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COLLABORATIVE BUSINESS MODEL FROM THE PERSPECTIVE OF  
VALUE NETWORK

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#### ABSTRACT

Indonesia has an abundant asset of cultural and craft products as the country comprises of profoundly diverse ethnic groups and tribes. However, numerous cultural and art products are hardly persevering to exist. In this study, we examined an approach to answer the problem, where different shareholders have worked together to incorporate and develop a collaborative business model, expectedly may optimize the potential of the local creative economy. This research was conducted under a qualitative study wherein the author observed the actual condition and phenomenon on site. It was revealed that collaboration might increase the value added for each party; furthermore, make the business more sustainable. The state leads to economic growth since the production process is conducted ethically fair.

#### INTRODUCTION

Indonesia has an abundant asset of cultural and craft products as the country comprises of profoundly diverse ethnic groups and tribes. Those products are part of the creative industry that has become a potential industry to boost economic growth in Indonesia. According to *Rencana Jangka Menengah Nasional (RPJMN) 2015-2019*, one of priority sub-agenda is to improve the acceleration of national economic growth that can be achieved through the quickening of creative-economic growth.

Indonesian batik, one of the traditional technique of wax-resist dyeing applied to the fabric, has been designated as a Masterpiece of Oral and Intangible Heritage of Humanity by UNESCO in October 2009. If all cultural and art products from across Indonesia can be developed to produce economic value, furthermore it can be monetized in domestic or global market. Many cultural and craft products are surviving to exist.

There are some issues concerning lack of competitiveness in Indonesia local products that need to be addressed. Product innovation and market access are the two main issues that cause local products cannot compete in the market. These issues are mainly faced by local craftsmen in areas far from major cities. Most of the local craftsmen are not able to create products that meet the market's demand; the design is one of the issues; others are lack of design but have sound quality in craftsmanship. One of the possible reasons is that because most of them are craftsmen by practicing, not by talent and nurture. Consequently, they do not have adequate exposure to references - both academic and industry references- regarding his work on design as well as market trend. In another side, many designers study about design and have excellent references into best practices, look for some inspiration to create new products.

Collaboration is suggested to be a key in improving the economy, especially in the creative industry (Kossen, Poel, & Reymen, 2010). As market become more competitive, stronger business will be achieved through collaborations within and between companies as the process of value creation are becoming remarkably complex, that no single companies will not be able to expert them alone (Friedman, 2005).

Starts in 2016, Indonesia Creative Agency/*Badan Ekonomi Kreatif* (BEKRAF) has a program called IKKON (*Inovatif dan Kreatif melalui Kolaborasi Nusantara*/Innovative and Creative through Collaboration), a live-in program that locates a group of creative actors in an area of Indonesia that aims to encourage and shape the development of local creative economic potential. The first batch was held in Brebes - Jawa Tengah, Rembang - Jawa Tengah, Pesawaran - Lampung, Ngada - Nusa Tenggara Timur, and Sawah Lunto - Sumatera Barat. It is expected that participants of IKKON and local communities can share, interact, explore and collaborate so that each party can benefit from each other ethically (Ethical Benefit Sharing). Furthermore, the output of IKKON can be sustainable and make the welfare improvement for the artisans.

In this article, we presented and discussed an approach wherein several actors had worked together to identify and develop a collaborative business model to optimize the potential of local creative economy.

## LITERATURE REVIEW

### Collaboration and Innovation

Several studies have stated that the interaction of different organizations plays a crucial role in fostering the innovation process (Dodgson & Rothwell, 1994; Von Hippel, 1988). To make innovation successful, organizations have to synthesize a wide variety of expertise and knowledge produced by the different complementary source (Muscio, 2007). The collaboration can expand organization expertise and can support the development of new creation. However, to successfully access new knowledge through partnerships with other parties, one actor or organization must master the capabilities required to find, access and interpret for their own need (Forfás, 2005).

The market and industry have become more competitive, and it is a primary reason for the need toward collaboration. The other reason to do some partnership is time. It will take a longer time for companies to innovate

in a silo. They need to actively collaborate within the entire ecosystem including customers across geographies (Capgemini, 2008). In the context of developing country, the role of government is significant to support establish creative business cluster (Wardani, Setyowibowo, Sabandi & Leny, 2017).

