

## **CHAPTER II**

### **LITERATURE REVIEW**

This chapter comprises of a literature review of PEST analysis, SWOT analysis, competitive analysis, Value Proposition Design, marketing plan, operation plan, human resource development, and financial plan.

#### **II.1 External Environment and Industry Analysis**

PEST Analysis is a technique or tool used to understand the external forces that will be affecting a business and identifies opportunities and threats through looking at the bigger picture. It helps businesses analyze the Political, Economical, Socio-cultural and Technological changes in a business environment. PEST analysis is fundamental for four main reasons:

- (1) It spots business or individual opportunities, and it gives cautionary warnings ahead of time for dangers that are fatal to a business.
- (2) It uncovers the course of line a business is headed, considering the external environment. This helps decision makers direct in the right path, embracing the change instead of being frightened by it.
- (3) It stops business people from creating and investing in projects that have a big chance of failure, for reasons outside their ability to control.
- (4) It enables businesses to break free of unnecessary presumptions when enter another nation, district, or market; since it provides knowledge about that particular environment.

#### **II.2 SWOT Analysis and Competitive Analysis**

This report uses two competitive analysis tools: (1) SWOT Analysis to assess the business' strengths, weaknesses, opportunities and threats, and (2) Kotler's competitive analysis.

(1) **SWOT Analysis** is a tool used to analyze institution strengths, weaknesses, opportunities and threats. Gürel (2017) mentions the SWOT tool as a “strategic planning framework used in evaluation of an organization, a plan, a project or a business activity”. The SWOT matrix analyzes two dimensions that affects a company’s management process: Internal and external factors. The internal dimension considers the strengths and weaknesses of a company while the external dimension considers the threats and opportunities a company may have currently or in the future. The SWOT Matrix is usually lined as a four-quadrant box that consists of the company summary of the four SWOT elements organized in a 2x2 matrix. An example is shown below.

The advantages of the SWOT Analysis are:

- (a) SWOT Analysis acts as a guide or road map that could solve problems from the general side to the specific side.
- (b) SWOT Analysis gives the widened look on both the positive and negative side of an organizational management process. It “makes macro evaluations possible” (Gürel, 2017) from the internal and external perspectives.
- (c) SWOT Analysis helps formulate strategies that will put the company’s performance above many others by managing threats through understanding weaknesses.
- (d) SWOT Analysis helps companies make strategic decisions by funneling the most important steps for the company to take and “shows the points that the decisions are based on” (Gürel, 2017).
- (e) SWOT Analysis could be integrated with other theories and tools such as Porter’s Five Forces model and the Delphi Panel.
- (f) SWOT creates opportunities for a team or management to do group discussions about tactical issues and development and company goals for the future.

(g) SWOT Analysis could be applied to any analytical level, from the individual level to an international level. It could also be used by institutes with different natures such as educational institutes to government projects.

(2) According to Kotler (2016), there are three steps to **Competitive Analysis**:

(a) Identifying the company's competitors: from an industry and market point of view where the former involves understanding competitive industry patterns and the latter involves considering competitors who want to satisfy or target the same customer need or group.

(b) Assessing competitors' objectives, strategies, strengths, weaknesses and reaction patterns:

- (i) Determining competitors' objectives
- (ii) Identifying competitors' strategies
- (iii) Assessing competitors strengths and weaknesses

(c) Selecting which competitors to attack or to avoid:

- (i) Strong or weak competitors
- (ii) Find blue ocean spaces

This paper uses Competitive Analysis where the business assesses its competitors to see if the business practices of an institution will survive in the market with the knowledge of their competitor's performance elements (Moriarty, 2008). In Competitive Analysis, businesses compare a company's products and processes against leading firms to pick out the best methods to implement for "improving quality and performance" (Kotler, 2016).

### **II.3 Value Proposition Design**

According to Osterwalder, etc. (2015), Value Proposition "describes the benefits your customers can expect from your products and services". The Value

Proposition Design tests and observes the characteristics of customers in your market and creates values designed to benefit these specific customers. That is why the business minimizes failure and maximizes potential of the business.

