

FORMULATING BUSINESS STRATEGY FOR A SOCIAL BUSINESS COMPANY; MAXIMIZING MALUKU'S BIG POTENTIAL OF SEAWEED

Mustika Ganiamalia and Mohammad Hamsal

School of Business and Management

Institut Teknologi Bandung, Indonesia

mustika.ganiamalia@sbm-itb.ac.id

Abstract—*Maluku is one of province in Indonesia which is rich with natural resources, but in the same time Maluku is one of the poorest provinces in Indonesia. One of possible cause is not yet managed natural resources in the Maluku optimally. Maluku Ventura is a social-based company that will manage one of the natural resources that exist in the Maluku professionally. Resource that has great potential in Maluku and will be managed by Maluku Ventura is seaweed. Trading of cottonii dried seaweed in the Maluku began to grow since the last five years. Dried cottonii of Maluku is in great demand because buyers have a relatively better quality than the dry cottonii from other areas, for example from South Sulawesi. Buyers, particularly exporters began looking for a dry cottonii from Maluku because of the larger physical size than dry cottonii from South Sulawesi. This final project aims to analyze the development of business model for Maluku Ventura. And for the next step is preparing business strategy using a diamond model. The methodology used is literature study and survey to collect data. After data is collected, the next step is to make the business model. Business model used in this final project is a model of Hamel. In this model, the business model is divided into four pillars: core strategy, value network, strategic resources and the interface with the target group. Core strategy of the company was started by defining the vision of Maluku Ventura, which to be the biggest and sustainable social company in Maluku to increase Maluku's people quality of life. The core business of this company is raw dried seaweed trading. While for the value network of Maluku Ventura is creating the group in the training season. This group consists of farmers and their families. Training will be held to improve their knowledge. Strategic resources for*

Maluku Ventura are funding the farmers by cooperation with local banks and also employees with high skills. While the last pillar of the business model is interface with the target group. In this pillar, China is the main target of the Maluku Ventura. After develop the business model, the next step is to formulate a business strategy by using a diamond model. Arena for Maluku Ventura is factories and processors in China. While the vehicles for Maluku Ventura is to do a vertical alliance. For staging and pacing, Maluku planning to do direct trading in 2012, build processors in 2014 and build end user factory in 2017. As differentiators, Maluku Ventura builds brands and do price competition. Economies of scale play an important role in the economic logic stage, through economies of scale, Maluku Ventura can reduce costs.

Keywords: business model, business strategy diamond model

I. INTRODUCTION

Indonesia has a very long coastline. State of Indonesia's land area is 1.9 million km² and sea area of about 7.9 million km² (indonesiavancouver.org, 2012). These data shows that Indonesia has big potential to become maritime nation. This condition is such a contrary to our current condition as the Agricultural Nation.

By having many islands, there are the imbalances of population distribution between islands. The imbalance of population distribution forces the imbalance of economic distribution as well. This condition will be proved by the GRDP distribution in table below. Table below grouping the GRDP based on some major areas or islands in Indonesia. GRDP is the aggregate of

gross value added (GVA) of all resident producer units in the region (nscb.gov.ph, 2011).

Table 1. Percentage Distribution of Gross Regional Domestic Product

Area	2009	2010
Sumatera	22,65	23,03
Jawa	58,58	58,12
Bali and Nusa Tenggara	2,73	2,71
Kalimantan	9,19	9,13
Sulawesi	4,56	4,61
Maluku and Papua	2,29	2,37
Indonesia	100	100

(Source : Indonesia central statistical agency, 2010)

As we can see at table above, Java distributes more than 50% for Indonesian GRDP. While Sumatera distributes for more than 23% and the rest area distributes no more than 10% each. This condition indicates that occur the inequality of economic distribution in Indonesia. Many islands or area or province that hasn't developed maximize. As a group, Maluku and Papua, has the lowest GDP among the others. If break down the number, in 2010, Maluku (includes North Maluku) contributes about 0,3% from total GRDP in Indonesia, while Papua contributes about 2,1% from total GRDP in Indonesia. So, we can say that Maluku has the lowest GRDP in Indonesia.