### **Business Model**

Definitions of business model vary widely; one of the ways to view the business model is from a network perspective. It focuses on how the value exchanges amongst the actors (Weill & Vitale, 2001; Komulainen, Mainela, Sinisalo, Tahtinen & Ulkuniemi, 2006; Wu & Zhang, 2009; Palo & Tähtinen, 2011). Some researchers also found that business models may represent the creating a form of entrepreneurial opportunity (Downing, 2005; Franke, Gruber, Harhoff & Henkel, 2008; Markides, 2008) and it usually comes from market imperfections (Cohen & Winn, 2007).

From a network perspective, the objective of value exchanges is to gain a better economic benefit. Furthermore, the business model can be built by determining the value exchanges between the actors and its flows (Wu & Zhang, 2009). The value can be tangible or intangible; products, services, and cash are the example of tangible values; otherwise, knowledge, influence, and exposure are an example of intangible benefits (Wu & Zhang, 2009).

There is an issue of mixed up between business model and strategy that is an entirely different thing. A plan is a dynamic set of initiatives, activities, and processes; business model is a static configuration of organizational elements and activity characteristics. A strategy may be reflexive, initiating change within the organization that impacts the emergent strategy; a business model is inherently non-reflexive. Implementing a business model may generate organizational change, but the business model itself is not a description of or recipe for change. Business models are opportunity-centric, while strategy is rather to competitor or environment centric (George & Bock, 2011).

### **The Framework of Value Network Analysis**

Value network can generate economic value through dynamic exchange amongst actors that could be one or more enterprises, suppliers, customers, strategic partner, and the community (Allee, 2000). Wu and Zhang (2009) asserted that the relations among actors include tangible flows for instance products, service, and profit; as for intangible comprises of knowledge, emotion, and influence. These flows are valued streams formed by value activities like value creation, value delivery, and value capture. These value flows link actors and constitutes network structure. Furthermore, from the perspective of the value network, a business model is the system connecting internal and external actors by value flows to create, deliver and capture value (Wu & Zhang, 2009).

## **MATERIALS AND METHODS**

The research was conducted in four months as part of Indonesia Creative Agency/*Badan Ekonomi Kreatif* (BEKRAF) program. The program is an initiative from BEKRAF to improve the local potential of the creative industry in several cities in Indonesia by creating the collaboration between selected designers with local artisans. It aims to develop new products with

better economic value than existing local products and expected to compete in the market. To achieve the goal, a business model is imperative. In this case, cooperative (koperasi) is the entity that manages the business side of the collaboration process between the local craftsmen and the selected designers.

This empirical research employed a qualitative case study approach by examining the real condition and phenomenon. Empirical research is conducted based on observed and measured phenomena, derived from tacit knowledge and experience, rather than from theory or particular beliefs. Yin (2014) proposed five techniques for case study analysis: pattern matching, explanation building, time-series analysis, logic models, and cross-case synthesis. This research was examined by using pattern matching, explanation building, and logic model. The research flow comprises of four stages: (1) Conducting literature review and desk study, (2) Conducting survey and observation to collect data, (3) Developing conceptualization of the business model, (4) Conducting FGD to refine and validate conceptual business model, (5) Finalizing theoretical and managerial conclusions.

All the data were collected during the program through a series of interview and focus groups discussion (FGD) sessions. The respondents were from several actors; there were from government, local craftsmen, and designers. The research took place in Sawah Lunto, West Sumatera, the city that rich with local crafts; especially tenun, the traditional hand-woven textiles. In total there were 11 craftsmen, 4 designers, 6 representatives from the government who were interviewed for 30 minutes – 1 hour to digest all the information and facts. It was conducted in a face-to-face meeting. The interview asked the respondents about the collaboration process, the value exchange, the network behavior and governance and regarding the earning logic of each party.

## RESULTS AND DISCUSSIONS

### Case Setting: KOPIKKON x Sawah Lunto

Indonesia Creative Agency/*Badan Ekonomi Kreatif* (BEKRAF) has a program named IKKON (*Inovatif dan Kreatif melalui Kolaborasi Nusantara*/Innovative and Creative through Collaboration) which aims to encourage and shape the development of local creative economic potential. The program promotes a live-in program that locates a group of original actors in particular areas as it has been started since 2016, like one in Sawah Lunto, West Sumatera. The region has magnificent, beautiful traditional fabric, called Tenun.

