

Business Model Innovation in the Internet Marketing Adoption Context

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Abstract: Business model innovation is one of the priorities of practitioners and interest of scholars and becoming increasingly critical as mere product or process innovations are insufficient in the current internet era. By innovating the business model as the result of the use of the internet, the firms can also stay ahead of the competition. Recently, internet marketing has fundamentally changed the paradigm of the business, altered the way in which information is shared and communicate to consumers and set an enormous influence on strategy and business model. To respond these changes, businesses need to have the capabilities to integrate, build and reconfigure internal and external competences or to create, extend or modify its resource base, i.e., organization dynamic capability. There are prior studies on the relationship between dynamic capability and business model innovation and dynamic capability and new technology adoption as well as new technology adoption and business model innovation. Most of these studies confirmed that there is a significance correlation amongst these variables of which some of them emphasize on the adoption to the internet or e-Commerce. This study investigates empirically in one integrated research model on the relationship between mentioned variables in internet marketing context. The survey was undertaken in Greater Jakarta, Indonesia to 215 firms in the field of consumer shopping goods. The outcome reveals that there is a direct impact of dynamic capability to internet marketing adoption, dynamic capability and business model innovation and internet marketing adoption to business model innovation. This study also reveals that the relationship between dynamic capability and business model innovation is partly mediated by internet marketing adoption.

Key words: Business model innovation, dynamic capability, internet marketing, technology acceptance, adoption

INTRODUCTION

A dynamic modern business environment is characterized by frequent and numerous market changes. A significant change in marketing field occurred following the introduction of internet a few decades ago, in the term of internet marketing. Scholars have studied internet marketing topic from various perspectives in the recent years as a result of the internet usage advances. The internet is nowadays becoming crucial in people daily life, led by robust growth of users. The internet has also fundamentally changed the paradigm of today's business communications, altered the way in which information is shared and set an enormous influence on marketing strategy. As a result, businesses compete in two universes, traditional and virtual arena.

There are various definitions of internet marketing and so far it has not been found the consensus on the elements included in this term. Some scholars define selling of products or services using digital channels to reach consumers. In practice, the definition is developed over time due to the new element (s) in internet marketing landscape. Recently, some internet marketing practitioners

suggest that the elements are a website, email marketing, social media marketing, public relations, online advertising, search engine marketing, directories and listing, development, design, research, strategy, branding and content. While there are numerous elements in digital marketing, however, they can be assembled based on Segmentation, Targeting and Positioning (STP) and 4Ps marketing mix. The website, email marketing, social media marketing, public relation, online advertising, search engine marketing can be categorized as promotion. The website, directories and listing can be classified as Place/distribution and the remaining can be grouped as the analytical process for defining STP and developing the right product and pricing. From all perspectives, the internet marketing approach has made a tremendous change in the way businesses market their products and services. It is due to the internet makes access to a wider market regardless of the size of the company or business and has fundamentally changed the paradigm of business communications. Elliot and Boshoff (2005) highlighted that the internet leads to a new business model of interaction in building new business and participation in the electronic marketplace. Businesses use

internet sites to communicate with their customers and prospective customers with the same cost and easily in a single country.

Studies were conducted in search of the adoption of internet marketing field, with emphasizes on the shopping goods industry. It is found that scholars rarely study it in the past, despite the characteristics and requirements of its consumers are corresponded with the internet or internet marketing capabilities. Therefore since new technologies have enabled new ways of doing business, the mediating variable of internet marketing adoption is introduced in the research model. Shopping goods, based on Bucklin (1965) are the goods which take a lot of time and proper planning before making the purchase decision; in this case, the consumer does many comparisons based on various indicators such as cost, brand, style and comfort before the decision to buy. He further explains “the motivation behind consumer of shopping goods stems from circumstances that tend to perpetuate a lack of complete consumer knowledge about the nature of the product that he would like to buy. Frequent changes in price, style or product technology cause consumer information become obsolete”. New search for the product is continuously required for products and the consumer will undertake the search for products until the perceived value to be achieved. Some examples of shopping goods are clothing items, televisions, home appliances, footwear, home furnishing and jewelry (Murphy and Enis, 1986).