Maluku is one of the oldest provinces in Indonesia. The biggest commodity in Maluku comes from fishery sectors. This condition is supported by the geography of Maluku which is 90% of the area is ocean.

Fishery sector in Maluku is divided into some commodities as follows:

Table 2. fisheries commodities in Maluku

Commodities	Field availability	Total Production (tons) in 2009	Value of Production in 2009 (Rp 000)
Grouper	104.000 Ha	18.043	635.554.290
Seaweed	206.000 Ha	50.543	304.218.619
pearl oyster	73.400 Ha	935.953	1.177.996.083
Sea cucumber	28.000 Ha	506	1.372.468.872
Others	83.000 Ha	7	21.275

(White snapper, Lobster, Shellfish, etc.)			
Total	494.400 Ha	1.005.052	3.490.259.139

(Source : malukuprov.go.id, 2010)

Pearl oyster has the biggest contribution for total fishery production in Maluku. Even if we see from the value, sea cucumber has the biggest value among them. If we see from field availability, Seaweed has the biggest field availability. This condition is contrast with the total production of seaweed that is still low.

Seaweed is one of potential commodity in Indonesia. Based on data from the Ministry of Maritime Affairs and Fisheries, Indonesia has vast areas for seaweed culture activities reached 1.1109 million ha, but the development of seaweed culture have utilized the area for only 222 180 ha or 20% of the total area of potential.

The low of economic development of Maluku and the high potential of seaweed in Maluku encourage the developing of Maluku Ventura. Maluku Ventura is a social based company that will manage resources (seaweed) in Maluku professionally. Maluku Ventura will be a sustainable company that is dedicated to increase the level of economy in Maluku by maximizing the potential of seaweed and exporting the seaweed to processors in China.

II. BUSINESS ISSUE EXPLORATION

By having area that mostly 90% consists of sea, Maluku has a very large fishery potential. From all potential availability area, seaweed has the largest area availability. But currently, the level of seaweed production in Maluku is still very low, this condition proves that seaweed industry has not been seriously handled. Management is questioned, this management including the development of knowledge in terms of both about natural resources and human resources, as well as supply chain management. For that, it takes a company or organization or anyone willing to manage the seaweed industry in Maluku professionally.

Maluku Ventura see that condition as an opportunity. Maluku Ventura will buy the seaweed directly from farmer and export the seaweed to factories and processors in China. But there are several factors that has to be

considered by Maluku Ventura in running seaweed business:

1. Seaweed as commodity product

Maluku Ventura will trade seaweed as raw dried seaweed. Trading raw dried seaweed means trading a commodity product that will difficult to differentiate Maluku Ventura's product with its competitor's product.

2. Political Factor

Indonesian government also has plan to make some regulations for seaweed industry such as gives restrictions on export quotas, asks seaweed exporters to must be registered and must have a processing plant in the country, authorizes the cooperative to export seaweed, and sets a floor price based on the type of seaweed.

3. Social Factor

Based on the survey, Maluku's people believe in "tiga batu tungku" (three-stone stove), or three leaders or aspects that can regulate and influent the norms in society. Those aspects are government, tradition and religion.

4. Environmental Factor

Environment is one of the most important factors for seaweed cultivation. The environment parameters that need to be considered include: availability of seeds, ocean currents, ocean bottom conditions, ocean depth, salinity, pollution and labors.

A. Conceptual Framework

Maluku has big potential of seaweed. Unfortunately, this potential has not been developed optimally. Maluku Ventura will manage and maximize this potency by buying the seaweed at the fair price from farmers directly and selling the seaweed the buyer. Maluku Ventura also will conduct some training in order to develop the capability of farmers. In the other hand, Maluku Ventura as social based company aims to satisfy the social needs in Maluku. One of big necessity of Maluku's people is job opportunity. While as trading company, Maluku Ventura could not absorbs huge of labors.

