SUSTAINABILITY AS A STRATEGIC BUSINESS ORIENTATION IN GLOBAL ECONOMY RECOVERY PHASE

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FORMULATING BUSINESS STRATEGY
FOR FASHION RETAIL BUSINESS: a Case Study

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The fashion industry as one of the sub-sectors of the creative economy shows continuous growth each year. The growth in fashion industry is not always give positive impact for SMEs as competition rapidly increasing in this industry. SMEs need to review their positions in the industry and formulate business strategy to achieve competitive advantages. This research aims to study business strategy formulation of Beauty Fashion Industry (BFI), an SME in fashion industry sells fashion bags for men and women. BFI had experienced some difficulties due to competitions and had not achieved significant growth. Thus, the research question in this study is “How is the formulation of business strategy to gain competitive advantage in BFI?” Qualitative approach using case study is used to gain thorough and detailed information. Data collection method is using semi-structured interviews and documentation. SWOT analysis is used to determine BFI’s strategic position incorporating value chain analysis to analyze the internal factors, while five forces analysis is used to conduct external factors analysis. The conclusion of this study shows that the SWOT of BFI refers to the application of WO strategy. Competitive advantage can be gained by implementing the steps of the strategy that focuses on repairing the internal weakness of BFI. It is also essential to prioritize marketing improvement, especially using technology. These improvements aim to prepare BFI to seize broader market opportunities and the larger market share of the fashion industry.

Keywords: Competitive Advantage, SWOT, Value Chain, Porter’s Five-Forces

Introduction
Creative economy is one of the sectors in the Indonesian economy that continues to grow. There are 15 subsectors of Indonesia creative economy and Fashion is the 2nd largest contributing subsector (Puskompublik, 2014). Data of the year 2010 to 2013 indicated that the export of fashion products contributes an average of 64.34% of the total of the creative economy sector; and the value of fashion products household consumption reached 242.835 billion rupiahs (Kemenparekraf, 2014). Moreover, fashion subsector growth in the 2013 had reached 6.4%, which is higher than the overall growth of the creative economy sector, which is only 5.76%, and also higher than the Indonesia national economic growth (Puskompublik, 2014).

Huge business potential in the field of fashion gives micro-to macro scale of businesses the opportunity to enter the fashion industry. This condition had made the fashion industry become very competitive. Therefore, businesses in the fashion industry should have competitive advantage, differentiated advantage that is not owned by competitors, such as performing better or
performing unique ability that cannot be done by competitors and new enterances (Kuncoro, 2009: 14).

This research is a case study in Beauty Fashion Industry (BFI), an SME in the fashion retail business, which manufactures and sells handbags for men and women. BFI’s flagship product is the traditional modern handbag that blends the elements of modern and popular models with traditional Indonesian batik. BFI wants all levels of Indonesian society can preserve Indonesian traditional heritage, especially batik and be proud of it. BFI is run through e-commerce, using only social media such as facebook, instagram, blackberry messenger and other Internet messengers. However, offline marketing is still conducted by taking part in local exhibitions.

The condition of the fashion industry today should provide opportunities for BFI to develop. In reality, BFI does not experience the same condition with that of the fashion industry. BFI sales and profit decrease due to loss in competition. For example, at the peak time of Eid, BFI even lose some buyers because competitors aggressively promote and offer many discounts. Moreover, some fashion exhibitions that had been followed had not result in positive impacts on market development and sales even though BFI had already spent quite expensive cost to join the exhibition.

Seeing the rapid growth of the number of similar businesses, BFI requires appropriate business strategies to achieve competitive advantage. Therefore, before setting the strategy, analysis of success factors must be done systematically using SWOT. This analysis illustrates how the opportunities and threats of the external environment can be anticipated with the internal strengths and weaknesses (Umar, 2010: 86). SWOT Analysis is a perfect foundation for the formulation of strategies (Kajanus et al, 2004, in Jeyaraj et al, 2012). Internal factors discussed this research include the main activities and support activities performed by the BFI in the fashion industry in Surabaya, within the period February 2013 to April 2014. The main activities consist of inbound logistics, operations, outbound logistics, marketing, sales and service. Support activities include the activity of purchasing raw materials, technology development, provision of human resources and infrastructure companies (Solihin, 2012: 150-152). External factors in this study are the new enterance in the industry, consumer power, supplier power, and the existence of substitution products of BFI.

Based on this background, the research problem is formulated to address how the formulation of a strategy based on SWOT Analysis to achieve a competitive advantage BFI is. The result is expected to give valuable suggestions for BFI to achieve competitive advantage. In addition, this study is expected to add a reference in the formulation of business strategies for SMEs, particularly those working in fashion retail businesses.

