

The Role of Business Model Innovation in Beauty Start-up Business

Jarrell T. Diets ^a, Felicia Ivena^b, Peri A. Manaf ^c

^{a,b,c} Binus Business School, Binus University
^ajarrelldiets@gmail.com

Abstract

At the early stages, start-up businesses are in a critical phase where they can survive or fail. Nevertheless, start-up businesses are rapidly growing, especially technology-based start-ups. Due to the start-ups having a high failure rate, start-ups always need innovation to survive. Thus, business model innovation is fundamental to sustain competitive advantage and acts as a determinant of either complete success or total failure. In most cases, business model innovations go unremarked. However, at the same time, many other businesses are employing effort and attempting to launch new business models. Remarkably, there is very little research that focuses on the role of business model innovation on start-up businesses. Besides, most of the existing researchers are in general industry topics, and none of them are focused on beauty industry topics. The beauty industry is rising and has potential growth worldwide– with all gender consumer– including in Indonesia. Thus, beauty has become a need. This research emphasizes business model innovation to fill the gap. This research aims to provide a deep understanding of the role of business model innovation in a beauty start-up business. This research uses qualitative study with in-depth interviews to gain insights from two leading beauty technology-based start-ups. The findings reach the common ground of the role of business model innovation.

Keywords: Business Model Innovation, business model, beauty start-ups, technology-based start-ups

1. Introduction

Being the fourth populous country creates population pressure and forced Indonesian to elaborate entrepreneurial skills (World Bank, 2021), (Kaur, 2017). The emergence of entrepreneurial skills and the ubiquitous future of technological advancement brings a new opportunity for people in Indonesia to the new business, which is a start-up business. With the rise of start-up business trends, business systems have evolved.

Something fresh and new– those are two impacts that a start-up business brings to the economy and society. The proliferation of start-up business drives the business potential in this digital era need to be unlocked. The remarkable growth of Indonesian start-ups accelerated by the emergence of unicorns, mostly of e-commerce and technology-based unicorns supported by over 60 million internet and tech-savvy users (AT Kearney Study, 2018).

Start-up business is more than just a trend. Start-up business is all about improvement and innovations. In particular, this research aims to analyze beauty start-ups in Indonesia since this industry brings tremendous growth significantly over the past years(Adhitya, 2018) with 70% market shares. Beauty products have a substantial future (Nielsen, 2018). As a response, several beauty start-ups have come into the market.

On the other hand, start-ups have an extremely high failure rate. During the first three years of start-ups, only one of three survive (Santisteban&Mauricio, 2018). A well-defined strategy and innovations are needed to stand, build its success, and survive the business (Ghezzi&Cavallo, 2020). Changes and innovations cannot

undergo in one business aspect only. Thus, business model innovation is an underpinning block to sustain the competitive advantage (de Padua Pieroni et al., 2019) and as important as the DNA of the firm (Francheschelli et al., 2018). Business model innovation is a labyrinthine exercise that requires idiosyncratic value (Ghezzi&Cavallo, 2020). Each start-up can have an atypical approach, depending on the goals and intention when embarking upon the process (Ghezzi&Cavallo, 2020).

In some cases, most businesses ignore business model innovation. However, the others are employing effort and attempting to launch new business models at once (Björkdahl&Holmén, 2013). Commonly, there is very little research that focuses on combining business model innovation and sustainability of a start-up. Moreover, most of the existing researchers are in general industry topics, and none of them are focused on beauty industry topics. The beauty industry is escalated quickly and has potential worldwide, including in Indonesia, with all genders are being consumers today (Massa et al., 2014). South Korea also has been a pioneer of the beauty industry in Indonesia. Beauty is no longer a term and product only, but it has become a need. This research emphasizes business model innovation to gain sustainability. This research objective is to get a deep understanding of the role of business model innovation in the beauty start-up business.

To this end, this research explores the insights based on two beauty start-ups in Indonesia, using it to investigate the role of their business model innovations. Start-ups ecosystem is vigorously changing. This research wants to dig into the business model innovation, process, changes, and the results within such a dynamic context.

2. Literature Review

Start-ups

Start-ups are different from the usual business. New products, processes, or services are developed, produced, and distributed by start-ups. Because of their newness and smallness, start-up businesses often suffer a structural scarcity of tangible and intangible resources and lacking enough focus that constrains them to succeed (Salamzadeh, 2015). The start-up ecosystem is formed as a new collaborative framework to construct a new business (Kaur, 2017).

The start-up business also has its ecosystem. According to Lee et al. (2017), start-up business ecosystems have several different forms. Those forms are supply-centric, market-centric, and technology-centric. The formulas depend on each start-up business strategy, environment, policy, and business processes. Technological advancement also plays an imperative role in establishing a start-up business ecosystem form. Tech-based start-ups are also more likely to have a higher success rate because technology is one of the success factors (Santisteban& Mauricio, 2017), (Lee et al., 2017).

