INITIAL IDENTIFICATION FOR DEVELOPMENT VALUE CO-CREATION TRIADIC BUSINESS MODEL INNOVATION: THE CASE OF MALANG COFFEE INDUSTRY

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Abstract: This study aims to identify the relationship between the three actors (triadic) in creating value in the coffee industry in Malang. The relationship in the coffee industry involves suppliers (coffee farmers), sellers (coffee shops), and consumers. The expected novelty and technological breakthrough is the development of Value Co-Creation Triadic Business Model Innovations. This business model innovation is based on a collaborative and innovative process of creating, delivering, and capturing value (value co-creation) by involving 3 (three) main actors in the coffee industry. This business model innovation can be used as a foundation to create value propositions and revenue streams for actors in the coffee product value chain to face and win the competition. Besides, it will increase the role of coffee as one of the agricultural products that will be the leverage of the Indonesian economy.

Keywords: Triadic, Value, Coffee, Value Co-Creation.


Indonesia is an agrarian country that has great potential in the production of commodities that originate from natural resources. One of the potential commodities of the agriculture sub-sector is coffee. In 2015, Indonesia was the fourth largest coffee producing country in the world. Indonesia had a vast area of coffee plantations and a large number of farmers in coffee plantations as its comparative advantage (Nalurita et al., 2014). The area of coffee plantations in Indonesia reaches 1.3 million hectares that consist of 1 million hectares of robusta coffee plantations and 0.30 million hectares area of Arabica coffee plantations (Rahardjo, 2012).

As one of the plantation products contributing to foreign exchange, coffee has a high level of demand. Based on data released by ICO (2015), during the 2012-2015 period, world coffee consumption showed an upward trend of 2%. The export of processed national coffee products continues to increase every year. Indonesia’s coffee exports in
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2015 reached 467,790 tons or US$ 1.19 billion with the main destination countries including the United States, Germany, Italy, Japan, and Malaysia.

The level of domestic coffee demand is relatively high. Apart from being the largest producer country in the world, Indonesia is also 5 biggest coffee consuming countries. Mintel's Global New Products Database, a database of London-based market analysis institute, shows that Indonesia leads the coffee market in the Asian region, with growth reaching 19.6 percent (Herlinda, 2017). It makes Indonesia becomes an attractive coffee market. The increasing growth rate of coffee consumption boosts the coffee market opportunity with the emersion of coffee shops and the development of coffee products. It is influenced by several things. First, coffee consumption is part of the local culture. Second, the trend of the coffee drinking lifestyle.

However, besides opportunities, there are several obstacles both weaknesses and threats faced by actors in the coffee value chain, especially coffee farmers and cafe entrepreneurs:

1. Low levels of productivity and quality of coffee produced by coffee farmers (Nalurita et al., 2014)
2. The low level of technology used by coffee farmers (Nalurita et al., 2014)
3. The entry of coffee shops and coffee products from other countries to Indonesia

The business model and strategy must be reviewed and developed so that actors in the coffee product value chain in Indonesia can face these obstacles. A business model will provide direction for actors in the coffee product value chain so that they can survive and win the competition (Aspara et al., 2011). The business model serves to describe the business process and the value creation process for stakeholders. The business model has several roles for actors in the value chain, namely:

1. A good business model will help value chain actors to obtain information about how, where, and when the product functions properly.
2. A good business model design can weaken competitors. This can be obtained if the company can identify loopholes in competitors’ business

models, and quickly build a business model that can close those gaps.

3. A good and clear business model will turn competitors into allies.

Innovation in the business model is needed by actors in the coffee product value chain to increase effectiveness and efficiency in the value chain. Business model innovation is not just a response to opportunities and threats faced by the value chain, but also demand. This demand triggered by the emergence of technological advances that led to a shift in the flow of information that becomes more transparent and easily accessible to anyone. Information flow is one of the important and vital resources in the value chain. Technology 4.0 enables the direct exchange of information from upstream to downstream, which can be used as input by each actor in the supply chain, to make strategic decisions.