Business model innovation is the new means of to create and capture value. The business model, according to Amit and Zott (2012), depicts the content, structure and governance of transactions design so as create value through the exploitation of business opportunities. Lindgardt *et al.* (2009) describe two elements of the business model, namely value proposition and operating model. The value proposition has sub-element of the target segment, product/service offering and revenue model. The operating model has sub-elements of the value chain, cost model and organization.

The intense competitive landscape in the business, require businesses, especially firms that interact with consumers, to adjust quickly. One of an appropriate approach to the face the competition and environmental changes quickly is the application of dynamic capability (Teece *et al.*, 1997; Wang and Ahmed, 2007; Helfat *et al.*, 2007; Barreto, 2010). The dynamic capability emphasis on three aspects: understanding the shape opportunities and sense, seize opportunities and reconfiguring in the face of environmental change (Teece and Pisano, 2007). Therefore, one of the antecedents examined for internet marketing adoption in this study is also the dynamic capability.

The area of this research is Greater Jakarta, Indonesia. The massive growth in internet usage in this particular region, driven by the smartphone, makes this study exciting. Greater Jakarta is the metropolitan area which the entire area has the population of approximately 28 million or 11.2% of Indonesia population (estimated 250 million in 2014). Although, it is only 11.2% of Indonesia population, it contributes approximately 23% of Indonesia GDP of USD 3.500 bln in 2014 (source: Indonesia Statistical Bureau/BPS). The GDP per capita of Greater Jakarta is approximately USD 4,000 compared to Indonesia GDP of around USD 3,100. Greater Jakarta is known as the trendsetter of Indonesia including any trend related to the internet. The total internet users in this area are 42.8% of the internet user in 40 big cities in Indonesia. Therefore, Greater Jakarta is considered the critical area in Indonesia for the development of internet-related field including internet marketing.

Literature review

Dynamic capability: Dynamic capability is the extension of Resource-Based View (RBV). RBV is based on two fundamental assumptions: that resources (and capabilities) are heterogeneously distributed among firms and that they are imperfectly mobile. Barney (1991) further argues under RBV context that businesses that possessed resources that were valuable, rare, inimitable and non-substitutable would attain a competitive advantage and sustain these benefits over time which in turn improve performance. In 1994, Teece and Pisano extended the RBV into dynamic capabilities framework to explain the combinations of competences and resources could be developed and deployed. Teece and Pisano (1994) define dynamic capability as the subset of the competencies and capabilities that allow the firm to create new products and respond to changing market circumstances. To respond the changing market circumstances the firm needs to have the ability to integrate, build and reconfigure internal and external competences or to create, extend or modify its resource base (Helfat *et al.*, 2007), purposely created (Winter, 2003) with the manner envisioned and deemed appropriate by its principal decision maker (Zahra *et al.*, 2006). This capability is strategic routines by which firms achieve new resources configuration as market emerge, collide, split, evolve and die (Eisenhardt and Martin, 2000) and it is an activity through which the organization in a systematic manner modifies its operating routines to achieve effectiveness (Zollo and Winter, 2002).

There are four dimensions in dynamic capabilities which are sensing capabilities, learning capabilities, integrating capabilities and reconfiguration capabilities. Sensing capability can be conceptualized as the ability of the firm to scan the environment, identify new

opportunities, assess its competitive position and respond to competitive strategic moves. Tushman and Anderson (1986), Henderson and Clark (1990), Teece *et al.* (1997) have studied that changes related to technology shifts are usually hard to be addressed effectively. Digital marketing trend is the changes of business environment and can be seen as new opportunity to expand the market and need to be responded in an effective manner by corporations to be able to compete in this globalization.

Teece *et al.* (1997), suggest that learning is a vital process which through experimentation and repetition. This process leads to the better solution of specific problems and at the same time enables firms to identify new production opportunities. Digital marketing competencies are required to be able to adapt in the way that can give the benefits to the companies and the learning processes are dynamic and multi-level. Although, insight and innovative ideas may occur to individuals, the individually generated knowledge is shared within the organization's context.

This study combines integrating and reconfiguring capabilities dimensions, with the reason those are viewed as one integrated action. After learning, the organization needs to integrate them to shape new competences (Iansiti and Clark, 1994; Amit and Schoemaker, 1993). Moreover, the implementation of the configurations of functional competences needs effective coordination of various tasks and resources including the synchronization of different activities (Collis, 1994; Helfat and Peteraf, 2003). Coordination processes connect routines job through such as communication, scheduling and task assignment. Teece *et al.* (1997), suggest that the shortage of effectively coordinating and combining of various resources on technological changes makes overwhelming effects on incumbent firm's competitive positions in a market.