**Literature Review**

Competitive advantage is the resources and capabilities that can be used to win the competition in the industry (Dess et al, 2010: 9). Competitive advantage is created through the delivery of value for consumers that exceed the cost to create it (Bamford and West, 2010: 192). Competitive advantage can also be seen from the economic performance of a company that is superior compared to competitors (Walker, 2009: 49). Efforts to achieve a competitive advantage can be done through a series of strategies, namely ideas, decisions and actions that enable companies to achieve success (Dess et al, 2010: 9) and face the competition by creating superior value (Magretta, 2012: 17). Generic strategy is one of the strategies to achieve competitive
advantage through cost advantage, differentiation and focus on one or several specific market segments (Mohammed, 2013: 265). Strategies that are derived by competitive advantage generally become powerful business strategies (Barney et al., 2001 in Liu, 2012).

SWOT analysis is a tool to facilitate the formulation of strategies (Amir, 2012: 105). SWOT analysis can form a strong foundation for the formulation of a good strategy (Kajanans et al., 2004, in Jeyaraj et al., 2012). SWOT analysis is an appropriate starting point for considerations of the proposed strategy to achieve competitive advantage (David, 2012: 331). SWOT analyzes the internal and external factors of a company. The internal factors are analyzed using the value chain to identify the strengths and weaknesses found in the resources and internal business processes performed by the company (Solihin, 2012: 147). Elements of the value chain can be seen in Figure 1.1. Furthermore, external factors were analyzed using the five forces analysis to identify opportunities and threats derived from the external environment company (Solihin, 2012: 128). According to Michael E. Porter, five forces analysis considers the rivalry among competitors in the same industry, threat of new entrants, threat of substitutes, bargaining power of buyers, bargaining power of suppliers (Kodrat, 2009: 121).

SWOT analyzes the external opportunities and internal strength to face external threats and internal weaknesses (Hunger and Wheelen, 2011: 89). Udaya, et al. (2012: 40-41) describes the "strength" as a resource or capability that is owned or controlled, and be an advantage for the company than its competitors; "weakness" is the lack of resources or ability of the company, which is detrimental in comparison to its competitors; "opportunity" as a favorable situation in the corporate environment; and "threat" as an unfortunate situation in the environment. Kodrat (2009: 122) explains the position of a company in the industry, is determined by the SWOT matrix generating four possibilities, as follows:

1. Quadrant 1, (SO), the orientation of the growth strategy of using the ability to take advantage of opportunities.
2. Quadrant 2, (ST), product and market diversification strategy by using the ability to avoid the threat.
3. Quadrant 3, (WO), a strategy turn around to face the opportunities and constraints facing internally.
4. Quadrant 4, (WT), defensive strategy to face threats and internal weaknesses.

Figure 1.1. The elements of value chain
Source: Amir (2012: 97)
After analyzing the company's position in the competition, the level of sales and SWOT of the company, structured strategy can be obtained by grouping the alternative strategies in common order (Rispianda et al., 2014). SWOT analysis helps to formulate competitive strategy and development in the long term (Zhou and Zheng, 2012). Weaknesses can be turned into strengths by repositioning based on economic, social and community psychology. In addition, there are some efforts that can be used to overcome weaknesses and threats, for example, performing Corporation Social Responsibility to improve corporate image and brand, focus on the products or services as well as experience, keep hallmark product, and add value and technology in products or services. Creating only a good business model is not enough to overcome future challenges in the industry due to the impact of the Internet revolution that force businesses to connect to the Internet business model to achieve and maintain a competitive advantage (Bohari, et al. 2013).

Research Method
Research subjects determined through purposive sampling, including BFI owners who participated in the establishment and operation considering their knowledge of the internal factors of the company; consumers of BFI who have made at least three times online purchases considering that they have already experience the value offering of BFI; active suppliers of BFI as they understand the condition of competitors and consumers in the fashion industry; and competitors of BFI as they understand the opportunities and threats in the industry. Data collected through interviews and documentation. Semi-structured interviews are used in order to be able to freely express opinions of the informant but stay focus with the purpose of research. The results of the interview will be used to develop SWOT indicators and get proposed suggestions to achieve competitive advantage for BFI. Documentation of BFI internal activities such as marketing and other operational activities are also used to show the internal deficiencies. This study uses triangulation to obtain the validity and reliability of the data. SWOT Analysis is used for data analysis to find BFI strategic position, then to formulate strategy to achieve competitive advantage.