One effort to formulate and design business model innovations is to build innovative business models of triadic value co-creation. The triadic value co-creation business model is a development of the dyadic value co-creation business model. In the dyadic value co-creation business model, collaboration only occurs between two actors in the value chain, namely sellers and buyers, while the triadic value co-creation is a business model that arises due to technological developments that enable the transfer of knowledge and information between actors in the value chain.

The purpose of this study is to identify and analyze the relationship of 3 (three) main actors in the coffee industry, namely coffee farmers, coffee shops, and consumers in creating value together (triadic value co-creation). The novelty is the development of Value Co-Based Triadic Business Model Innovations of the coffee industry. This business model innovation is based on collaborative and innovative processes of creating, delivering, and capturing value (value co-creation) by involving 3 (three) major stakeholders in the coffee industry, namely coffee farmers, coffee shops, and consumers (triadic). This business model innovation can be used as a foundation to create value propositions.
and revenue streams for actors in the coffee product value chain to face and win the competition. Besides, it will increase the role of coffee as one of the agricultural products that will be the leverage of the Indonesian economy.

LITERATURE REVIEW

Value Co-creation

Vargo and Lusch (2006), stated that there is no value until an offer is felt where experience and perception are crucial for value determination. The offer must be integrated with other markets (i.e., from other companies) and resources that are not directly facing the market (private and public) for the value to be created (Vargo et al., 2008). The role of companies in value creation, value propositions, and service provision is as an intermediary for the value creation process.

The creation of shared value is not limited to exchange activities or service systems. The creation of shared value occurs through the integration of available resources from various service systems that can contribute to the welfare of the system as determined by the context of the system environment. Resources from service providers are adapted and integrated with existing service system resources, and values are obtained and determined in context (Vargo et al., 2008). Co-creation of value can occur only if interactions between companies and customers occur. If there is no direct interaction, there is no shared value creation (Gronroos, 2011).

Triadic Approach

Natti et al. (2014), stated that the triadic approach in studying business relationships is very reasonable because it offers an opportunity to study network dynamics. The triadic approach is suitable for exploring value creation in business service relationships, especially when companies that provide services also have a direct relationship with end customers, not just with intermediaries. Their findings show how managers can facilitate value co-creation in triadic relationship patterns through two roles; as a facilitator of value co-creation and as a conciliator. The role of a facilitator is related to 1) explanation, that is, making the process, roles, and objectives visible to actors in the triad through various processes; 2) speed up the service process, and 3) spread the word, especially through co-marketing.

The research findings of Natti et al. (2014), confirm that in service businesses that involve actors outside of only providers and customers, intermediaries also have an important role to play in making appointments and acting on behalf of service providers. Their research shows things related to general dynamics in triadic, for example: how different levels of activity of actors might influence, how triadic approaches can influence the development of trust between actors and how influential actors can also damage the relationship in a triad. It also shows that in the process of value creation, multisided communication, mutual learning, and knowledge renewal are needed and can improve relationships in the service business triad. In the field of business services where triadic arrangements are relevant, there is a value that can be obtained from shifting the focus from two-party dialogue towards a three-party trial by considering all the core actors involved in value creation, and related network dynamics. Analyzing the process of value formation through different roles makes it possible to determine and develop activities to strengthen relationships, communicate potential values, and share knowledge.

Natti et al. (2014), suggested considering the appropriateness of a triadic approach to examining network dynamics. More research in different contexts using that approach will be very useful for understanding network dynamics in value creation.

Previous Research

Jaakkola and Aarikka-Stenroos (2018), offered a framework involving Reference Customers, Prospective Buyers, and Sellers in a triadic value co-creation relationship. The concept of “Value” in the co-creation study involves collaboration between Suppliers-Manufacturers-Retailers and Consumers in creating value together. Several studies have identified the roles of the parties involved in the mutually beneficial collaboration. For example, the re-
search of Lee et al. (2017), aimed to identify the driving force of customer value co-creation that occurs through employee positive psychological capital, organizational citizenship behavior oriented to employee services, and customer brand experience. The results showed that positive psychological capital (PPC) employees influence customer value co-creation indirectly through the mediating effect of employee organizational citizenship behavior. Luu et al. (2018), stated that when public employees demonstrate agility in serving customers can activate the customer value co-creation with public organizations.

