STRATEGIC DRIVERS AND CONSTELLATION OF VALUE INNOVATION – APPLICABILITY AND VALIDITY OF VALMEA (VALUE MODES EFFECT & ANALYSIS)

1. INTRODUCTION

During 2007-2008, the Indonesian construction and property sector experienced a slowdown as the impact of (global) economic downturn. This challenging economic condition affected the hotel business as well. In this situation, innovation plays a major role for the survival and/or growth of a firm or business. At that time, *condotels* (condominium hotels) being openly offered (sold) to public and gained the interest of potential investors. This type of property is privately owned by individuals, whom are willing to "give up" their ownership to become a shareholder/stakeholder in a newly created business (in this case, hotel service). In exchange, those individuals are entitled for *passive income*, a share of revenue from the hotel business. To maximize their share of revenue, the buyers may as well act as marketers in order to attract potential end-customers (i.e. hotel guests). This is to say that, instead of offering a condominium in a "conventional" way, property developers and agents offer a business-creating property for the potential buyers. Hence,

at that time, this innovative offering is more about business concept/model (and considered as value innovation) rather than technology, and is driven by certain strategic factors. The created value in a constellation or network, as the result of value innovation, seems to be complex and/ or multifaceted. Therefore, the purpose of this paper is to identify the strategic driving factors of value innovation and to describe the constellation of actors in creating various types of value.

2. THEORETICAL BACKGROUND

2.1 Value

The use of the term “value” across disciplines has made it such a complex concept. In Accounting, we may be familiar with *economic value added* (e.g. Lovata and Costigan, 2002), while *market value* is widely applied in Finance (e.g. Hirschey, 1985; O’Byrne, 1996). The concept of *added value* appears in Operations Management literature, especially Lean and/or Six Sigma (e.g. Harry and Crawford, 2005; Womack and Jones, 1996). In marketing (see e.g. Flint et al., 2011; Pynnönen et al, 2011; Yi and Gong 2013), value is a popular concept and considerably is one of the central themes. Although the majority of marketing publications tend to be customer-oriented when defining value (this is what we recognize as *customer value*), there are publications which emphasize on value that customers create for a firm, i.e. *customer lifetime value* (e.g. Berger and Nasr, 1998; Stahl et al., 2003; Wu et al, 2005; Zhang et al, 2010).

Therefore, in a general sense, value comprises both *monetary* and *non-monetary*. This categorization is well aligned with *exchange* and *use* value, where exchange value emphasizes on the former while use-value the latter. Apparently, this has become the primary aspect that distinguishes between *goods*- and *service-dominant* logics of value creation (Vargo et al., 2008).

Value is the overall assessment of product utility based on what consumers received and gave (Zeithaml, 1988). Other than utility (as an absolute measure), *price* has been utilized as a relative measure of exchange value (Padula and Busacca, 2005). Value is related to preference and evaluation of product attributes, attribute performance, and consequences in use situations (Woodruff, 1997). Value as an interactive relativistic preference experience (Hollbrook, 1999) indicates that value involves customer's interaction with and judgment on an object (in comparison with other objects) in various situations, including use situation. Mele and Colurcio (2006) refine these definitions of customer value into customer's achievement of satisfactory experiences of buying and consuming goods and services, in which the judgment regarding the level of excellence of the provided value is made in comparison with another objects or another firms. Up to this point, the definitions of customer value deal mainly with purchase and use contexts.

Publications such as Golfetto and Gibbert (2006) and Möller and Törrönen (2003) indicate the shift of view on what customers judge in sculpting their perception of value, i.e. from *object* (product or service) to *competencies*. Therefore,

this emerging view recognizes that customer value occur in the production/supply context as well as making the conceptualization of value in Operations Management (such as in Lean and/or Six Sigma) relevant.