Internet marketing: There are various definitions of internet marketing and so far it has not been found the consensus on the elements that are included in this term. Chaffey describe it as the application internet and internet related technologies in conjunction with traditional communication to achieve marketing objectives. Other defines selling products or services using internet channels to reach consumers and it recommends that internet marketing extend beyond internet marketing. It is suggested to include channels that do not require the use of internets such as mobile phone (SMS and MMS), social media marketing, display advertising and any form of internet media (<http://lexicon.ft.com>).

Arthur (1996) points out that the marketing through internet/internet marketing can broad and diverse markets at a very low marginal cost. In general term,

internet/internet marketing is the marketing of products and services via internet. One of the definitions of marketing from The American Marketing Association is "an organizational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders" (Gundlach, 2007). "Internet marketing as a collaboration of all internet-related marketing activities, it actually includes everything right from search engine marketing and optimization to affiliate marketing and banner advertising, email newsletter marketing, etc., website analysis, performance tracking and customer relations are all considered to be parts of the umbrella head internet marketing". Marketing activities are related to market segmentation, targeting, positioning strategy based on Product, Price, Place and Promotion (4Ps) (Corey, 1991; Hunt and Morgan, 1995; Kotler, 1994; Visser, 2016). This marketing mix is a set of controllable, tactical marketing tools that work together to achieve company's objectives (McCarthy, 1960; Barlon, 2006; Booms and Bitner, 1981; Luekveerawattana, 2016).

Shopping goods, based on Bucklin (1965) are the goods which take a lot of time and proper planning before making the purchase decision; in this case, the consumer does many comparisons based on various indicators such as cost, brand, style and comfort before the decision to buy. He further explains "the motivation behind consumer of shopping goods stems from circumstances that tend to perpetuate a lack of complete consumer knowledge about the nature of the product that he would like to buy. Frequent changes in price, style or product technology cause consumer information become obsolete". Some examples of shopping goods are clothing items, televisions, home appliances, footwear, home furnishing and jewelry (Murphy and Enis, 1986).

The theory used in this study for measuring the adoption of internet marketing is Unified Theory of Acceptance and Used of Technology (UTAUT) which was introduced by Venkatesh *et al.* (2003). Venkatesh *et al.* (2003) examined the principal factor of previous technology adoption models and combining the model by taking the most important constructs. Based on research conducted by Venkatesh *et al.* (2003), he suggests four elements that play an important role as a direct determinant UTAUT on behavior intention which are performance expectancy, effort expectancy and social influence. Moreover, one factor which is facilitating conditions as the direct determinant to use behavior. There are four moderating factors which are gender, age, experience and voluntariness of use which would not be used in this study.

Business model innovation: Business model innovation is one of the priorities of CEOs and becoming increasingly

critical as mere product or process innovation are insufficient in current time (Chesbrough, 2007; Bucherer *et al.*, 2012). Some scholars opine that business model innovation has been linked with the advent of new technologies that have enabled new ways of doing business. In the digital world, there is a need to change business model whereby the strategy may not be altered. Zott *et al.* (2011) cited that recent expansion of the internet has allowed offering the creation of unique exchange mechanisms and transaction architectures (Amit and Zott, 2001) and these changes have opened new perspectives for business model innovation (Mendelsohn, 2000). Business model definition based on Amit and Zott (2010) is an arrangement of activities that portrays the way a corporation does business with its customers, partners and vendors. While business model innovation is explained as the search for firm new logics, new approach to creating and capture value for its stakeholders and emphasize on finding new ways to generate revenue as cited by Masanell and Zhu (2011) from several studies. Lindgardt *et al.* (2009) describe two elements of the business model, namely value proposition and operating model. The value proposition has sub-element of the target segment, product/service offering and revenue model. The operating model has sub-elements of the value chain, cost model and organization.

MATERIALS AND METHODS

Research model: This study is built based on previous literatures on the business model innovation from the perspective of internet marketing adoption. Also, dynamic capability of the firms is inserted into the framework to enrich the research. The framework builds upon the correlation between dynamic capability and internet marketing adoption as the antecedents and has the positive influence to business model innovation.

