

Innovative Business Models for Design Service Providers: Enhancing MSME Digital Transformation

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Abstract

The Indonesian government supports micro, Small, and Medium Enterprises (MSMEs) to grow through digital transformation as one of the biggest players in the Indonesian economy. Unfortunately, many MSMEs struggle to grow optimally due to the uneven distribution of information and education on business and digital transformation. Design service providers aim to help MSMEs maximize their potential through effective branding and digital marketing. However, even a design service provider encounters challenges, including inefficiencies in the business model and a lack of customer acquisition and retention. This research aims to provide insights and recommendations for business model innovation by evaluating the current business model of a design service provider and developing strategies aligned with current industry conditions. Using the Business Model Framework by Chu and Ten Types of Innovation by Doblin, the study identifies areas that should be evaluated, improved, and innovated. The methodology includes a focus group discussion with the internal team of a design service provider to uncover issues from an internal perspective and interviews with the customer persona of the design service provider, which includes ten potential and past customers, to understand external perspectives. The data is analyzed using thematic, open, and pattern coding, followed by triangulation to ensure validity. The findings suggest that existing business models may not meet customer needs and desires. Additionally, MSMEs' varying levels of technology understanding influence their purchasing decisions for design services. Therefore, continuous evaluation and improvement of business models are essential to meet the target market's needs. Design service providers must also understand the diverse types of MSMEs to tailor their offerings effectively.

Keywords: Design Service Provider; Business Model Innovation; Business Model Framework; MSME

A. INTRODUCTION

One of the biggest players in the Indonesian economy is the Micro, Small, and Medium Enterprises (MSMEs) sector, which currently comprises around 64 million units. The Indonesian government supports and develops these MSMEs through digital transformation and various programs implemented by several ministries, including the Ministry of Cooperatives and SMEs, the Ministry of Tourism and Creative Economy, and the Indonesia Chamber of Commerce and Industry. Despite this support, MSMEs faced significant challenges during the pandemic, with over 48% experiencing raw material shortages, approximately 77% suffering income losses, 88% witnessing a decline in product demand, and 97% losing asset value (Rezki et al., 2020).

In the current era of digitalization, MSMEs are presented with opportunities to innovate and transform. However, due to the uneven distribution of business and digital information education in Indonesia, many MSMEs are still unable to grow optimally. In addition, Indonesia faces a significant unemployment issue, with about 8.42 million unemployed individuals. Of these, 7.99% (approximately 673,490 people) are university graduates, and about 1.89% (around 159,490 people) hold academy or diploma qualifications (BPS, 2022). This situation is concerning given Indonesia's substantial economic potential, particularly in the creative and digital economies, coupled with the vast number of MSMEs. Research by McKinsey, UNESCO, and ILO (2008) (as cited in Handayani, 2015) highlights a gap between the education system and workforce needs, where university graduates often do not meet job market demands.

To address this gap, design service providers offer solutions for MSMEs looking to scale up their businesses. Many creative agencies and studios, such as Projectind, focus on providing design services to enhance MSMEs' online presence. Projection aims to expand its involvement in various creative industry sub-sectors while leveraging digital transformation. The company's mission is to create opportunities for freelancers, particularly students seeking work experience before graduation, and to support MSMEs and early-stage start-ups in scaling up by facilitating connections between them.

Understanding a business model is crucial for any business. (Osterwalder, 2010) defines a business model as describing how an organization creates, delivers, and captures value. This model is essential for supporting a business's growth, as innovation in business models can channel a firm's entrepreneurial orientation into its innovation processes, leading to successful new product development. Projectind, for instance, has chosen the creative studio model to streamline its operations. However, the co-founders have faced challenges, including low sales and system inefficiencies. This research aims to explore the issues Projectind is facing.

Projectind, as a design service provider, has encountered several problems related to its business model. First, the company still struggles to attract customers despite implementing various marketing strategies through online and offline channels. Second, past projects have failed to achieve customer retention. Third, the co-founders have identified inefficiencies in the current business system. To address these issues, Projectind needs to evaluate and improve its customer generation and retention strategies. The company should analyze current business conditions and market needs to identify areas for evaluation and improvement. Subsequently, Projectind can develop a more effective and efficient business model that aligns with market demands. This research aims to assess Projectind's existing business model and propose improvements and innovations.

Chu's Business Model Framework is useful for assessing a company's business model. This framework outlines how a company creates and captures value through three pillars: value creation, value proposition, and value capture (Chu, 2017). The value creation pillar helps companies develop products or services using resources such as people, assets, and partners. The value proposition pillar differentiates the company through its products, services, revenue, and pricing model. The value capture pillar focuses on acquiring, retaining, and growing customers. Using Chu's framework, companies can redefine their business through these eight components: people, assets, partners, products and services, revenue and pricing model, and strategies to get, keep, and grow customers.