Maluku Ventura as a company should find the best business model and strategy to make this company sustain and fulfill the social needs of Maluku's people.

B. Method of Data Collection and Analysis

To formulate the business model and strategy for Maluku Ventura, it takes the following steps:

1. Observing and collecting data
2. Formulating and identification
3. Literature Study
4. Developing and setting business model and strategy

5. Implementation

C. Analysis of Business Situation

Maluku Ventura is a new social business company that developed to manage the Maluku's high potency of seaweed. Maluku Ventura's main product is raw dried seaweed that is a commodity product. Maluku Ventura will run the business by doing fair trading (the price align with world-wide market price) and conduct training or the farmers and their families in order to increase their knowledge.

Social business is a non-loss, non-dividend company designed to address a social objective within the highly regulated marketplace of today (Yunus, 2011). In fact, there is no such thing as "non-social" entrepreneurship because even the ordinary entrepreneurship creates job opportunities that important for social function. But social entrepreneurship is not opposed to make profit. It has to make profit but the profit has to stay in the company. The owners or the investors are not allowed to take money beyond the investment.

Purpose of the investment is purely to achieve social objectives through the operation of the company. So, it has to run the company, cover all of costs and in the end makes profit. This profit is used to achieve the social objectives. The purpose of this business should affect the people or community instead of monetary objectives. The creation of social value is the primary objective of the venture, while economic value creation represents a necessary but not sufficient condition (Mair and Marti, 2006).

As a new company, plus it is a social business which is a new category of business, Maluku Ventura need to develop a business model and business strategy in order to create a big and sustainable company.

In the most basic sense, a business model is the method of doing business by which a company can sustain itself-that is, generate revenue. The business model spells out how company makes money by specifying where it is positioned in the value chain.

According to Hamel Business model is a business concept innovation put to practice. Business model, described by Gary Hamel (Hamel, 2000), has several elements that are based on business and corporate strategy planning process. Hamel's business framework is used to analyze the business models of actors. Hamel's framework comprising four primary elements:

1. Core strategy – this includes the business mission, its product market scope and its basis for differentiation
2. Strategic resources – the organization's core skills, assets and processes that deliver the core strategy
3. Value network- the organization's external suppliers, partner and coalitions.
4. Interface with the Target Group – how customer interface with and experience the organization, including fulfillment/support, information/insight, relationship and pricing

After develop the business model, we can formulating the business strategy. Strategy is often defined as a contingent plan of action designed to achieve a particular goal. Strategy is concerned with making choices among two or more alternatives. When choosing a strategy, the firm decides to pursue one course of action instead of others. The choices are influenced by opportunities and threats in the firm's external environment. The fundamental objective of using any type of strategy is to gain strategic competitiveness and earn above – average returns.

Good strategy formulation means refining the elements of the strategy. Based on strategic management process, Hambrick and Fredricson offer the concept to be a framework related to formulation and analysis of the strategy, there are five elements of strategy that are called business strategy diamond. These five elements are arenas, vehicles, differentiators, staging and pacing, economic logic.

A strategy has five elements:

1. Arenas

The most fundamental choices strategists make are those of where, or in what arenas, the business will be active. In articulating arenas, it is important to be as specific as possible about the product categories, market segments, geographic areas, and core technologies, as well as the value-adding stages (e.g., product design, manufacturing, selling, servicing, distribution) the business intends to take on.

2. Vehicles

Beyond deciding on the arenas in which the business will be active, the strategist also needs to decide how to get there. Specifically, the means for attaining the needed presence in a particular product category, market segment, geographic area, or value-creation stage should be the result of deliberate strategic choice.

3. Differentiators

A strategy should specify not only where a firm will be active (arenas) and how it will get there (vehicles), but also how the firm will win in

the marketplace—how it will get customers to come its way. In a competitive world, winning is the result of differentiators, and such edges don't just happen. Rather, they require executives to make upfront, conscious choices about which weapons will be assembled, honed, and deployed to beat competitors in the fight for customers, revenues, and profits.

