain (2000) stated that a strategy is a unity of broad and integrated plan that connects the internal strength of the company with the opportunities and threats from the external environment. A strategy substance is basically a plan. Therefore, the strategy is related with the evaluation and selection of alternatives available to the management in achieving its intended purpose.

Researchers have conducted previous studies on value and co-creation, such as Ramirez (1999), who conducted a survey on the history of alternative view of value creations associated with industrial production, where technical breakthrough and social innovations in actual value creation render the alternative value of co-production framework. Payne, Storbacka & From (2008) which focuses on value co-creation in the context of S-D logic and develop a conceptual framework for understanding and managing value co-creation. They taken into account key foundational propositions of S-D logic and places the customer explicitly at the same level of importance as the company as co-creators of value.

Co-creations as value creator has social dimensions which is studied by Ferguson, Schattke & Paulin (2016). Their research results demonstrate the critical importance of the judgment of partner trustworthiness in the co-creation of values and it was found for the entrepreneur's perspective of the partnerships with both their lead investor and with their most important scientific partner. Another view of co-creation is on the service logic perspective by Vargo, Maglio, & Akaka (2008), where social interaction and trust were significantly related to the extent of inter unit resource exchange which in turn had a significant effect on product innovation.

This research studied variables that may effect co-creation and collaborations strategy, which are dynamic capabilities and market attractiveness. Dynamic capabilities are antecedent of organisations routine and strategic where managers change the resources they have and, in order to joint, merge and combine them into a new value creation strategy. Teece, Pisano & Shuen (1997) define dynamic capabilities as the company processes in using the resources, especially the process to integrate, configure, acquire and release the resources based on the environment or environmental change.

Teece (2007) similarly recognizes that operational capabilities help sustain an organisation's technical fitness by ensuring its day-to-day operational efficiency, whereas dynamic capabilities help sustain a firm's evolutionary fitness by enabling the creation, extension and modification of its resource base, thereby creating long-run competitive success. The dynamic capabilities are the organisation routines and strategic where companies acquire new resources which are configured when the market is growing, dividing, evolving and ended. This capability can be interpreted as a "routine to learn the routines" that was criticized as not operational (Mosakowski & McKelvey, 1997; Priem & Butler, 2000; Williamson, 1999). Studies on dynamic capabilities are at center stage in the field of strategic management, however we have still limited knowledge on how they shape strategies (Deng, Liu Gallagher, & Wu, 2018).

The market attractiveness of a company in a competition is determined by five competitive forces namely the threat influx of newcomers, the threat of substitute products, buyers bargaining power, suppliers bargaining power, and rivalry among existing competitors (Porter, 2011). In turn, the relative position of a firm in a market determines the profit rate. To win the competition, a company can create two basic competitive advantages, namely: overall cost leadership and
differentiation. Both of the basic advantage associated with market coverage can produce three
generic strategies, namely: cost leadership and differentiation for a wide segment and focus for a
narrow segment. Marketing competitive advantage can be directly obtained from differentiation
and segment focus.

Based on the literature mention above, there are few research to date that study the SME's
ability to implement co-creation and collaboration strategy. This research is focuses on the
theoretical framework of value creations and variables that influence the development of value
creations in SMEs which are co-creation and collaboration strategy. The issues examined in this
study were formulated as follows: 1) How value creations are implemented by SMEs in fashion
industry in Bandung? 2) What is the effect of co-creation and collaboration strategy on value
creations? 3) What is the influence of dynamic capabilities and market attractiveness of the co-
creation and collaboration strategy, and its' impact on value creation?

METHOD

In accordance with the study objectives, the study uses quantitative approach, where data
collected are based in numbers. Through this approach the study can predict the variable that
influence other variables. The research was conducted through data collection in the field using
survey methods which is part of the descriptive research method. The data collecting process is
done in order to obtain information regarding the research variables. Data were collected through
face-to-face interview with CEOs of SMEs using a structured questionnaire. The instruments used
theories on dynamic capabilities (Bharadwaj, 2000), market attractiveness (Best, 2004), co-creation
strategy (Pralahad & Hamel, 2009), collaboration strategy (Bhalla, 2012) and value creations
(Kotler dan Keller, 2012). Surveys and questionnaires was utilized to conduct predictive and
analytical research, where the purpose is to understand relationships between variables
(Rowley, 2014).