Xu et al. (2018), examined how the degree of value co-creation influences the evaluation of Chinese customers for new tourism and hospitality services, and how the quality of the results moderate these relationships under different conditions. Context-dependent customer involvement in value creation has managerial implications for facilitating the evaluation of favorable new services.

Habicht and Thallmaier (2017), find creative achievement and feeling happy to be an important component of the value of co-design. Both have a significant impact on product perception. Product perception fully mediates the relationship between co-design value and intention to buy as well as the intention to recommend mass customization offers to others.

Tommasetti et al. (2017), research in line with service-dominant-logic (SDL) rules shows that the scale to measure the behavior process in creating customer value has an implicit hierarchical structure based on eight activities to ensure adequate semantic coverage of the concept: cerebral activity, collaboration, research and information gathering, a combination of complementary activities, changes in habits, co-production, co-learning, and connections.

Many researchers are also interested in examining the relationship of “Value” with relationship marketing. The concept of relationship marketing in services gains new values, through the joint efforts of providers and consumers to create value for consumers (Râdulescu and Râdulescu, 2015).

METHOD

To find out the pattern of the relationship between farmers, coffee shops, and consumers, exploratory qualitative research designs were used. This research uses various informants. Primary data were collected through interviews with farmers, coffee shops, and consumers. This research was conducted using the resource persons in the following Table 1.

The selection of informants in this study uses purposive sampling. The informants in this study are those who have a direct relationship in the coffee industry, namely: coffee farmers, coffee shop owners, and coffee shop consumers. After collected, the data is processed and analyzed qualitatively.
The change in coffee culture, which was originally only a consumption product into a lifestyle. This has also influenced the change in the perspective of exchange into shared value creation, where coffee shops and consumers have a more active and participatory role in the production and consumption process (Prahalad and Ramaswamy, 2000; Ritzer and Jurgenson, 2010; Vargo and Lusch, 2008). Coffee culture as a lifestyle puts coffee which is not merely valued as a commodity, but also as experience offerings. Coffee shops become a bridge that integrates the value expected by consumers with the value offered by coffee farmers (Vargo and Lusch, 2008; Vargo and Lusch, 2017).

Coffee shops act as consumers as well as intermediaries in the chain that determines the value proposition to the final consumer. Through the transfer of knowledge from the coffee shop, coffee consumers can develop knowledge about the origin of their coffee beans produced by farmers, which can be a source of differentiation during the consumption experience. Information about the tastes of end consumers provided by the coffee shop to coffee farmers will improve coffee farmers’ expertise in producing and identifying better quality coffee beans. This will increase consumers’ willingness to pay. In terms of value in use, producer estimates for end consumers might promote contextual experiences that are valuable to them during the whole process, and this experience can even affect future transactions.

Value co-creation in the business environment faces fundamental changes that make buyer-seller interactions increasingly complex. Increased customization, knowledge exchange, and service intensity shifts the conventional goals of value creation and makes suppliers and customers more dependent on each other (Aarikka-Stenroos and Jalkala, 2012).

Based on interviews with informants, a triadic value co-creation can be identified between coffee farmers, coffee shops, and end consumers, namely:

1. Value co-creation between coffee farmers and coffee shops is realized through the transfer of knowledge provided by coffee shop entrepreneurs about good quality coffee beans which are then adopted by coffee farmers in the form of improving the quality of crops.

   This is supported by the results of interviews conducted with coffee farmer 1:
   “Initially we invited friends from coffee shops, we invited baristas to come to the field. We learn together how to make coffee quality good, then we learn together.”