Dynamic capability is the competencies of the firm to respond to the changing market circumstances. The change of the world because of the internet, force the firms to adopt it. In the marketing field, the internet marketing provides an opportunity for businesses to expand and to improve their efficiency and effectiveness. The relationship between dynamic capability and internet marketing is studied by scholars and found that there is a significant influence of organization dynamic capability to internet marketing adoption (Hou and Chien, 2010; Hsu and Wang, 2010; Lin *et al.*, 2009; Liao *et al.*, 2009). Therefore, the second hypothesis is:

- H₁: Dynamic capability has positive influence on the adoption of internet marketing adoption

Business model innovation has linked the advent of web technologies that have enabled new ways of doing

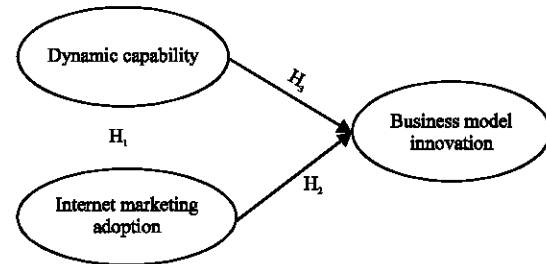


Fig. 1: Research model

business (Mendelsohn, 2000). The marketing through the internet has developed the new logic of the firm by finding a new way to generate revenue and define the value proposition for customers, suppliers and partners. (Amit and Zott, 2011; Magretta, 2002; Zott and Amit, 2007; Fuller and Haefliger, 2013; Gambardella and Mcgahan, 2010). Thus, there is significant influence between the internet marketing to business model innovation. Therefore, the second hypothesis is:

- H₂: internet marketing adoption has positive influence on business model innovation

Teece and Pisano (1994) define dynamic capability as the subset of the competencies and capabilities that allow the firm to create new products and respond to changing market circumstances. Masanell and Zhu (2011, 2010, 2013) describe business model innovation as the search for firm new logics, new approach to creating and capture value for its stakeholders and emphasize on finding new ways to generate revenue. Najmaei (2011) indicate that dynamic capability may play in facilitating business model innovation. Therefore, the third hypothesis is:

- H₃: Dynamic capability has positive influence on business model innovation

RESULTS AND DISCUSSION

Unit analysis of this research is company or firm that sells shopping goods in Greater Jakarta area. Shopping goods companies based on Government of Indonesia classification are:

- Clothing and apparel
- Shoes, leather goods
- Computer and electronic
- Furniture

The total number of companies in Indonesia which operate under these classification based on Indonesia

Statistical Bureau (BPS) is 3,241,635 of which 23,592 is under medium and large business. In the area of Greater Jakarta, the total number of medium to the large company under this classification is 3.526. The focus of this study is medium to large companies with the reason that this size of businesses is considered having the reasonable marketing budget.

The sample size is 215 shopping goods brand firms in Greater Jakarta. Sekaran and Bougie (2013) propose the rules of thumb that the sample size between 30 and 500 are appropriate for most research. Therefore, it is believed that 215 samples are sufficient. The respondents were executives such as Commissioners, President Directors/CEOs, Director/Board of Management, Vice President, General Manager, Senior Manager, Division Head levels and/or other senior personnel, who are believed to have a good balance of knowledge on both company strategy as well as marketing matters.

The data of this research was gathered through questionnaires. Questionnaires related to variables, employed the Likert rating scale (1-6) while questionnaires related to the company information were provided with multiple choice checked list answers.

Data analysis uses Structural Equation Modeling (SEM) that is a multivariate analysis method that has the capability of measuring each underlying latent construct or variable using Confirmatory Factor Analysis (CFA) and evaluating the paths of the hypothesized relationships between the constructs. SEM analysis in this research uses two-stage approach which consists of:

Analyzing measurement model

Overall model fit: Information about the fit between data and model can be obtained from Goodness of Fit Index (GOFI).

Analyzing validity: An indicator or observed variable is valid measurement of a latent variable or construct, if:

- Standardized factor loading of observed variable on latent variable (SFL) = 0.50
- t-value of the SFL = 1.96

Analyzing reliability: Measuring reliability in SEM uses composite reliability measure and variance extracted measure.