Business model innovation involves using activities to build and leverage resources to generate, deliver, and monetize value in novel ways (Afuah, 2018). Chesbrough (2010) emphasizes that an organization's culture must adapt to new models while maintaining the effectiveness of the existing model until the new one is fully integrated. Doblin's Ten Types of Innovation framework provides a method for identifying innovation opportunities. Developed by Doblin, a Chicago-based consulting firm, this framework categorizes innovation into three areas: configuration, offering, and experience (Keeley et al., 2013). The configuration category includes profit model, network, structure, and process, while the experience category covers service, channel, brand, and customer engagement. The offering encompasses product performance and product systems. Companies can explore and combine various innovations to enhance their business models by applying the Ten Types of Innovation framework.

B. RESEARCH METHODS

The research begins with preliminary investigations to identify problems within a design service provider. This initial phase helps formulate the research question and objectives guiding the study. The next step involves a review of relevant literature to provide a theoretical foundation for the research. The research employs a qualitative approach, utilizing primary and secondary data to support its findings. Primary data is collected through focus group discussions with the internal team to gather internal perspectives and interviews with ten customer personas, including past and potential customers, to obtain external viewpoints. Secondary data, which includes current business progress and information from existing publications, is used to augment and validate the findings. Two main frameworks underpin the research: Chu's Business Model Framework (2017) and Doblin's Ten Types of Innovation (2013). The data is analyzed using thematic analysis and coding methods. Following the analysis, conclusions are drawn, and recommendations are made to enhance the future sustainability of design service providers.

C. RESULTS AND DISCUSSION

Projectind, a design service provider in Indonesia, operates with four co-founders and five designers. Although Projectind outsources its design work and lacks physical assets, it possesses non-physical assets such as a company profile, a landing page, and ad tokens. Despite implementing weekly meetings and evaluations, Projectind faces several challenges, including time and project management issues, limited field practice, and ineffective sales planning execution. To support its processes, Projectind needs a capable team and advanced

assets. Currently, Projectind lacks project management tools and certain responsibilities that should be assigned to specific roles.

Consequently, Projectind's assets and resources need better alignment and refinement. Additionally, Projectind has yet to establish partnerships, though some potential collaborations have been proposed. To enhance its visibility, Projectind should seek collaborations, engage with stakeholders connected to MSME communities, and attend offline events to build new relationships. Projectind offers various design services, including brand kit guidelines, logos, packaging designs, product designs, and Instagram templates, to address customer needs related to their digital channels. Feedback from the internal team and potential customers indicates that while Projectind provides comprehensive services, the impact is limited to meeting MSMEs' needs. The effectiveness of services like branding in maximizing MSMEs' presence falls outside Projectind's direct control. Furthermore, Projectind's revenue has not met targets, and the current pricing model, which is based on customer needs and requires flexibility, still requires enhancement to align with perceived value.

In terms of value proposition, Projectind struggles with market penetration. The target market is unclear between MSMEs with branding education and those without. Reaching the appropriate market segment necessitates higher marketing expenditures, but Projectind's current funds are insufficient for targeting a more advanced market. Projectind is also exploring the most suitable marketing channels to reach the MSME market. The services provided are typically one-time purchases, leading to challenges in customer retention. Despite improvements in project workflows, customers do not perceive a strong need to repurchase services from Projectind, which affects retention rates. Input from potential customers suggests that while the services offered by Projectind remain relevant, opinions on the design studio business model vary. Some customers do not mind the presence of account executives as long as communication is effective, while others prefer a simplified process. Internally, Projectind's team acknowledges that the current business flow is time-consuming and ineffective, with plans lacking significant execution progress, especially in sales. Optimization of operational systems is needed to facilitate business development.

Projectind's customizable services and flexible pricing model cater to MSMEs, making it a cost-effective option. The current profit model is based on flexible pricing, and Projectind employs a cost leadership strategy to accommodate MSMEs' financial constraints. As a start-up, Projectind utilizes minimal resource methods for networking, such as collaboration. An example includes partnering with The Local Enablers to hold a free sharing session, which benefited both parties through social media exposure and program contributions. Given its limited resources and low sales volume, Projectind uses outsourcing as its operational model, hiring freelance designers on a per-project basis. This approach is financially advantageous due to low sales volumes and avoids needing full-time employees. Projectind's on-demand production model reflects its direct external processes and the need to streamline internal processes for quicker information exchange between designers and clients.

Projectind adopts a product performance model focused on customization, aligning with its on-demand production process. By tailoring services to client's needs, Projectind gains a deeper understanding of its customers and offers a personalized approach. Its main services include brand guidelines, with options for clients to purchase services individually or in bundles. Product bundling is offered at a lower price to encourage larger purchases, while integrated offerings combine discrete components into a comprehensive experience. Additionally, Projectind provides complementary services, offering additional design-related services beyond branding.

Potential customers often highlight the service aspect provided by Projectind. The company delivers personalized services by gathering detailed information about clients' businesses to understand their needs and preferences better. Due to limited resources, Projectind connects with potential clients individually, such as through offline events. The company also employs an on-demand model, consistent with its production process, to provide design services as needed. Projectind has adopted a pop-up presence model by setting up booths at various events to introduce its services to the public. However, brand innovation is lacking, as Projectind's brand is not yet widely recognized. Enhancing brand awareness and potential revenue requires further brand innovation efforts.