### II.3.1 Value Proposition Canvas

According to Osterwalder, etc. (2015), The Value Proposition Canvas consists of two diagrams:

(1) **The Customer (Segment) Profile** diagram on the right side is a more detailed version of the customer segment feature in a business model. The customer segment is separated into customer jobs (the things they do in their lives that need to be fulfilled), pains (bad outcomes, risks and challenges related to customer jobs), and gains (what the customers want as an advantage).

(a) **Customer Jobs** are things that the customers are trying to complete in their lives. It could be needs they are trying to fulfill or problems they need to find an answer to. This is taken from the customers perspective.

(b) **Customer Pains** are things that customers find hard or tedious to do, obstacles that hinder the job from being done, or a risk that jeopardizes the performance of the job. It could be in the form of an undesired outcome or characteristic affecting the customer emotionally or socially.

(c) **Customer Gains** are the yields or benefits that customers desire functionally, socially or emotionally. There are four types of gains:

(i) Required gains are the most basic expectations the product or service would provide for the customer.

(ii) Expected gains are customers expectation for extra benefits that are basic but second priority to the

solution, even if it does not need to work without them.

- (iii) Desired gains are solutions that customers would come up with and love to have if possible.
- (iv) Unexpected gains are new concept solutions that goes above and beyond the customer wants and anticipation.

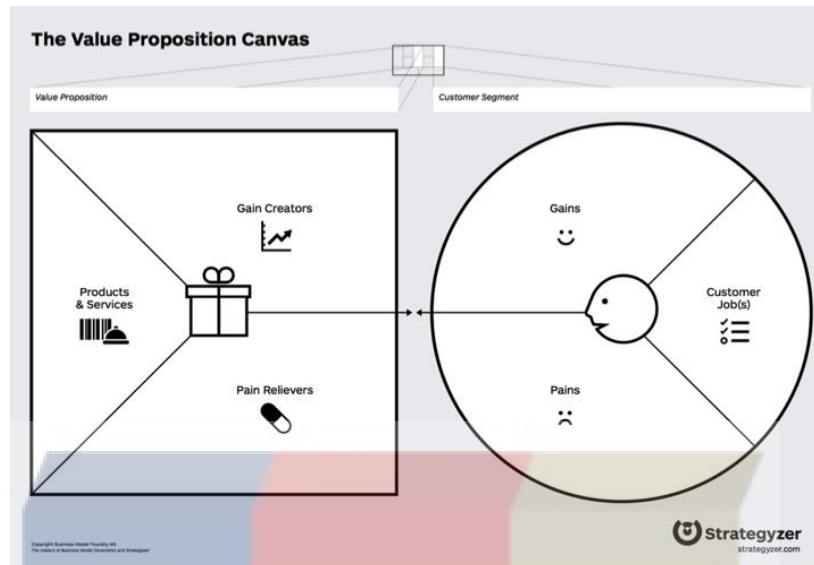
(2) **The Value (Proposition) Map** diagram on the left side is a more detailed and structured version of the value proposition feature in a business model canvas. The value proposition is divided into products and services, pain relievers, and gain creators.

(a) **Products and Services** is what the business is providing.

These products and services can solve the jobs customers have to do in their lives and fulfill them functionally, socially and emotionally. Value is created when these products and services align with specific customer jobs, pains, and gains.

(b) **Pain Relievers** are what relieves the customer pains. They explain how the business is going to remove or reduce annoyances during the course of doing the job. Great value propositions solves the most important customer pains and not all, because no value proposition can do that.

(c) **Gain Creators** describes how the products and services of a business create gains for customers. If gains that are most important to the customers is solved, it will create great value proposition to the customers functionally, socially and emotionally.