   The interviews with coffee farmer 2 also illustrated the same point:
   “Our customer who is a coffee shop provides assistance in the coffee production process. So we not only sell coffee and the coffee shop buys our products, but how should we process this Robusta coffee, so that the coffee we produce can be properly valued.”

   Interviews conducted with coffee shop owners also support the results:
   “To get good quality coffee, we collaborate with coffee farmers. First, we went around looking for coffee farmers, then we offered cooperation and education. Not many farmers are willing because they prefer to produce commodity coffee. Then we found a farmer who was willing to work with us. We provide education about the process of producing good quality coffee.”

### Table 1 Primary Data Collection

<table>
<thead>
<tr>
<th>No.</th>
<th>Technique</th>
<th>Informant</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Interview</td>
<td>Wijih Kopi owner (Coffee shop)</td>
</tr>
<tr>
<td>2</td>
<td>Interview</td>
<td>Amstirdam owner (Coffee shop)</td>
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<tr>
<td>3</td>
<td>Interview</td>
<td>Kedai 55 owner (Coffee shop)</td>
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<tr>
<td>4</td>
<td>Interview</td>
<td>Kopi Lanang owner (Coffee shop)</td>
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<td>5</td>
<td>Interview</td>
<td>Tensi Coffee owner (Coffee shop)</td>
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<tr>
<td>6</td>
<td>Interview</td>
<td>Nocturnal.Co owner (Coffee shop)</td>
</tr>
<tr>
<td>7</td>
<td>Interview</td>
<td>Remboeg Pawon-Kelud owner</td>
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<tr>
<td></td>
<td></td>
<td>(Coffee shop)</td>
</tr>
<tr>
<td>8</td>
<td>Interview</td>
<td>Coffee Farmer 1</td>
</tr>
<tr>
<td>9</td>
<td>Interview</td>
<td>Coffee Farmer 2</td>
</tr>
<tr>
<td>10</td>
<td>Interview</td>
<td>Consumer 1</td>
</tr>
<tr>
<td>11</td>
<td>Interview</td>
<td>Consumer 2</td>
</tr>
<tr>
<td>12</td>
<td>Interview</td>
<td>Consumer 3</td>
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<tr>
<td>13</td>
<td>Interview</td>
<td>Consumer 4</td>
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</table>
An interview with another coffee shop shows: “The obstacle that is often faced by farmers is sometimes farmers do not think far. For them, the important thing is that the harvest can be sold. Therefore, we provide education, for example how to prevent land damage caused by excessive use of fertilizers, so as to produce good quality coffee.”

Besides, the coffee shop does not just act as a consumer. The coffee shop also acts as co-marketer for coffee farmers products.

The results of the interviews conducted with the coffee shop show: “Farmers who collaborate with us and get education from us, after successfully producing quality coffee, we will encourage them and help them to participate in the competition. By joining the competition, the farmer will be known and we create a coffee market to help Malang coffee farmers in marketing their products.”

2. The creation of intermediate values is realized through the determination of a coffee blend menu derived from customer input.

The interviews conducted with coffee owners illustrated the result: “The menu we made here is the result of customer input. Our new menu is the product of customer creativity. For example, iced milk coffee made by customers with the help of our staff.”

The coffee shop also provides education to coffee consumers so that they can appreciate the coffee produced by coffee farmers. As the results of the interview obtained from the coffee shop: “We provide coffee education classes to customers which are conducted once a week. This class aims to inform the process that coffee farmers must go through so that they are able to produce good coffee.”

3. Value creation between consumers and coffee farmers can be identified through the process of exchanging knowledge between coffee consumers and coffee farmers who are bridged by the coffee shop through activities that bring together the three parties, for example in a walk to the coffee garden and a forum for meetings between coffee farmers and coffee consumers. This activity is carried out with the hope that coffee farmers can be closer to the final consumer.

As stated by the coffee shop in an interview conducted: “Sometimes we hold educational classes by visiting coffee plantations together. During the visit, there will be a dialogue between coffee farmers and coffee shop consumers.”