In terms of customer engagement, Projectind is still building its engagement. The company has facilitated connections among business owners through sharing sessions at The Local Enablers. Projectind's customer engagement innovation model currently focuses on community and a sense of belonging. To improve Projectind's current business model, the following innovations are proposed based on input from the internal team and customers. Regarding the profit model, Projectind can continue using flexible pricing, adjusting prices according to client needs, and introducing a subscription option for clients who prefer not to purchase services per project.

Additionally, a freemium model can be implemented to attract MSME owners by offering initial free designs to demonstrate value, with prices adjusted to MSME budgets. For networking innovations, Projectind should maintain and expand collaborations with partners, especially MSMEs, and consider competition with competitors to achieve common goals.

Regarding structure, Projectind will continue using outsourcing for talent management to manage costs, maximize profits, and implement an incentive system, knowledge management, and I.T. integration. The incentive system will motivate the team and boost sales, while knowledge management will enhance team performance and consistency. I.T. integration is necessary for efficient project monitoring, managing the talent database, and streamlining internal and external processes. For process innovation, Projectind will retain on-demand production and add process automation. On-demand production will handle design requests efficiently, while process automation will shorten internal processes and simplify external interactions, using tools integrated with the I.T. system. Lastly, to maintain product performance excellence, Projectind will continue focusing on customization to meet specific client needs and implement ease of use to facilitate access for MSME owners, especially those less familiar with digital tools, thus speeding up project processes.

For Projectind's product system innovation, the company will continue leveraging strategies such as product bundling, integrated offerings, and complementary services to meet diverse customer needs. Looking ahead, Projectind might explore the development of product or service platforms that connect designers directly with clients, bypassing account executives. While potentially appealing to younger co-founders for its practicality, this approach may not be suitable for older MSME owners (Gen X), who may prefer more traditional methods. Despite this, Projectind will maintain its commitment to personalized service, as understanding clients remains crucial in the design service industry.

To enhance the service offering, Projectind should consider adding value by including additional services at no extra cost, such as revisions or other unique benefits that distinguish it from competitors. Freelancers often offer lower prices, so Projectind's added value should focus on quality rather than price. Additionally, establishing user communities could prove beneficial, especially if Projectind adopts a platform model, allowing MSME owners to share insights on branding. Regarding channel innovation, Projectind should continue with its on-demand model, which allows flexibility in fulfilling client needs through various channels. To identify the most effective channels, Projectind can implement diversification and explore non-traditional channels, thus expanding its reach and enhancing its online presence.

Regarding brand innovation, Projectind could adopt brand extension and values alignment strategies. The brand extension involves offering new services under the existing brand while maintaining a distinct image, catering to the diverse needs of MSMEs. Values alignment entails integrating core values into all processes and promotions, helping Projectind stand out and be recognized by businesses that share similar values. For customer engagement, Projectind will continue focusing on community and belonging, fostering opportunities for MSME owners to connect and share ideas. Projectind might incorporate experience simplification and personalization to enhance engagement further, streamlining the customer journey and reducing unnecessary steps. Additionally, process automation can alleviate repetitive tasks, improving the overall customer experience.

Projectind can implement at least 24 innovation models across various business aspects. These include flexible pricing, subscription models, and freemium offers for-profit model innovation; collaboration and cooptation for network innovation; on-demand production and process automation for process innovation; outsourcing, incentive systems, knowledge management, and I.T. integration for structural innovation; customization and ease of use for product performance; product bundling, integrated offerings, complements, and platforms for product systems; and personalized service, added value, user communities, on-demand, diversification, brand extension, values alignment, community and belonging, experience simplification, and personalization for customer engagement.

CONCLUSION

This research aimed to evaluate and innovate the business model of a design service provider that supports MSMEs in scaling up their businesses. Through qualitative analyses, including focus group discussions with Projectind's internal team and interviews with past and potential clients, the study uncovered critical insights into the strengths and weaknesses of the current business model. Key findings revealed that while Projectind benefits from a dedicated team and a clear mission to assist MSMEs, several areas require strategic improvements to enhance operational efficiency and customer satisfaction. Specific areas identified for improvement include better alignment of people, assets, and partnerships to meet business objectives (value creation), refining service

offerings to address the evolving needs of MSMEs in a digitally transforming marketplace (value proposition), and developing a more robust strategy for attracting, retaining, and growing customer relationships effectively (value capture). Based on the Ten Types of Innovation framework, the proposed business model innovations focus on integrating more comprehensive digital tools, optimizing internal processes, and expanding strategic partnerships. These innovations aim to provide a broader range of services tailored to the specific needs of MSMEs by aligning configuration, offering, and experience innovations.

The implications of these findings are significant for Projectind and other design service providers within the creative industry. Implementing the suggested innovations could greatly enhance operational efficiency, market expansion, strategic partnerships, sustainability, and community impact. To guide Projectind's future strategic direction, it is recommended that they prioritize the development of a digital platform to streamline service delivery and improve customer interaction, implement training programs to ensure internal teams are up-to-date with current trends and MSME needs, and conduct regular market research to remain competitive. Further research on business model innovation using additional frameworks is also recommended, as the business environment continually evolves and requires ongoing adaptation.

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