**Figure 2.1. Value Proposition Canvas**

Source: Osterwalder, etc. (2015)

### II.3.2 Business Fit

The business achieves Fit if the value map and the customer profile aligns with each other. When the pain reliever relieves pain, gain creators create gain and products or services solves customer jobs, this is when customers will be enlightened by the business. “Fit is hard to find and maintain” (Osterwalder, etc., 2015) so it is important to pay close attention to all details of the canvas. There are three kinds of fits:

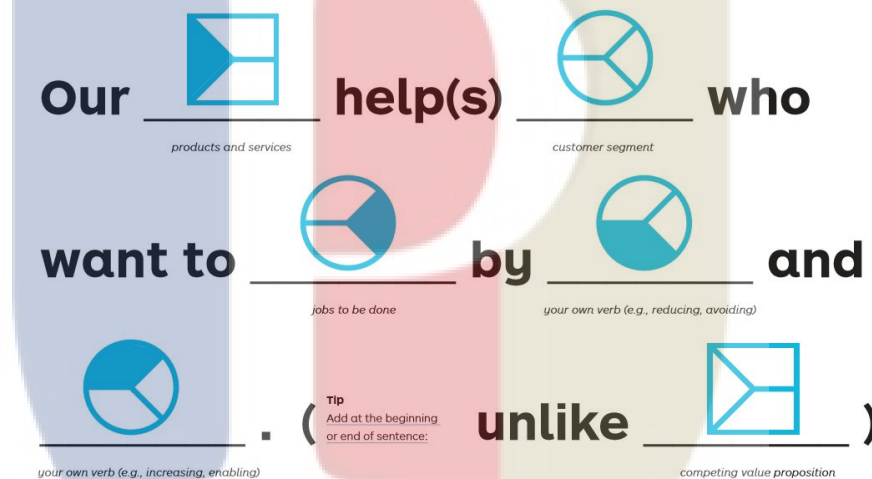
- 1) Problem-Solution Fit happens when there is proof that customers give attention to certain jobs, pains and gains. Then, a value proposition is designed according to those jobs, pains, and gains. After that, there are still no proofs that customers actually care about that business’ value proposition. Multiple prototypes are produced to test and improve the product as the company verifies that its value proposition is really is cared about.
- 2) Product-Market Fit happens when there is proof that the products and services, pain relievers, and gain creators the business is

offering attracts the market. After that, there is a validation of the assumptions that creates the business' value proposition whether or not the customers care about the products and services offered.

- 3) Business Model Fit happens when there is proof that the value proposition can be embedded in a profitable table and scalable business model.

### II.3.3 Ad-libs

Ad-libs pinpoint how exactly the business will create value. The Ad-libs are formatted to shape alternative directions for the value proposition. Below is a simple example of an ad-lib format.



**Figure 2.2. Ad-lib format**

Source: Value Proposition Design pg. 82 (2015)

Ad-libs are part of the prototyping process and are a quick way to create possibilities of shaping probable future values for a company. Companies are encouraged to create around four to five different Ad-Libs “to produce alternative prototypes in the form of “pitchable” sentences” (Osterwalder, 2015).