Analyzing structural model: In the second stage, CFAs from the first stage are added to the structural model in order to produce a hybrid model. This hybrid model will be estimated and analyzed for:

Table 1: Company information

Variables	Respondent	%
Business focus		
Clothing and apparel	127	59.1
Leather goods	53	24.6
Computer and electronics	7	3.2
Furniture and accessories	28	13.0
Total asset		
<IDR 500 mln.	16	7.4
IDR 500 mln.-IDR 10 bln.	34	15.8
IDR 10 bln.-IDR 180 bln.	88	40.9
>IDR 180 bln.	10	4.7
Others	40	18.6
Number of employees		
20-50	177	82.3
50-100	35	16.2
100-300	3	13.9
>300	0	0.0

- Overall fit of the model using GOFI
- Statistical significance test of the path coefficient (the path coefficient is significance if its t = 1.96)

Transformational Leadership (TL) is the second order of latent variables that consists of 3 first order variables, TLC, TLM and TLS. The measurement model of these first order variables reveals that they are a perfect fit and CFA for these first order variables show good reliability. The CFA analysis of observed variables of each of first order latent variable reveals good validity.

Internet Marketing Adoption (DM) is the second order of latent variables that consists of 3 first order variables, DMP, DME and DMS. The measurement model of these first order variables reveals that they are a perfect fit and CFA for these first order variables show good reliability. The CFA analysis of observed variables of each of first order latent variable reveals good validity.

Business Model Innovation (BMI) is the second order of latent variables that consists of 3 first order variables BMC, BMS and BMG the measurement model of these first order variables reveals that they are a perfect fit and CFA for these first order variables show good reliability. The CFA analysis of observed variables of each of first order latent variable reveals good validity (Fig. 2).

The structural model analysis is conducted to determine whether a research hypothesis is accepted or not. For the significant test of the research model hypotheses, the t-value statistic measurement is used. A hypothesis is accepted if the number of absolute t-value >1.96, with a coefficient sign (can be positive or negative) in accordance with the proposed research hypotheses.

Using Table 1 parameter, all GOFI of the final structural model fulfill the standard value of good fit. Therefore, it can be concluded that the research structural model has the good overall goodness of fit (Table 2).

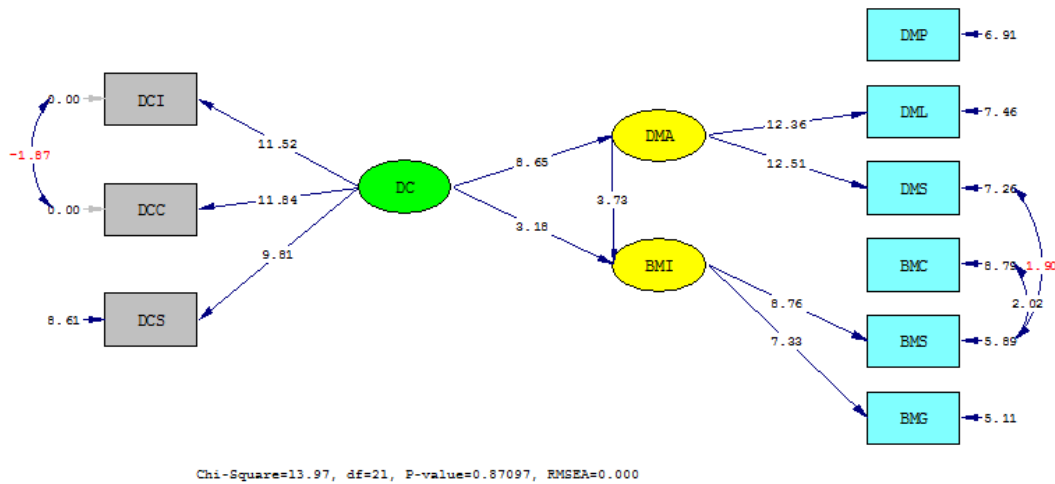


Fig. 2: Path diagram structural model (t-value)

Table 2. The criteria of goodness of fit index

GOFI	Description	The good GOFI criteria
p-value	Value-p	p = 0.05
RMSEA	Root Mean Square Error Approx.	RMSEA = 0.08
NNFI	Non-Norm Fit Index	NNFI = 0.90
CFI	Comparative Fit Index	CFI = 0.90
IFI	Incremental Fit Index	IFI = 0.90
SRMR	Standardized Root Mean Residual	SRMR = 0.05
GFI	Goodness of Fit Index	GFI = 0.90