Previous researchers found that a start-up business always needs innovation (Ghezzi&Cavallo, 2020). Innovation can be a part before, after, and during the lifecycle of the start-up business. So, a start-up business is also all about improvement. Ideas, delivery of market needs, the technology used, and everything else in the business ecosystems are all examples of innovation. Start-up business is more than just a trend and phenomenon– it brings impact to society. The ability to do innovation is one of the success factors besides intense technological advancement to success (Popa et al., 2017). Innovation strategy needs to be frequently developing to assist business owners, entrepreneurs, and innovators in building a framework for their objectives.

3. Business Model Innovation

One of the most used business model tools is Business Model Canvas, described within nine basic building blocks: customer segments, value propositions, channels, customer relationship, revenue streams, key resources, key activities, key partnerships, and cost structure (Ghezzi&Cavallo, 2017), (Zott et al., 2011). Business model innovation– where the innovation process undergoes in every aspect of the business– guarantees higher returns than product or process innovation (Massa et al., 2014). Innovations involving more than one aspect of business have a higher chance of being distinctive, sustainable, and have a better form. Business model innovation is the main element of a start-up business to reshape the value proposition and to create a survival strategy to compete (Francheschelli et al., 2018).

Business Model Innovations derived from the incorporation of Strategic Management theories and practices, which are resource-based view theory, transaction cost economics, and strategic network theory (Ghezzi&Cavallo, 2020), (Zott et al., 2011). Business Model Innovation requires at least one of the building blocks or elements of value delivery, value capture, and value capture and thus gives a firm to actuate unobserved value foundations or create new schemes that are difficult to replicate (Ghezzi&Cavallo, 2020), (Zott et al., 2011). In some cases, with business model innovation, all main and supporting aspects in business also improve (Massa et al., 2014). As a result, innovation will be much more valuable, insightful, and present in

all aspects of the business. Business model innovations act as a reaction to a shifting base of competition as the new business models are also entering the market (Foss & Saebi, 2016)..

Beauty Commerce Start-ups in Indonesia

In Indonesia, the beauty industry is increasingly growing. Indonesian consumers are increasing their awareness towards their wellbeing and beauty products (Adhitya, 2018). There are rising beauty products demands are hair care products (37%), skincare products (32%), and make-up products (10%) (Indonesia Investment, 2017). Because of disposable income and destructive marketing efforts by cosmetic companies, the beauty industry sector, particularly the cosmetic sector, has grown at a rate of 10% to 15% per year (Indonesia Investment, 2017).

The beauty industry in Indonesia is not only a popular trend, but it becomes needs. People nowadays have increased awareness of beauty products. International brands such as Korean beauty products—the pioneer of beauty industry— are booming in Indonesia. Because Indonesia has 87 percent of the Muslim population and consistent demand for halal-certified products, halal beauty brands are also thriving (Adhitya, 2018). The number of Indonesian beauty products has substantial growth, predicted to catch up with Korean beauty products, so as the euphoria, beauty trends, and market needs.

X and Y are examples of beauty commerce start-ups that capitalized on the opportunity of both the beauty industry and e-commerce in Indonesia. While other e-commerce sites focus solely on commerce, X and Y integrate diverse value propositions, ranging from shopping to community and platform. The technology-based platform allows users to shop and interact with other beauty enthusiasts.

4. Method

This research is qualitative in the form of a case study. Case study research is qualitative research that aims to investigate the meaning and generate insights from the respondent. This research uses in-depth interview because the insights desired is deep and detail about the role of business model innovation. The semi-structured interview is applied because based on the research objectives, it is already known what kind of information is needed but not limited to allow interviewees to ask upcoming questions based on the conversations. The interview results are analyzed and validated.

The interviews were semi structured interviews, based on a pre-defined interviewed guide and questions but not limited to upcoming questions to gain more insights deeply. There are two interviewees from two different beauty start-up businesses, a Business Development Head of X and a Chief Technology Officer (CTO) of Y. Both handles business and innovation in their company. The interview is about their company journey, business model, changes, and innovation. Both companies operate in the same industry, beauty commerce, and in the same environment, a technology-based start-up business. Authors gained a comparative evaluation and understanding of their company journeys, business models, and all changes or configurations in their businesses using this approach.

5. Results and Discussion

Company Background and Environment

X initially focused on female fashion and make-up, but it is now all about beauty for all genders. The initial value proposition of X is to provide a platform and build a community. Then, X added the word "beauty" to their mission to enhance the value proposition to empower everyone and increase their interest in beauty. E-commerce is a complementary feature of X. X more focuses on the platform that all diverse brand users to share their experiences after using a beauty product. Sharing is X's commitment. Meanwhile, Y is a new beauty platform in Indonesia. Y focuses on selling beauty products and providing a customer experience. The products are curated, supported by scientific research, and directly tested by a team of experts. A new feature such as skin quiz aims to add a customer experience. The algorithm of the skin quiz will match the user's skin problems and product needs.

Business Model Frame 1

X started as a blog and officially launched as a forum for females only. The main topics were fashion, motherhood, and make-up to skincare tips. X would like to support women that juggled motherhood and career and to inspire women during their adolescence years. The main activity at that time was to focus on audience traffic. X saw the opportunity of Indonesians growing internet users and very fast in adopting internet and social media. So, X focuses on audience traffic, content, and building a solid community.