## **II.4 Marketing Strategy**

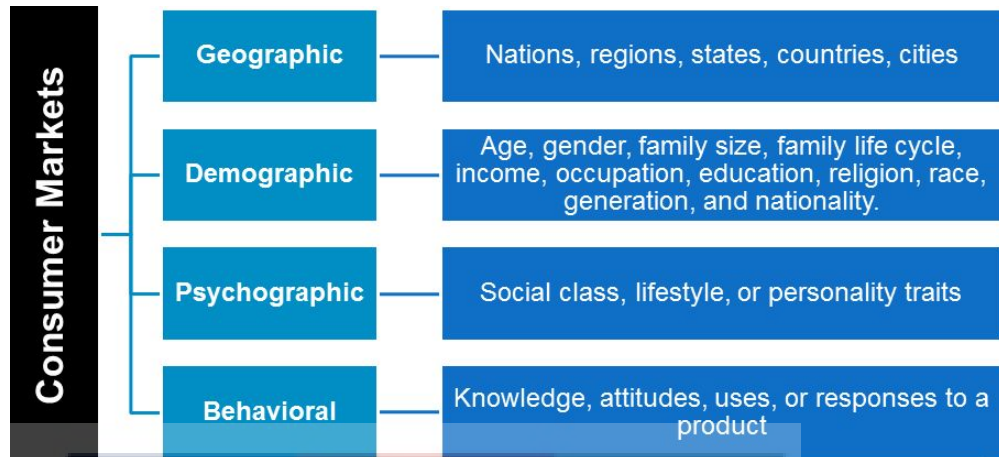
### **II.4.1 Market Segmentation**

Market Segmentation is a process of separately catering to different and distinct customer needs, characteristics and behaviors by dividing the business' market into smaller segments that should easily be reached, in terms of efficiency and effectivity, with products or services that fit their needs (Kotler, 2016). Different needs or behaviors may need different marketing strategies, so for a company, Market Segmentation is great because it addresses an important question for the business: What type of customers will you provide your business to?

Market segmentation is also used to create value among the targeted customers. In Market Segmentation, the consumer market is usually segmented into 4 major variables: Geographic, demographic, psychographic and behavioral variables.

- (1) Geographic Segmentation is a division of the market into different geographical units such as countries, cities, nations, or even as small as neighborhoods.
- (2) Demographic Segmentation is a division of the market into different demographic variables such as education, income, gender, ethnicity, age, and generation.
- (3) Psychographic Segmentation is a division of the market into different segments based on different lifestyle, social class or personality characteristics.
- (4) Behavioral Segmentation is a division of the market into different behavioral segments based on attitudes, consumer knowledge, how they use or respond to a product.





**Figure 2.3. Major segmentation variables for consumer markets**

source: Principles of Marketing (2016)

For effective segmentation, market segments must be:

- (1) Measurable by size, purchasing power, etc.
- (2) Accessible to be reached and served by the company
- (3) Substantial or large enough to serve. A segment should be the largest possible homogeneous group worth pursuing with a tailored marketing program.
- (4) Differentiable or distinguishable per segment. Each segment will typically respond differently to different marketing mix elements.
- (5) Actionable or achievable and realistic to the team who is creating marketing strategies for each segment.

#### **II.4.2 Product Positioning**

According to Kotler (2016), product Positioning is the way a product is defined by consumers or the branding of the product. A successful positioning strategy can put a differentiated and more superior perception or customer value, according to the needs they are addressing to, and deliver greater value and win customers. This gives great competitive advantage to the company. The four steps to product positioning and differentiation is to:

- (1) Create a perceptual positioning map that shows customer perceptions of the designated brand compared to other competing brands
- (2) Distinguish an arrangement of probable differentiations that build competitive advantage
- (3) Choosing benefits on that to create a position
- (4) Choosing an overall positioning strategy.

To summarize the company's brand position, a positioning statement is made. It is a summary statement of brand positioning that uses this format: To (target segment and need) our (brand) is (concept) that (point of difference)

#### **II.4.3 B2B Social Media Marketing**

To create a long-lasting relationship, companies can create direct engagement with the target market and community to get instant response (Kotler, 2016). They do this through Social Media Marketing and the biggest brands are setting up their own shops on social media sites such as Instagram, Facebook, Twitter and LinkedIn. Social Media Marketing has advantages and challenges and these are:

- + **Targeted and personal** allowing companies and consumers to engage in a direct manner
- + **Interactive** creating conversations between customer to customer and business to customer. This can open up many opportunities of research and get customer feedback
- + **Immediate and timely**, not needing to spare more time to get responses from customers, happening real-time as the events occur
- + **Cost effective** - it is low in cost but high in yield. The outcome of social media marketing, compared to the amount of cost spent, is highly favorable

- + **Engagement and social sharing capabilities** lets happy consumers spread their satisfaction to other social media users, creating a chain of potential customers for the business.
- **Fairly new** as companies are still trying to figure out how to use and measure them effectively
- **User controlled** - brands still need to produce constantly content that are relatable to the users of the social media instead of them controlling the flow and the market. It could also be used by a competitor to backfire, get stolen or not be taken seriously. Companies need to be very careful with this.