Table 3: Significance test results on structural model

Path	t-values	Hypotheses	Conclusion
DC→DMA	8.65	H ₁ : DC has positive and direct impact on DMA	H ₁ is accepted, data supports model
DMA→BMI	3.73	H ₂ : DMA has positive and direct impact on BMI	H ₂ is accepted, data support model
DC→BMC	3.16	H ₃ : DC has positive and direct impact to BMI	H ₃ is accepted, data supports model

The hypotheses testing in this research relate to the impact of transformational leadership, dynamic capability, internet marketing adoption. The hypotheses testing was processed using SEM Lisrel 9.2 and the summary of the hypotheses and the test result is described in Table 3.

As reveals in Table 3, the hypotheses testing indicated that three hypotheses in this testing are accepted as they all have $t > 1.96$. The outcome of the test of hypothesis one shows there is a significant impact of dynamic capability on internet marketing adoption. The test result of hypothesis two demonstrates the role of internet marketing adoption to business model innovation. The result of hypotheses three also reveals that there is a significant impact of dynamic capability on business model innovation. Also, this study reveals that internet marketing adoption has partly mediating effect on the influence of dynamic capability on business model innovation.

CONCLUSION

This study develops a theoretical framework that can guide a firm's decisions to introduce the adoption of

internet marketing in particular e-Commerce usage and the internet advertising. The framework focuses on linking of dynamic capability, internet marketing adoption relevant to business model innovation. By applying the research framework to a large data set gathered from questionnaires distributed, it shows that the framework can explain the relationship between dynamic capability, internet marketing adoption and business model innovation.

This study shows that there is a significant impact of dynamic capability of the organization on internet marketing adoption and there is a significant impact of internet marketing adoption on business model innovation. It reveals that the relationship between dynamic capability and business model innovation is partly mediated by internet marketing adoption.

The business model is important in this internet wave since the internet changes the way business interact with its consumers. The internet can expand the market in an efficient way and can exploit business opportunities with the same products offering to ensure effectiveness on the adoption of internet marketing, it is suggested that the firms should apply business model innovation by developing new ways of to create and capture value. These approaches are to gain sustainable competitive advantages in this business environment.

With the increasing importance of internet, driven by smartphone penetration in Indonesia, internet marketing approach is an increasingly important strategy within the firm. This study provides companies with guidance on what element in the organization to be developed to ensure the use of internet marketing effectively. If the shopping good companies decide to utilize an internet marketing approach, need to assess the business model of the corporation. If not, then it necessitates being transformed and developed to be able to integrate, build and reconfigure internal and external competencies. This whole process of adopting internet marketing needs to be

understood by top management and not to oversimplified to ensure that the effort on using internet marketing approach can achieve the competitive advantages.

Furthermore, e-Commerce platform companies, internet marketing agencies as well as the policy maker, can use this research to educate and support local businesses for internet marketing usage in a structured fashion, since it provides the insight on the issues of these firms in adopting it including the requirement to innovate the business model.

The policy maker or the parties (digital marketing agency or consultant) who are interested in encouraging local companies to use internet marketing are suggested to consider this study to understand the obstacles as well as the requirements of the businesses to be able to use internet marketing effectively. These parties need also to focus on the innovating business model as the next step when they educate the firm on implementing internet marketing. Furthermore, for government, in light of developing e-Commerce roadmap, it would be beneficial, in parallel, to set up special task force to educate companies/SME in using 360° digital marketing to be able to get the most benefit of it. It can be through training, information center (physical, call center or web based) and also interactive website. This study concludes by articulating a few limitations for future research avenue.

First, this research is limiting itself the location of the analysis. The location of the sample of respondents is in Greater Jakarta, Indonesia. Despite Greater, Jakarta is considered the critical area in Indonesia for the development of internet-related field including internet marketing. Therefore, future research avenue can focus on another area that has a different characteristic from Greater Jakarta.

Second, the empirical analysis of this study was only based on the firms that are selling consumer shopping goods products. Despite this study has carefully chosen the characteristics and requirements of its consumers are corresponded with the internet or internet marketing capabilities, however, there is probably another classification of goods that relevant to internet marketing advantages. Thus, future research can investigate other categories of classification of goods/consumer goods.

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