Coffee farmers will have a better understanding when interacting directly with consumers and will improve their expertise by identifying the taste of coffee that is desired and favored by end consumers. This understanding encourages farmers to improve their expertise in producing better quality coffee beans. The result is an increase in end-consumers’ willingness to pay higher through the offered economic value proposition.

Through meetings with the coffee farmers, it will provide value to the contextual experience felt by the end consumers. Consumption experiences that are more interesting and become a source of differentiation will be felt by consumers as consumers absorb and develop knowledge about the origin of the coffee beans they enjoy. This experience-based value creation will increase customer satisfaction and loyalty. Customer satisfaction and loyalty are reflected by consumers by informing and referring coffee shops to potential consumers. Also, consumers will share their experiences through getting infected and positive testimonials to other consumers or simply consumers will become co-marketers. This is reflected from the results of interviews conducted with cafe customers. “I had an impressive coffee experience at this cafe. Furthermore, the education class by a visit to a coffee farmer provides valuable insight for me. I shared these experiences with my friends and I suggested they get experiences like me.”
DISCUSSION

The reciprocal relationships between coffee shops and suppliers (coffee farmers) are feedback, increased sales, experience, learning, and increased productivity. The key activity undertaken is improving the quality of the coffee. There is a link between the needs and desires of the coffee shop to have a good quality coffee that must be produced by coffee farmers and the needs of coffee farmers to get a higher income. The main resource is information and education about the planting and handling process, so the coffee farmers can produce a high-quality coffee. The coffee shop also acts as co-marketer of a coffee bean product.

While the reciprocal relationship between coffee shops, coffee shop consumers, and coffee farmers is feedback, increased sales, experience, and learning. The main resource is the value of use (value in use). The feedback from the end consumer (coffee shop consumers) in the form of favored types of coffee, will provide knowledge for coffee farmers to choose coffee beans and coffee flavors that are of interest to the market. Meanwhile, by knowing the coffee production process will make customers more appreciative.

The benefit value for the coffee shop is consumer involvement as a co-marketer provides valuable information and is considered credible to other consumers. Dissemination and sharing of information carried consumers generate value for other consumers, because thus consumers obtain credible information easily and quickly, thus saving on the cost of information search. Potential consumers say that they rely on consumer references and co-marketer ratings. The involvement of consumers as co-marketers will facilitate the process of buying potential consumers. This value comes from understanding that consumers have will reduce risk and save the psychological costs of purchasing.

CONCLUSIONS AND RECOMMENDATIONS

The coffee industry in Indonesia has experienced a shift with the emergence of a change in coffee culture that was originally only a consumption product into a lifestyle. This has also influenced the change in the perspective of exchange into shared value creation, where coffee shops and consumers have a more active and participatory role in the production and consumption process. Coffee culture as a lifestyle places coffee which is no longer merely valued as a commodity, but also the experience offered. The coffee shop becomes a bridge that integrates the value expected by consumers with the value offered by coffee farmers.

Knowledge is a very important resource for innovation and success (Van et al., 2003), and has the potential to create competitiveness and profitability (Cross et al., 2001; Lusch et al., 2007; Paswan and Wittmann, 2009; Vargo and Lusch, 2008). Sharing knowledge is a way to effectively gain a competitive advantage (Kwok and Gao, 2005). This research is in line with the opinion of Kwok and Gao (2005) and Kearns and Lederer (2003) that to gain a competitive advantage, knowledge must be shared or exchanged among key actors in the value creation process. In this study, the exchange of knowledge between each actor is the main input that will provide value to each party.

Besides, based on the results of research, consumers also play a role as co-marketers in creating triadic value. Consumers have a role as a giver of reference, infectious, giving input as well as giving testimony. This role will improve the feedback functionality provided by consumers to the seller (coffee shop) and suppliers in the form of solutions to improve operating performance, productivity, and sales. This research has identified roles and contributions as well as value elements for all actors. This finding shows how triadic value creation occurs.

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