Recognizing the existence and interconnectivity of value in different contexts, Setijono and Gunasekaran (2010) present Value Modes Effect & Analysis (ValMEA), as shown by figure 1. *Core value* is related with the fulfillment of customers' needs/wishes. Suppliers (producers) *added value* by including certain features and/or providing additional services to stay effective, efficient, and having close relationships with customers. As Grönroos (1997) suggested, core value and added value influence the perception of value while customers purchase or buy the product/service (*perceived value*) as well as at a later stage during the use (consumption) of the product/service (*value-in-use*).

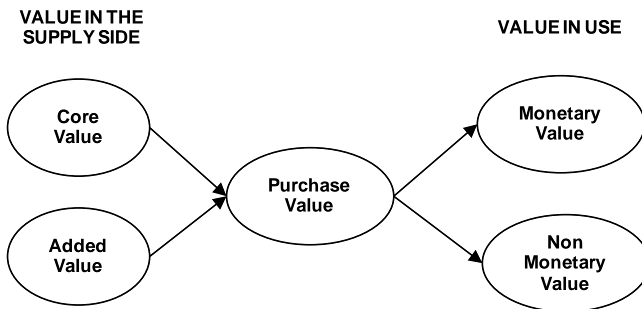

Figure 1. Value Modes Effect & Analysis (ValMEA)

2.2 Value Innovation

Value innovation, also known as *strategic innovation* (Markides, 1997; Schlegelmilch et al., 2003) or *business-model innovation* (Baden-Fuller and Mangematin, 2013; Casadesus-Masanell and Zhu, 2013; Markides, 2006; Zott et al., 2011), is the reconceptualization of the industry/ business model (or "breaking" the rules of the "game") in order to create fundamentally new and superior customer value, where successful value innovation is embedded in a company's entire network of relationship, i.e. company's suppliers and other network partners (Giesen et al., 2007; Matthyssens et al., 2006). Value innovation is about making the competition irrelevant and creating new markets (Kim and Mouborgne, 1997; 1999a) to delight the existing customers and attracting new ones (i.e. mass market) by finding the shared/common sought values. Value innovations offer something new to the industry/market (and may potentially change the structure of an industry), although not necessarily to the world (Berghman et al., 2012; Garcia and Calantone, 2002). Therefore, strategic innovation creates and/or revitalizes a company's business idea and concept by changing the firm's market, competencies, and business system (Drejer, 2006) where the success is determined by the ability to connect with strategy (Dobni, 2008).

The primary objective of value innovation is not to outperform competition and it does not segment markets in order to accommodate customers' individual needs and differences (Kim and Mauborgne, 1999b). The focus of value innovation is not on technology (Giesen et al., 2007;

Matthyssens et al., 2006), which makes it distinct from technological innovation (Kim and Mauborgne, 1999b). However, similar to radical product innovation and disruptive technological innovation, value innovation falls into the category of disruptive innovations (Markides, 2006).

Value innovation provides a package (total solution), extraordinary experiences, and at the same time reducing cost for the company (Kim and Mauborgne, 1997) as the result of combining between *eliminating*, *reducing*, *enhancing*, and *newly creating* key elements of product, service, and delivery (Kim and Mouborgne, 1999a). According to the business model innovation map presented by Florén and Agostini (2015), business model innovation may take one or more of the following forms: extension (e.g. Bayer), revision (e.g. Amazon and Dell), or transformation (e.g. Ryan Air). Hartman et al. (2013) describe that business model innovation involves modification or introduction of a new set of key components (internally focused or externally engaging) that enable the firm to create and appropriate value. Therefore, as Giesen et al. (2007) describe, value innovation may be manifested as: (i) the redefinition or creation of new industries (*industry model*), (ii) reconfiguration of existing offerings and pricing models (*revenue model*), and (iii) change of role/position in the supply chain by extending the network as well as configuring capability/assets (*enterprise model*). It is important to note that business model innovations may not discover new products or services, but simply redefine the existing product and the way it is provided to the customers (Markides, 2006).