4. Staging

Choices of arenas, vehicles, and differentiators constitute what might be called the substance of a strategy—what executives plan to do. But this substance cries out for decisions on a fourth element— staging, or the speed and sequence of major moves to take in order to heighten the likelihood of success. Most strategies do not call for equal, balanced initiatives on all fronts at all times. Instead, usually some initiatives must come first, followed only then by others, and then still others. In erecting a great building, foundations must be laid, followed by walls, and only then the roof.

5. Economic Logic

At the heart of a business strategy must be a clear idea of how profits will be generated—not just some profits, but profits above the firm's cost of capital.⁸ It is not enough to vaguely count on having revenues that are above costs. Unless there's a compelling basis for it, customers and competitors won't let that happen. And it's not enough to generate a long list of reasons why customers will be eager to pay high prices for your products, along with a long list of reasons why your costs will be lower than your competitors'. That's a sure-fire route to strategic schizophrenia and mediocrity.

The most successful strategies have a central economic logic that serves as the fulcrum for profit creation. In some cases, the economic key may be to obtain premium prices by offering customers a difficult-to-match product.

III. BUSINESS SOLUTION

A. *Business Model of Maluku Ventura*

1. *Core Strategy*

The first component in business strategy is defining the core strategy of the company. This core strategy includes the business vision, product/market scope and basis for differentiation.

The vision of Maluku Ventura is “to be the biggest and sustainable social company in Maluku to increase Maluku's people quality of life”.

The core business of Maluku Ventura is seaweed trading. As a social company, Maluku Ventura creates social value by do fair trading and conducts training, both entrepreneurship and seaweed cultivation training.

2. *Strategic resources*

One of the resources which became essential early on was funding. Became a commodity trading company, Maluku Ventura needs a huge of capital. This capital can be earned by doing cooperation with some companies. Currently Maluku Ventura is donated by one of big group company in Indonesia. This capital is used as the initial capital investment.

As a social company, investors will not get any dividend from their investment. All of profit that Maluku Ventura gets from its business will be used to develop the company. By doing this scheme, Maluku Ventura’s capital, resources, and assets can grow faster than ordinary company.

Another resource issue that could potentially limit the growth opportunities of newly established company was the lack of a highly educated and specialized workforce. By having consultant in seaweed, Maluku Ventura try to fill the gap of the lack specialized workforce. The consultant also has to train the farmers to develop their skill. This training will provide a constant stream of talent for Maluku Ventura.

3. *Value network*

As social company, these value networks have to allow them to offer complementary goods on the supply side, and establish positive network effects among consumers on the demand side, with the final objective of increasing the creation and appropriation of value for their target groups.

Tradition can not be separated when Maluku Ventura develop its value network. So, in the beginning Maluku ventura as new company in Maluku has to make good relationship with the “tiga batu tungku” (three-stone stove) in Maluku. The “tiga batu tungku” (three-stone stove) or three leaders of religion, tradition and government regulate and influent the norms in society. This is the first step before Maluku Ventura build a network or community in Maluku.

After build partnership with “tiga batu tungku” (three-stone stove) in Maluku, Maluku can continue to build a network in farmers community. According the quality of product, Maluku Ventura also has to cooperate with the seaweed consultant.

Value Network also has to provide the missing link in the company. Since Maluku Ventura forces Maluku’s people to do entrepreneurship in order to push the level of unemployment rate down, the next problem is about capital. As a trading company, it will be difficult for Maluku Ventura to give and manage loan to people. In this time, Maluku Ventura has to build partnership with the local bank.

4. *Interface with the Target Group*

The last component is interface with the target group. Target group is the beneficiaries of the social value created by the company. As a trading company, Maluku Ventura’s target group is factories and processors in China. We choose China because great demand in China. Run in commodity trading, Maluku Ventura offers seaweed in competitive price with export quality standard and supported by excellent of services.