Analysis and Discussion
Internal Factors Analysis
The internal factors consist of strengths and weaknesses, obtained by identifying activities BFI value chain, and evaluating the value creation elements and costs of the elements (Bamford and West, 2010: 155).

a) Inbound Logistic
The inbound logistic activities of BFI consist of receiving goods according to customer orders and for exhibition purposes. Sometimes, BFI divert these activities to its trusted suppliers by dropshipping. Febryan and Indahwati as the owner said that the logistics activities are very influential as they create value by minimizing stock, maximizing time effectiveness and reducing costs.

b) Operation
BFI operating activities are providing variety of fashion bags, checking the condition of inventories, packaging goods, serving customers quickly and maintaining good relationships with the consumers. These activities aim to grow trust and satisfaction of the consumers.
Operating activities are very influential for the fashion industry by creating the additional value for consumers.

c) Outbound logistics
These activities fairly influence BFI as it uses external courier services such as JNE. BFI owners explain that courier service is used to guarantee the good product condition when received by customers, and it also has a standardized delivery time and national coverage area. In the fashion industry, logistics activities are greatly affects the sellers and customers.

“Karenahalitumemberikanefektivitaswaktudanjangkauan yang lebihluasbagipengiriman.” (Owner2).
“Selamainisih BYFI pakekurir, jasakurirseperti JNE. SoalnyaterjamindanabataswaktupengirimansehinggaasampaiCustomerdengananterpercaya.” (Owner1).

d) Marketing and Sales
BFI marketing activities mainly use social media such as facebook, Instagram, and participating in local exhibitions, as well as making cards and brochures. The condition of marketing and sales activities of BFI is underdeveloped and inefficient, whereas the marketing and sales activities are very important and influential in the fashion industry.

e) Services
These activities are good enough but have not been standardized. However, BFI has never received complaints from consumers until now. Services have little effects on BFI because consumers are more concerned with the quality of products and the conditions upon receipt of goods than services. Service activities are considered quite influential in the fashion industry especially in e-commerce.

f) Procurement
These activities aim to seek first hand suppliers and craftsmen who offer fair quality with low prices and agree to supply BFI under certain agreement. These activities create value because they enable BFI to minimize inventories, storage and delivery costs using Just in Time (JIT) system. Procurement activities affect the production cost and become very influential for BFI.

“Pengaruhnyaaitjadikutisadapatharga yang murahataudapathpp, jadibisalebihmurah.” (Owner1).

Procurement activities are also considered very influential in the fashion industry, asthey greatly affect the price of the product.

g) Technology development.
The use of technology in BFI was limited to social media for sales, promotional and ordering goods. BFI use less technology than its competitors causing narrower market and less perceived company credibility by the consumers. Currently, the use of technology to sell fashion
Product through e-commerce is very influential in the fashion industry because it greatly facilitate transaction between buyers and sellers.

h) Human resources

Human resource management has little effect for BFI, as the overall operation of BFI managed only by the owners. BFI does not have any standard procedures for human resources and clear job description causes the operation activities become less effective. Human resource management has little impact especially in the online retail fashion business because companies tend not to require numbers or special skilled employees.

i) Infrastructure

Management, financial and strategic planning of BFI are not well managed yet cause moderate influence in the performance of BFI. Infrastructure tends to have moderate impact on the online fashion business.

“Jadikinerja BYFI belum efisiendan efektif.” (Owner2).
“Dari laporan keuangan dan susunan manajemen terkesan agak berantakan.” (Owner1).

External Factors Analysis

The external factors consist of opportunities and threats. External factors obtained by analyzing the structure of the industry from the identification of important aspects of competitive forces that affect the company, the evaluation of the strength and importance of each of these elements for the company, then decide what forces are enough to make the company survives in this industry (David, 2010: 146-148).

a) Rivalry within industry

Competition greatly affects BFI and similar businesses in the fashion industry. Competition is done in terms of price, stock, product design, brand, promotion and service and these continuously occur in the fashion industry. Therefore, rivalry among competitors in the industry brings a strong threat to BFI.


“Besar, karen mengharuskan BYFI bersaing dalam segala aspek. Dari segi menekan harga, meningkatkan kualitas ditambah jenis barangnya juga.” (Owner1).

b) New entrance

The force of new entrances greatly influence in the increase of rivalry in the industry. New entrances create differentiation from those of exist in the industry. With a great numbers of new entrances, BFI should consider the right target market and compete to create cost leadership, which is to sell at a cheaper price and to maintain average quality of goods. Thus, new entrances become a very strong threat.

c) Substitute product.

The fashion bags have their own market and cannot be replaced with other goods despite having the same function. Substitute products greatly affect BFI as promising a sustainable industry. Consumers, competitors, suppliers and owner BFI does not find any appropriate substitutes that cause customers to substitute the fashion bags with others.