The partners and resources are the brands, fashion, and beauty brands, that want their brand to be featured and discussed on the forum and the internal resources of X. The customer relationship and channels focus on the audience, putting the X audience first, gaining trust, and building a deep connection. The revenue streams are ads and partnership fees. At that time in the cost structure, X spend much on building a web forum besides the operational expenses.

Meanwhile, Y marks itself as an "all-in-one beauty platform." The original configuration of the Y business model is similar to other beauty commerce and platform, with the revenue stream is from sales. However, Y adds customer experiences through skin quiz features and only has exclusively curated beauty products selected and tested by experts as their value proposition and to get brand trust. Y adds a more distinctive selling point by collaborating with skin experts from South Korea, where all the skincare and beauty trends mostly come. Y emphasis and invest more in technology as its resources and activities.

Innovation

Innovation is one of the main pillars for both companies. Both believe that innovation is significant and needed to be adaptable due to rapid changes in the business world. X has a longer journey than Y and did many innovations during past years. X always thinks from the audience's perspective on what aspects and features should be improved and added. X adds one new feature that allows users to participate in adding a product review. X always tries to see the demand and opportunity to create and improve.

Y also adds innovation to its continuous plan, both short-term and long-term. Before the demand is there, Y tries to forecast future user needs. Y believes that one innovation is not enough. Y should improvise and innovate the business over time. That is why Y has several innovation plans step ahead.

Both interviewees agree that the companies should keep on track of competitors' innovation. X explained that innovations done are demand-based. X improved some features and is built based on users' demand and trends, consumer trends, beauty trends, and lifestyle. X conducts a SWOT analysis regularly to identify the competitors, the company's current position, and potential upcoming opportunities and threats. However, the X ideas of innovation should, once again, aligned with audience demand and trends. Y assumed that competitors are insightful since Y can get more ideas from them. Y reasonably sure that an original idea requires a significant amount of time and effort. Y operates in impactful and time-efficient ways, such as always keeping an eye on the competition and improvising. Y believes in imitate - improve - innovate.

Business Model Innovation

Both X and Y agreed and realized that sometimes companies only focus on one thing and ignore business model innovations. Business model innovation is vital because it helps X survive until now. X is so focused on our audience and partners. X is always trying to see things from their perspectives to do a better and quicker innovation. X also do backward innovation slowly during the past years. Not only in one aspect, but all aspects of X business, and X does innovation continuously.

Because Y is considered younger than X, Y hasn't done much business model innovation yet but already captured how important it is and plan the business model innovation from now on. Y plans the pivot business models. In the meantime, Y has several ongoing plans at once and will launch them at nearly the same time. By doing so, Y can know which business model is feasible and suitable in the beauty industry. The X and Y agreed that business model innovation is crucial for sustainability.

It is nearly impossible to do business model innovation in all building blocks at the same time. So, X and Y have separate teams to handle and delegate the task. X classifies the brief by the degree of importance for both customers and the company, while Y orders the brief based on urgency and importance.

Business Model Frame 2 (Innovated Configuration)

At the first launch, X realized the importance of technology and the increasing numbers of internet users in Indonesia. As a result, in addition to broadening its customer segment, all of X's innovations are technology-based. The development of features, digital platform advancement, easy-to-use mobile applications, and diversified content are a few innovations by X. The business type is shifted– from a blog to a digital beauty platform- but the value proposition is still the same with innovations added. At the same time, Y places a high value on technological innovation and providing a unique customer experience. Y have integrated technology between website and application, with no maintenance at all. Y focus on customer experience and journey, serving them 24/7. Besides the skin quiz, Y is currently working on upcoming features such as gamification.

Both companies agree that business model innovation should take place frequently, concurrently, and rapidly. Business model innovation is not about a change in just one aspect of the business. Both agree that

business model innovations are one way to provide what customer wants, as a solution of market trends phenomenon, and serve the market right away. All building blocks of the business model are critical. Both companies need to provide the customer's needs or their potential need. So that innovation will follow. Business model innovation is the major determinants of their sustainability. During the time at both companies first launched until today, they conducted business model innovation. Both companies can survive past these years, compete with the competitor, and still leading the beauty industry until the current moment.

6. Conclusion

This qualitative study has highlighted the business model investigated on two beauty start-up businesses in Indonesia. These findings served as insights for an understanding of business model innovation for beauty start-up businesses. The key results indicate that innovation cannot be on one aspect only, but in all aspects of the business as a whole, even backward innovation or what customers cannot see. Especially in the beauty industry, where the new products will keep coming, the beauty start-ups must have a dynamic approach to response.

Thus, the level of business model innovation is higher than any innovation in this case. All building blocks in the business model are continuously changing. Finally, it is necessary to understand the role of business model innovation. It will have a significant impact on business with a touch of technology development as the catalyst. Thus, all start-ups should do a continuous business model innovation as their core strategy to expand, to grow, and to survive in this rapid shift era. Sustainability is the expected result of business model innovation—in this case, both companies interviewed have succeeded in recent years. .

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