Recently, it is not foreign to hear the concept of IMC strategies. The Integrated Marketing Communications strategies have been around since before the 1990's and have been a prime marketing strategy in every corporation because of its low budget and two-way communications that allow companies to get constant feedback from customers. It may be effective for B2C targeted companies, yet, many have doubted its effectivity towards B2B-directed companies (Lashgari et al., 2018). A study by Lashgari et al. (2018) introduces the role of the company's targeted market, its goals and the content type and finally integrating social media into different marketing communication components. B2B companies could benefit more from social media by open innovation, including individuals in the development of the company's products and services. Social media could also reach experts in various fields on different platforms. This is a great contribution to research and is both time- and cost-efficient.

- (1) The selection process involves determining the company's goal and target customer segment and determining the content to be posted on social

media. Consequently, the depth and diversity of the content should affect the social media analytics.

- (2) Finally, in the integration phase, the social media channels can be integrated into other promotional channels such as events or through ad-hoc methods, or other marketing strategies.

This study have proven the possibility of social media being a new and valuable window for B2B targeting firms, letting a wider target market be reached, gaining more information in a faster and more convenient way, which grows the company further.

#### **II.4.4 4 P's Marketing Mix**

Marketing Mix consists of what Kotler (2016) calls the 4 Ps - product, price, place, and promotion - that is used to shape the target market the firm is aiming for.

- Product: Goods and services that the company is offering to the target market
- Price: What customers need to pay for a product. A strategy that allows the customer's perception and economic situation fit the value of the company.
- Place: Company activities that will make the product available to the customers.
- Promotion: Company activities that communicate the selling-points of the product and persuade the target market to buy it.

Marketing Mix is used to establish strong perceptions in the target customers by engaging and delivering the product values to them.

#### **II.5 Operations Management**

The process management of creating a product or service is called Operations Management. Every business need management for their operations

activities because it has a supply chain that must be monitored. It helps the business run smoothly to convert input into output, with efficiency and convenience. Some examples of operating and functioning activities include “forecasting, purchasing, inventory management, information management, quality assurance, scheduling, production, distribution, delivery, and customer service.” (Stevenson, 2012). Operation management aims to balance out supply and demand for optimal profit.

## **II.6 Human Resource Development**

In discussing the concept of human resource development (HRD), Hill and Stewart (2000) argue that, while there is no definite view of what constitutes HRD, it is both strategic and practical. Hill and Stewart (2000) also argue that HRD is implicit in organizing and managing, and is concerned with leadership, culture, organizational learning and development, and change. Part of human resource development, based on Hill and Stewart (2000) is to deliver information and decisions personally and consistently to all employees; . receive immediate feedback and assess the likelihood of success; and monitor progress and have confidence that decisions made will be carried out according to original intent. But as a fact, human development in small firms differ greatly than in larger firms. More uncertainty and flexibility is needed in the smaller firms (Hill and Stewart, 201). When Hill and Stewart (2000) examined the link between career structures and training in organizations of all sizes, it was found that about one quarter of organizations employing between ten and 20 people offer a career path. However, the existence of a career structure did not automatically guarantee promotion nor the presence of training and development; the tendency was to promote people who already had the necessary skills, thus eliminating the need for training on promotion.

## **II.7 Financial Plan**

The financial plan is a knowledge that places the study of finance by placing various financial attributes conceptually and systematically well in the short and long term. Understanding financial planning also involves predicting company income and expenses for future use. This is the definition of financial planning by experts.

- a) According to Gozali (2002) that financial planning is a strategy whereby executed, helps executors achieve future financial goals.
- b) According to Senduk (2001), financial planning is the process of planning financial goals for the short term or long term.
- c) (Dorimulu, 2003) states that financial planning is a process of achieving the life goals in the future through great financial organizing.

### **II.7.1 Statement of Cash Flow**

Cash flow is the organizing of incoming cash flow (cash inflow) and the amount of cash spent (cash outflow) where it shows the total company funds within a certain period of time. Cash flow could also provide a clear outlook for the company's board of directors to make decisions relating to financial policies, especially regarding cash. In the preparation of cash flow that is short-term or long-term there are two kinds of preparation, namely:

1. Direct Method - this method, cash flow reporting is done by providing reports on cash receipts and cash disbursements from the full range of operations.
2. Indirect Method - The indirect method begins with the net income and is adjusted by adding or reducing changes affecting operational activities such as depreciation, increasing and decreasing assets and current liabilities.