Building on its vision “increase people quality of life” by integrating “social and economic life”, the target group of Maluku Ventura could be defined as Maluku’s people. Although it is almost impossible to integrate the whole society into a social value network, Maluku Ventura is trying to achieve this in as much as its size permits.

Business Model Summary

Table 3 below provides a summary of the common patterns along the business model components.

Table 3. Overview of Maluku Ventura’s patterns along business model components

Core Strategy	Value Network	Strategic Resources	Interface with the Target Group
To be the biggest and sustainable social company in Maluku to increase Maluku’s people quality of life Product/market scope	Creating the group in the training seasons. This group consists of the farmers and their family to increase their knowledge	Funding by cooperation with the local bank	China as the main target of Maluku Ventura export
Core business Raw Dried Seaweed	Cooperate with local bank to	Highly skilled employees	Farmers network creation of

trading	give soft loan	by conduct training	community
	Cooperate with seaweed consultant.		

In this situation, the types of vehicles that are appropriate for Maluku Ventura are vertical alliances and internal development. The purpose of vertical alliance is to leverage partners' resources and capabilities in order to create more value for the end customers and to lower the production cost. Internal development is used to increase the production capacity.

Maluku Ventura is doing the vertical alliances by occupy the business from downstream to upstream. After success in trading of raw dry seaweed, Maluku Ventura prepares to make its own processors in Maluku. It will leverage the value of product.

Internal development is done by training to find the best way of cultivation in order to increasing the production capability.

B. Business Strategy of Maluku Ventura

1. Arenas

In choosing arenas, the company needs to indicate not only where the business will active but also how much emphasis will be placed on each. It is important to be as specific as possible about the product categories, market segment, geographic areas and core technologies, as well as the value adding stages (e.g., product design, manufacturing, selling, servicing, distribution) the business intend to take on.

The weakness of Maluku Ventura, as a new company, it's very risky for Maluku Ventura to develop new product. It is easier for Maluku Ventura to develop a product whose market has been formed. Echeuma cottonii has the biggest demand. This condition also benefited by the potency of echeuma cottonii in Maluku. Maluku Ventura's product is seaweed with the type Kapphapychus alverezzi, known as Eucheuma cottonii. This product has to fulfill the export standards.

As the great demand from China, target market of Maluku Ventura, are factories and processors in China. Along with the increasing of production capacity, Maluku Ventura will expand to another country such as Denmark and Hong Kong.

In the long term, Maluku Ventura aims to build its own processor in Maluku, so that can absorb the production of seaweed. But, until the processor is realized, focus of Maluku Ventura will still to export the raw dried seaweed abroad.

2. Vehicles

After deciding on the arenas in which the business will be active, the company also needs to decide how to get there. Specifically, the means for attaining the needed presence in a particular product category, market segment, geographic area, or value-creation stage should be the result of deliberate strategic choice.

As new company, Maluku Ventura will be difficult to develop variances of product. It is better for Maluku Ventura to focus in one product in beginning. But, seaweed as the product of Maluku Ventura can be manufactured into various products, both semi-finished or finished goods. This condition encourages Maluku Ventura to do vertical alliance.

3. Differentiators

A strategy should specify not only where a firm will be active (arenas) and how it will get to there (vehicles), but also how the firm will win in marketplace. In competitive world, winning is the result of differentiators. Differentiators refer to attribute that enable a company to distinguish itself from its rivals and market share.

As commodity, it's difficult for Maluku Ventura to differentiate the product. Even if seaweed from Maluku has specific characteristic, which has larger physical size, but as commodity seaweed has its standard that can be fulfilled by every company.

The strongest differences that Maluku Ventura has are the form of Maluku Ventura itself as a social company. Social company doesn't have responsibility to give dividend to it's investors. It means total profit that has been produced can be used to grow the company. The development of business will becomes faster than ordinary company.

Social company also gives good image to a company. Good image collaborated with high standard of product will give big value for Maluku Ventura.

4. Staging and pacing

Staging refers to the speed and sequence of strategic moves to be taken in order to heighten the profitability of success. Decisions about staging can be driven by a number of factors such as resources (funding and staffing), the pursuit of early wins, or some regulations.