The processed data represents the population, where the sampling process is done through
purposive sampling which is one of the most important method in a non-probability sampling
method (Sarstedt, Shaltoni, & Lehmann, 2018). The criteria is fashion SMEs in the distribution
outlet at Bandung city, which are members of Kreatif Independent Clothing Community (KICK),
about 31 members were the respondents. The study conducts the data analysis using structural
equation model analysis also named Partial Least Square Method (Smart PLS) statistical program
(Schumacker & Lomax, 1996; Kerlinger & Fedhazur, 1990). It requires an interval data scale, thus,
before the processing, the ordinal data was converted into interval scale using successive interval.
The causality correlation among variables in this study is described as follow:

![Figure 1. Research Framework](image-url)

This analysis used to obtain an overview of the variables to be studied from the
questionnaire. Descriptive analysis in this study was conducted through closed questionnaire to
collect data about dynamic capabilities, market attractiveness, co-creation and collaboration
strategy, and value creations. The hypothesis testing was conducted quantitatively and followed
up with analysis. PLS model consists of two linear equations called structural models (Inner models), that describe relationships between latent variables, and measurement (Outer models) which shows the relationship between the latent variables. PLS-SEM serves as a basis for estimating models in marketing research (Sarstedt, Ringle, & Hair, 2014).

RESULT AND DISCUSSION

Test results showing the structural model fit causal relationship latent variables to other latent variable and parameter estimation of standardized loading factor structural model, as follows:

Figure 2. Test Results Overall Structural Model

Figure 2 illustrates hypothesis testing shows the influence of dynamic capabilities and market attractiveness to co-creation strategy is significant. Both of these variables influence the co-creation strategy is 58.1%. Dynamic capabilities and market attractiveness also have a significant influence on collaboration strategy. The influence of these two variables to the collaboration strategy is 37.7%. The influence of market attractiveness, each of the co-creation strategy and collaboration strategy, greater than the influence of dynamic capabilities.

The next hypothesis testing results showed no effect of dynamic capabilities and market attractiveness of the value creations. Dynamic capabilities and market attractiveness has indirect influence on the value creations, respectively through co-creation strategy amounted to 51.4% and through collaboration strategy amounted to 22.5%. The influence of market attractiveness to value creations, either through co-creation strategy and through collaboration strategy, was greater than the effect of dynamic capabilities.
Through indepth interview with SMEs, the product quality and cost of goods sold is key factor in determining if the product created together (customer and firm) can be produced. The process of co-creation is implemented but limited, most of the SMEs have asked their customer what benefit they want in a product. The enterprise distributes its product not only in Bandung city, but also to other cities in the Indonesia's archipelago. To support this activity, the entrepreneurs develop online store, this is to facilitate transactions with customer, so customer in outer island of Java can still be able to buy the product.

The pricing of product are not the main concern for customers, their main concern is to obtain value from the products they receive. Therefore, value is perceived as the highest quality of products. Value is the quality acceptable to customers in the price they have to incur. Some customers perceived the value as a balanced exchange between money paid to the quality of products obtained. The value is derived from what is given. The customer assumes that all costs such as money, time, and effort is part of the value.

Today's consumers are more knowledgeable, networked, and vocal. For them consumption is not merely an act of buying products and services, but an expression of their creative potential. Consequently, they are demanding a say and a voice in how companies develop its product (Bhalla, 2011). According to Sun et. al (2010) collaboration theory suggests that companies need to collaborate with suppliers or customer from marketing perspective. However, customer especially end users of new product, may not have sufficient technical knowledge to help manufacturers improve the production process in order to shorten the time to market and develop innovative products.

Customer will consider the highest benefits that can be provided by the company. They want the maximum value, the search is limited by cost and knowledge, mobility, and limited income, they establish an expectation of value and act in accordance with it. According to Zeithaml, Bitner & Gremler (2006), there are four right ways for companies to set the price of services/products based on the value obtained by consumers, example: value is low price. Customers perceive that a product would be worth it if it charges a low price. Value is everything that customers want in a product or service.