Sawah Lunto is one of the cities in the province of West Sumatra, Indonesia. The city is located at 95 km to north-east of Padang. Sawah Lunto is surrounded by three districts in West Sumatra, namely Tanah Datar district, Solok district, and Sijunjung district. Sawah Lunto city has an area of 273.45 km<sup>2</sup> consisting of four districts with a population of more than 54,000 inhabitants. During the Dutch East Indies administration, the city of Sawahlunto was known as a coal mining town. The city had died after coal mining stopped. Sawah Lunto is also called the City of Charcoal. The city is surrounded by a hill and lies jugged down as the cauldron keeps a long record of black gold history. Because it has high calories, Sawahlunto coal is quite at stake in the fulfillment of colonial needs. The quarry and busy city of mine

in its day is now a memorable moment when coal mining is no longer actively operating.

In the program, IKKON Sawah Lunto Team saw an opportunity to take advantage of existing bamboo handicrafts to pack woven Silungkang or other products. The manufacturer still follows the ability, manner, and technology owned by the artisans so that the process can run well without any constraints to create good collaboration. The packaging of this woven bamboo will be something typical and exclusive from Talawi Sawah Lunto (IKKON, 2016).

It is expected that participants of IKKON and local communities can share, interact, explore and collaborate so that each party can benefit from each other ethically (Ethical Benefit Sharing). The output of this IKKON program wants to continue so that the development process of the area can be extended and can improve the welfare of the artisans/ artisans. The output of the IKKON program is a collaborative work by exploiting the potential of the region.

This collaborative work is realized to become a prototype that is then expected to be able to continue to grow a commercial product, so it needs an entity capable of running the process of commercialization. By these considerations, it was initiated the formation of cooperative institutions that are expected to be able to accommodate the need for sustainability of the IKKON program. The institute is built in the form of a cooperative called *Koperasi Karya IKKON Bersama* (KOPIKKON), which consists of creative actors who have the same vision and mission in the development of creative economic potential. To run the business process, KOPIKKON needs a proper business model than can facilitate the collaboration process until the monetization process.

Based on problem analysis, the main issue faced by local craftsmen is the lack of innovation on product design to penetrate market outside Sumatera. The quality and the story of the product itself is vibrant to be explored and even can be sold in the global market if it is created with good concept and sound design. The IKKON program has facilitated this process, and now it is a task for KOPPIKON to monetize it under collaborative business model.

### **Collaborative Business Model for KOPIKKON x Sawah Lunto**

To run the business process, KOPIKKON needs a proper business model than can facilitate the collaboration process until the monetization process. Some elements of KOPIKKON x Sawah Lunto's business model have been identified as follow.

1. Value Exchanges:
  - a) Products: handcraft and fashion using Tenun
  - b) Data/Information: exhibitions, training, consumer demand, market trend, financial
  - c) Exposure: co-marketing activities
  - d) Knowledge: regarding the design and production process
  - e) Strategic capability: the skill of design and produce, the ability of management
  - f) Revenue: product sales
2. Value Flow:
  - a) Product flow: to craftsmen, to local partner (Kopinkra), to Kopikkon, then to consumers

- b) Information flow:
  - Flow of production: from designer to craftsmen (concept and design), to local partner, to Kopikkon (availability/stock information)
  - Flow of distribution: from marketing/sales team (demand) to the operational squad (check inventory/production) to marketing/sales team (information number and location) then to distribution facility
  - Flow consumption: from the website/store which processed by marketing/sales team
- c) Money/Cash flow:
  - Flow of production: operational squad (production capital requirements) request purchase to finance team for a product from designer.
  - Flow of distribution: the logistic team (distribution cost) request to finance team
  - Flow of consumption: the consumer channel to finance team
  - Flow of royalty: for every purchased product, sales team request royalty payment for designer
- 3. Players:
  - a) Supplier: raw material supplier (Kopinkra)
  - b) Production: designer and craftsmen
  - c) Logistic & Distribution: Local business partner (Kopinkra), logistic partner.
  - d) Sales:
    - Retail: website, e-commerce and thematic stores
    - Wholesale: hospitality industry, government institutions
- 4. Collaborative Process: Collaborative works between designer and artisan/craftsmen
- 5. Type of consumers:
  - a) The late young adult (25-50) who appreciate the slow and excellent design and high quality goods.
  - b) Their interest is in products with full-story brands and thoughtful packaging.
  - c) Price is not their main constraint, but how the brand can maintain the consistency of process, quality, story, and packaging is the most important thing.
  - d) Collaboration becomes essential especially when the partnership with similar brand level (both slow and good design goods or premium brand).
  - e) For B2B, it targets the hospitality industry and government institutions.