Indonesian government has plan to make some regulations for seaweed industry such as gives restrictions on export quotas and obligate seaweed exporters to must have a processing plant in the country. In the beginning those regulations will be applied by 2012, but for

some several reasons government decided to be postponed the regulations. This is a warning for Maluku Ventura to accelerate the development of processing plant in Maluku. Maluku Ventura will start build the processor plantation in 2014. This processor will process raw dry seaweed into alkali-treated cottonii chips (ATC). This process will increase the value of product until 10 times from current value.

Seaweed industry doesn't stop in processors plantation, but Maluku Ventura has to keep research to develop the products become more valuable. Maluku Ventura aims to have factory for end user product. This factory is targeted will start on 2017, while the research for this factory will start on 2015.

5. Economic Logic

The most successful strategies have a central economic logic that serves as the fulcrum for profit creation. The company must have a clear idea of how profits will be generated.

As commodity, seaweed has standardization of pricing. Maluku Ventura couldn't afford the profit by increasing the price but by decreasing the costs. The economic of scales plays an important part in this industry. Maluku Ventura can reduce the costs through scale advantages.

IV. CONCLUSION AND IMPLEMENTATION PLAN

Maluku Ventura is a social based company that will manage resources (seaweed) in Maluku professionally. Maluku Ventura will be a sustainable company that is dedicated to increase the level of economy in Maluku by maximizing the potential of seaweed and exporting the seaweed to processors in China.

As a new company, plus it is a social business which is a new category of business, Maluku Ventura need to develop a business model and business strategy in order to create a big and sustainable company.

Business model used in this research is business model by Hamel. Business model, described by Gary Hamel (Hamel, 2000), has several elements that are based on business and corporate strategy planning process. Hamel's business framework is used to analyze the business models of actors. Hamel's framework comprising four primary elements: core strategy, strategic resources, value network and interface with the target group.

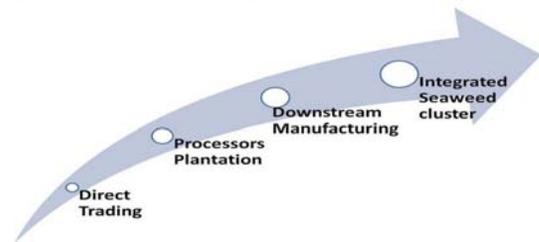
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Business strategy used in this research is business strategy which is described by Hambrick and Fredricson. Hambrick and Fredricson offer the concept to be a framework related to formulation and analysis of the strategy, there are five elements of strategy that are called business strategy diamond. These five elements are arenas, vehicles, differentiators, staging and pacing, economic logic.

Arena for Maluku Ventura is factories and processors in China. While the vehicles for Maluku Ventura is to do a vertical alliance. For staging and pacing, Maluku planning to do direct trading in 2012, build processors in 2014 and build end user factory in 2017. As differentiators, Maluku Ventura builds brands and do price competition. Economies of scale play an important role in the economic logic stage, through economies of scale, Maluku Ventura can reduce costs.

In the long run, Maluku Ventura aims to build a cluster seaweed industry in Maluku in order o get sustain business to increase Maluku's people quality of life. The framework to aim this purpose is described n figure below:



Road Map of Maluku Ventura

After Maluku Ventura does direct trading in 2012, Maluku Ventura aims to have processors plantation in 2014, the research of this plantation has to be done in 2013. Maluku Ventura also aims to have its own downstream or end-user manufacturing in 2017. The product of this manufacture has not been decided yet. The research for this factory has to begin in 2015.

After build ATC processors and downstream manufacturing, does not mean Maluku Ventura

already build a good seaweed cluster. It still need effort to integrate as many as possible the companies related to seaweed industry.

In order to build seaweed cluster, Maluku Ventura has to integrate related companies into this cluster. It can be done by maintain good relationship and make cooperation with many related companies and also can be done by build and develop its own company.

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