The practice of co-creation strategy undertaken by SMEs in Bandung involves two main elements, namely the management of SMEs and consumers. Consumers are actively involved in the design and production processes, product development, as well as the provision of services. In order for the high quality of its involvement, the communication and interaction with the consumer needs to be improved, both the frequency and quality. This can be done by empowering digital media (online and social media sites) effectively. SMEs in Bandung should also consider implementing a collaboration strategy. Although the effect of co-creation strategy is more dominant than the effect on the value creations collaboration strategy but the collaboration with suppliers, customers, and communities are still relevant to be conducted, especially in creating and manufacturing unique products or benefits.

The market developed its' attractiveness as a major input, either in co-creation strategy and collaboration strategy, but there are also efforts to match dynamic capabilities and capacities to be achieved. Theoretically, high capabilities match the conditions or requirements that must be met in order to create a company and offer superior customer value (Cravens & Piercy, 2009). In the perspective of the market, effective strategies are related to the company's management ability in achieving and matching their capabilities or customer value. The management examine the ideal conditions, required to create and offer the value creations process in order to deliver superior customer value (Rahayu, 2014).

When capabilities mismatch occurs, the company will have difficulty achieving its performance. The inability of a company to respond to the opportunities and external threats, or a gap capability (capabilities mismatch), will lead to declining competitiveness and hamper the achievement of the company's performance (Rahayu, 2013). The company will have difficulty in maintaining and developing the internal resources and advantages (Day & Reibstein, 1997).

Consequently, customer value orientations should be made to formulate and implement strategy co-creation and collaboration strategy. The effectiveness of the foundation and direction of the chosen strategy can be traced by analyzing the amount of benefits provided and received by the
customer compared to the costs. In this context, the customer value must be oriented strategy (Rahayu, 2013). The research found dynamic capabilities and market attractiveness affect co-creation strategy and collaboration strategy, as well as having an impact on the value creations of SMEs. This is in line with previous research in dynamic capabilities of SMEs and value creation in production by Damaskopoulou, Gatautis, & Vitkauskaitë (2008) and Kaihara, Nishino, Ueda, Tseng, Vánca, Schönsleben, & Takenaka, (2018). Dentoni, D., Bitzer, V., & Pascucci, S. (2016) also studied co-creation and dynamic capabilities, where a firm can co-create their dynamic capabilities by engage with their stakeholders.

Our studies also concur to the findings of Preikschas, Cabanelas, Rüdiger & Lampón, (2017) on co-creations of value and dynamic capabilities in companies, where dynamic capabilities can develop value. Their findings suggest that co-creations can promote dynamic capabilities, the closer the firm is with their customer then the more firms are able to meet the customer’s needs. In this research we found dynamic capabilities are relevant to develop co-creations strategies. Capability is a necessary but not sufficient condition for sustaining competitive advantage in today’s dynamic marketplace; together they constitute the driving force of strategies (Deng, et.al. 2018).

SMEs must constantly study the market or continuous learning to develop its dynamic capabilities, try to match capabilities in their setting, and develop customer value as its orientation. Value creations depend on collaboration strategy and co-creation strategy of the SMEs. It is imperative that SMEs in Bandung city to strive for developing strategy to increase their dynamic capabilities in order to increase their value creations so that they can compete in the market.

CONCLUSION AND SUGGESTION

The SMEs in fashion industry of Bandung City are market driven organisations, where dynamic capabilities and market attractiveness are at the core of their business. Hypothesis testing results shows that SMEs in Bandung’s fashion industry gave more attention to market attractiveness or potential profitability compared to its dynamic capabilities in formulating and implementing co-creation and collaboration strategy. Market attractiveness or potential profitability be a major input in formulating and implementing both strategies. These variables has indirect influence on the value creations, respectively through co-creation and through collaboration strategy. Indirect influence on value creations is through co-creation and collaboration strategy, where co-creation has greater influence than collaboration strategy. The phenomena depicted that optimizing market attractiveness and dynamic input capabilities can help SMEs formulate and implement co-creation strategy more effectively to create value for customers (value creations).

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