Based on the overall analysis, the business model of KOPIKKON x Sawah Lunto is proposed as following. In doing business, KOPIKKON will cooperate with several parties, namely local cooperatives (Kopinkra Silungkang), local communities, local government, and private parties as stakeholders who can support the business of KOPIKKON. Besides, the main thing is to collaborate with local craftsmen.

KOPIKKON will establish cooperation with local partners; Kopinkra Silungkang, as mediators and coordinators of local craftsmen. In this partnership, domestic partners and craftsmen will be responsible for the production process of collaboration products that have been developed with the designer, and then KOPIKKON will be accountable for the operation of concept development and product design and marketing process of the

product. The whole process will be fair, where the method of determining the selling price will contribute and benefit equally to every entity involved in it.

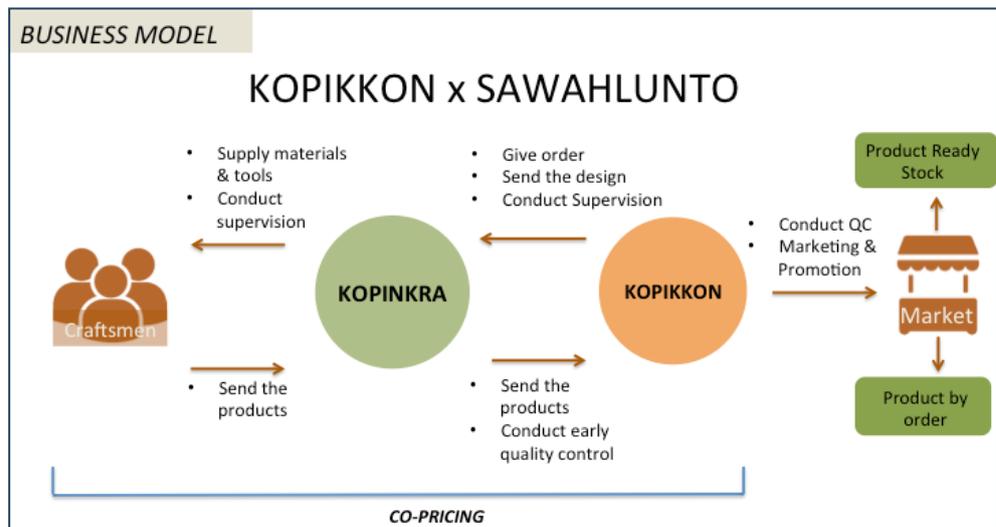


Figure 1. Business Model

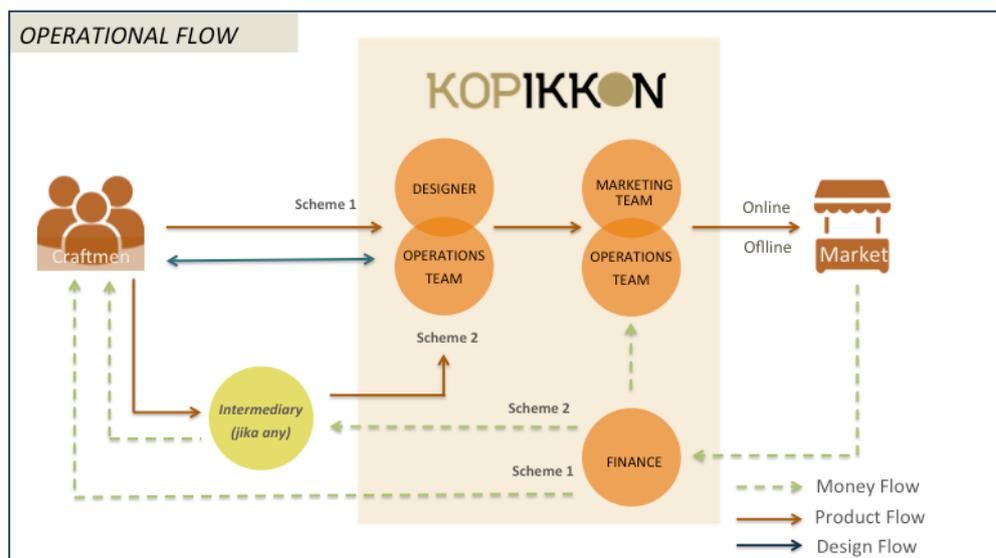


Figure 2. Operational Flow

The business process flow of the commercialization model can be seen in figure 1 and figure 2. KOPIKKON will coordinate with local partners from starting the ordering process accompanied by product design and supervising; then local partners will continue the order to local craftsmen who are members and provide the necessary raw materials and equipment. Local partners will always oversee the production process of craftsmen. Completed finished products will be collected on the domestic partner's side for initial quality control before shipment to KOPIKKON warehouse. Products that are already in KOPIKKON warehouse then must pass the quality control again before ready to be sold in the market or delivered to the customer.

KOPIKKON has five values embraced in running all business processes, namely collaboration, empowerment, fair trade, local content local value, and

sound design. These business values will be the fundamental principle in passing KOPIKKON's business decisions. The amount of collaboration between creative actors and local craftsmen and by empowering to improve the economic quality of a region will be the goal of KOPIKKON. Commercialization process will be done with fairness for all parties involved in the process of creating a product to sell to the market. The products produced will always prioritize the potential and local value packed in a quality design concept.

KOPIKKON has a mission to be a leading place in the empowerment and development of creative economy products in Indonesia. It has several purposes:

- Conducting community empowerment activities in general and Creative Economy efforts in particular
- Collect experts from various disciplines of science that include technology, art, culture, and design.
- Develop and utilize the economic, innovation and creative capabilities and efforts of its members.
- Improving services and income and raising itself for the progress of Creative Economy Enterprises of the region and Indonesian society in general.
- Increase collaboration between KOPIKKON members and stakeholders