### **II.7.2 Payback Period**

According to Bambang Riyanto (2004) payback period is a period of time needed to pay off or return the total expenditures for investment using proceeds or net cash flow. Payback period is the period of time needed by an institution in order that the first investment funds or capital injections planted in an investment activity could be obtained back in full. The analysis method of payback period aims to help companies know how long their planted investment reach break-even point. The strengths and weaknesses of the payback period method are:

(1) Strengths:

- (a) Fairly simple to choose the investment proposal
- (b) Used to know the time period needed to return investment
- (c) Used to know the duration until the project break-evens.

(2) Weaknesses:

- (a) Ignores time value of money
- (b) Does not give information about increased value for the company
- (c) Ignores investments received after payback period is achieved

There are three indicators of Payback Period:

- (1) Period of return is faster than the specified time
- (2) Period of return is longer or exceeds the specified time
- (3) If the business project invested in is more than one, then the return period would be faster

### **II.7.3 Income Statement**

The definition of the Income Statement can be summarized by reports on the revenues earned and expenses incurred (i.e. resources used) during a specific period and plays a role in evaluating the core operating performance of a company. Feters (2015) mentions that the Income

statement also tells people in general how and why the financial status of the company changed. By the income statement, an investor can see if the company would be a profitable investment or not by seeing its revenues and net profit growth or loss (Fetters, 2015).

#### **II.6.4 Balance Sheet**

The definition of the balance sheet, summarized by Fetters (2015), is the status report for a specific point in time and lists the resources, obligations and owners' equity of the company. The beginning and ending balance sheet for a period tell us how the financial status of the company changed during the period. The balance sheet as of a specific date aggregates the financial consequences of every transaction the company has undertaken through that date. Two balance sheets (one as of the beginning of a period and the second as of the end of the period) form bookends that are connected by the statement of cash flows and income statement. To calculate the balance sheet, there are a few things to take into notice:

- Assets = liabilities + equities
- Statement of cash flows (including flows related to operating, investing and financing) is used to determine assets
- Income statement (revenues and expenses) is used to determine equity

#### **II.7.5 Internal Rate of Return (IRR)**

Internal rate of return (IRR) is the interest rate at which the net present value of all the cash flows (both positive and negative) from a project or investment equal zero. Internal rate of return is used to evaluate the attractiveness of a project or investment. If the IRR of a new project exceeds a company's required rate of return, that project is desirable. If IRR falls below the required rate of return, the project should be rejected.



The required rate of return is the bank interest at the least. The formula for IRR is:

$$0 = P_0 + P_1/(1+IRR) + P_2/(1+IRR)_2 + P_3/(1+IRR)_3 + \dots + P_n/(1+IRR)_n$$

where  $P_0, P_1, \dots, P_n$  equals the cash flows in periods 1, 2,  $\dots$  n, respectively; and IRR equals the project's internal rate of return.

It is easier to get a higher rate of return if the project life is short and the investments are small (Myers, 1984).

## **II.8 Key Performance Indicator (KPI)**

Key Performance Indicators (KPIs) are the intended milestones that will reach the goal of the company (They are the critical (key) indicators that provide a focus for strategic and operational improvement, create an analytical basis for decision making and help the team focus on what really matters for the company. Getting a task done with the use of KPIs is like using stepping stones to measure progress towards the goal with the desired level of performance. Managing with KPIs means working to improve leading indicators that will later drive lagging benefits.

Good key performance indicators provide objective evidence of progress towards achieving a desired result, measure what is intended to be measured to help inform better decision making, offer a comparison that gauges the degree of performance change over time, and can track efficiency, effectiveness, quality, timeliness, governance, compliance, behaviors, economics, project performance, personnel performance or resource utilization.