“Karenamenurut kubarang fesyen itu gak bisa diganti. Soal barang fesyen itu, kaya punyatempat pattersendirigitu.” (Customer1).
Therefore, the difficulty of finding substitutes had become a very powerful opportunity.

d) The power of buyers

The number of influential buyers in the fashion industry is growing. This fact is moderately affects BFI because the absence of domination buyer and the opening of a large market for this segment, which is women who use the Internet. This conditionis expected to bringsgood opportunities. On the other hand, customers also create a considerable threat to the BFI due to the increase of customer bargaining power in terms of information availability among customers through word of mouth and social media, the low cost of transfer to other sellers, and low differentiation by sellers in the fashion industry.

Therefore, the increase of customer bargaining power also brings a strong threat.

e) The power of suppliers.

BFI has more than one supplier so that the cost of the transfer to other suppliers, differentiation of suppliers and influence of certain supplier over BFI have little impact. Industrial growth led to the increasing number of suppliers with their own advantages so that BFI has more options. This condition brings strong opportunities for BFI.

Suppliers become a major threat when they build forward integration, offer greater capacity and lower price. Suppliers are greatly influential in increasing the competition within industry.

Therefore, the forward integration of suppliers brings a very strong threat.

4.1.3. SWOT Analysis

SWOT analysis of BFI is using indicators from the internal and external analysis. The influences of the internal external factors are calculated as the value of weight refers to the influence of to the industry and rating refers to the effect of the indicators to the BFI. The result indicates BFI position inWO quadran. Weaknessis caused by the sales and operational effectiveness of BFI compared to the overall industry. While opportunity is widely open to ensure BFI survives in the fashion industry with the prospect of achieving a competitive advantage.
The SWOT analysis position BFI in WO position by using strategies that minimize the turn around the internal problems that can seize better opportunities (Rangkuti, 2014: 21). In this condition, BFI can use strategies to maintain its market and develop new market and products (Mohammed, 2013: 186). These strategies can be achieved by applying a low cost strategy because the fashion industry, including BFI customers, competitors and suppliers, are affected by the price of the product.

“yakalaumenurutkusharganya BYFI itubersaing. Trus kayak jadi kayak kebanyakanelbihmurahsihdari pada online shop lain. Truskalaukuualitasnyasih, kalau menurut kuitusesuaimaharga yang diakasih.” (Customer 1).

“The WO strategy is done by maintaining the lowest possible cost of the company activities, without abandoning service and quality, as follows: 1. BFI marketing is done through social media such as facebook and Instagram to do promos or Shop for Shop advertisements minimal cost. Marketing activities should involve customer, for example: online contest with prizes to encourage customers to voluntarily market BFI. Minimize marketing costs can also be done through publishing positive comments of the customers.

“Trushabisgituapa review testimonial itu review-review itubersaing banyakanlebihmurah orang pasti kaya lebihpercaya kula itu review-review itubersaing banyakan yang beli barangnya juga kaya.” (Customer 1).

Add payment options to facilitate payment instead using BCA transfer only. Minimize employee cost by minimizing the number of employee, givesalary and bonus based on the number of sales. Use more technology to minimize human resources, support marketing and sales activity, such as websites and social media that can increase interaction with customers, ease consumer transactions. Website can be used by consumers to communicate with the owner or other consumers who are online, get referral of similar products with the products chosen and give product reviews.

2. Using the opportunity to improve cooperation with suppliers, by establishing agreements that benefit both parties with the main goal to minimize storage costs, and unsold inventory. BFI can make a new agreement in which BFI role as one part of the supplier warehouse and helping suppliers ship products to other consumers are close to the location of BFI to reduce shipping cost. BFI stores consignment stock within period of time to minimize the unsold, especially when BFI join exhibition.
3. Design and procurement of low cost product.
Production should focus on simple design to ease production process and inexpensive packaging material.

Moreover, to reduce the production cost for traditional modern products, BFI should avoid mark-up of the price of materials from the craftsmen and buy the material directly from factories or main distributors.
Conclusion

Internal analysis indicates that the strength of BFI are its procurement activities and technologies that support the main activity in reducing costs and increasing the operation effectiveness and quality control, while the weakness are in the marketing, distribution and technology that are less developed and unstandardized, human resources and infrastructure. External analysis results show that BFI faces opportunities from the aspects of substitution product, market share, availability of suppliers and customers. On the other hand, threats for BFI are include rivalry, new entrants, bargaining power of customers and suppliers forward integration. SWOT analysis showed WO position and the competitive advantage strategy should apply low cost strategy to expand the reach of market share, develop products and delivery to customers, increase collaboration with suppliers and reduce the operational cost. This study gives some suggestions to overcome the problems of BFI, but the results of this study should not be generalized. Future studies can be developed to include a wider scope or use other analytical tools to complement the reference to the formulation of strategies for SMEs engaged in the online retail fashion business.

References