- Develop member expertise in the field
- Increase member's knowledge on cooperative issues

The objective of KOPIKKON are as following:

- Realizing and commercializing creative design ideas to improve the welfare and standard of living of members and business actors of the local creative economy.
- Linking and fostering designer cooperation with the potential of regional creative economy effort in a sustainable manner. Being a research data center potential of the local creative economy.
- Lead and socialize fairtrade ethical conduct.
- Focusing on improving the local creative economy.
- Voice / publish local identity and pride.
- Being a place for the development of creative economy business in Indonesia

## CONCLUSIONS

Some issues about lack of competitiveness in our local products with other products in the market, such as imported products, need to be addressed. Product innovation and market access are the two main issues that make local products cannot compete in the market; these issues are mainly faced by local craftsmen in areas far from major cities. Most of the local craftsmen are not able to create products that meet with market demand; the design is one of the issues; lack of good design but have a good quality in craftsmanship. Because most of them are craftsmen that have skills by practicing but don't have much exposure to some references; both academic and industry references, that related to sound design and market trend. In another side, many designers study about design and have excellent references into best practices, look for some inspiration to create new products.

The presence of local artisans in an area often has barriers in developing their business, one of which is the lack of innovation in the resulting product, thus experiencing difficulties in entering the broader market. These obstacles are tried to be overcome by doing the process of collaboration with creative actors so that will create innovative and creative products that have high selling power.

Using the value network analysis approach with a focus on the collaboration process, the business model is proposed to optimize the strength of each actor and become stronger by doing collaboration. The local craftsmen have limited skill if they have to manage all the business process from ideation, procurement, production, and distribution until marketing and sales. With the existence of KOPIKKON along with its collaborative business model, it will help local craftsmen optimize their strength and master their skill.

The creation process will be more effective with the collaboration of designer and craftsmen. The procurement and distribution process will be responsible of local partner (Kopinkra) because it has an extensive network in sourcing materials. The marketing and sales process then will be handled by KOPIKKON in Jakarta, because it is close to the targeted market. This collaboration will increase the added value for each party and furthermore will make the business more sustainable that lead to making local economy keep growing because all process will be conducted ethically fair.

#### **ACKNOWLEDGMENT**

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