

**The influence of market attractiveness and core competence on value creation and competitive advantage and its implication on business Performance
(A study at Pay TV Industry in Indonesia)**

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ABSTRACT

The average Indonesian watches 5.5 hours of TV a day. With a population of 242 million people and a Free-to-Air (FTA) TV penetration rate of 56%, that equates to 745 million hours of television watched each day. With such potential, it is no wonder that many companies are now attempting to get into the Pay TV market. Research firm Media Partner Asia has forecast in its study that the number of Indonesian pay-television subscribers will climb from 2.4 million in 2012 to 8.7 million by 2020, with penetration scaling up from 7 percent to 21 percent.

Key drivers of market growth, the study says, include macro trends built around higher disposable income and a rising middle class, with leading players continuing to invest significantly in sales, distribution and content. New entrants, in the meantime, will boost overall prospects.

This study aims to examine and analyze the effect of Market Attractiveness and the Core Competence on Value Creation and Competitive Advantage and its impact to Business Performance in the pay TV industry in Indonesia. The study using strategic management science approach with the census method in which all members of the population are as sample. Verification method is used to examine the relationship between variables.

The unit of analysis in this research is all Indonesian Pay TV business units totaling 19 business units. The unit of observation is the director and managers of each business unit. Hypothesis testing is performed by using statistical Partial Least Square (PLS).

The conclusion of the study shows that the market attractiveness affects business performance through value creation and competitive advantage. The appropriate value creation comes from the company ability to optimize its core competence and exploit market attractiveness. Value creation affects competitive advantage. The competitive advantage can be determined based on the company's ability to create value for customers and the competitive advantage has an impact on business performance.

Keywords: Market Attractiveness, Core Competence, Value Creation, Competitive Advantage, and Business Performance

1. INTRODUCTION

In general, pay TV business in Indonesia has developed quite well driven by the entry of new players into this business. However, market penetration is still relatively small or less than 3%. The market which is large enough to encourage investors to enter into the pay TV business has made the pay TV business in Indonesia more attractive. Although Indonesia has a total of 62.5 million households in 2011, with a population of approximately 48 million television, the development of pay TV industry in Indonesia is the slowest in Asia, only capable of penetrating to 3% of households, or about 1.3 million houses in various regions in 2010.

Indonesia had a total number of 62.5 million households in 2011, with a television population of approximately 48million, while the potential market of pay TV subscribers in Indonesia reached approximately 12million, or about30% of the population of the television. The fact that there are more than 40 million television owners and the new untapped market of 2.5 percent can create new markets. There are a number of factors that make the sale of pay TV in Indonesia is still not excited, such as: the subscription rates issue which has not yet been attractive; and the support of local content providers which is still relatively weak. The content of pay TV is dominated by foreign investors. Nearly 50 percent of operating costs is spent on buying content. It greatly affects the cost of the subscription.

Based on the research results of Price Waterhouse Coopers (PWC), the growth of pay TV market in Indonesia is only around 2% per year, far below Vietnam, Malaysia, and even Pakistan. The lack of penetration of pay television services (pay TV) in Indonesia has made business opportunities in this sector quite large. Pay TV penetration in Indonesia is estimated to reach 5% -10%. The crucial thing in pay TV business is the people adoption rate which is still low. Today most of the people in Indonesia still rely on free-to-air services which are commonly used today.

Pay TV market penetration is only 3% per year, far below Malaysia 50%, India 79% and China 45%. However, the pay TV service providers continue to believe that market will grow to 7% by 2015, in line with economic growth and purchasing power. Ideally, pay TV subscribers is 30% of the total TV owners; in Indonesia the number of pay TV subscribers is only 2% of the total 40 million TV owners.

In order to accelerate market growth, the existing operators such as MNC Sky Vision, Telkomvision, and First Media and other, have come up with various strategies of product differentiation to target lower segments. Good education becomes crucial to support the migration of consumers to pay TV FTA. Innovation in the field of content is also crucial to encourage people to use a pay TV service. Local content is considered as one potential model of content.

The competition in pay TV is not only the content, but also the creation of value for the customer; the key is to wrap products according to the targeted customers segments. Space for innovation in pay TV is more limited than the telecommunications business. However, the moving level of customers (churn) in the pay TV is more difficult than telco because there is a device installation process which is not easy.

In conducting the business, pay TV company has several factors that may affect the business activities that may impact the company's performance either directly or indirectly. The inability of the company in the creation of value will result in the difficulty to get, to improve and to maintain the customers, which eventually will give negative impact to the company's operational and financial performance.

In the last five years, 5 pay TV companies have been recorded to have declared to cease its operations. With the huge market opportunity, bankruptcy becomes an interesting phenomenon to observe. There were at least four pay TV companies that stopped operating in 2012. The first was Globalvision which stopped operating in 2002. Globalvision officially ceased operations before promoting its subscription

packages. The second was Astro Nusantara which stopped operating in 2008. It is due to unresolved internal conflict between Astro All Asia Networks and DirectVision as the owner of Astro Nusantara upon license and stocks possession issues. Third, was PentaVision which stopped operating in 2012. Like Globalvision, PentaVision stopped operating before launching the products officially.

Despite the slow market growth and collapse of four pay TV companies, there are huge enthusiasts for this kind of industry. There are currently at least 250 companies that apply for opening pay TV business in Indonesia.

Based on the above explanation, we intend to observe the influence of market attractiveness and the core competence on value creation and competitive advantage and its implications upon business performance of pay TV industry in Indonesia.

2. PROBLEM FORMULATION AND HYPOTHESES

Based on the identification of the problems above, the scope of variables to be studied consists of market attractiveness, core competence, value creation, competitive advantage and business performance. The object under study is a paid or subscription television industry located in Indonesia. The time of the study was scheduled in 2013.

Based on the formulation of the problem and research paradigms that have been described, the hypotheses of this study are as follows:

1. Market attractiveness and the core competence influence value creation either partially or simultaneously.
2. Market attractiveness and core competence influence competitive advantage.
3. Value creation influences competitive advantage.
4. Market attractiveness and core competence influences business performance through value creation and competitive advantage.

3. RESEARCH METHODOLOGY

In this study, the researcher uses the census method in which all members of the population are as sample. Verification method is used to examine the relationship between variables, which is the influence of market attractiveness and the core competence on value creation and competitive advantage and their implications upon business performance of pay TV industry in Indonesia. By using the research method, a significant relationship between the variables studied to produce conclusions that will clarify the picture of the object under study, will be found.

The unit of analysis in this research is all business units totaling 19 business units of the company at the pay TV industry in Indonesia. Thus, this research is by census. The unit of observation is the directors and managers in the Pay TV companies. Each unit of analysis is represented by 3-5 respondents to avoid unwanted bias. The total number of units of observation is 61 people, which consists of 20 directors representing the top management, and 41 managers.

Data collected through surveys. The data required in this study is primary data collected through interviews with the management of pay TV in Indonesia to complement and strengthen secondary data. The research instrument uses questionnaire to collect primary data from managers and directors of pay TV. Observation is carried out to obtain more accurate information and to obtain other information which cannot

be predicted in advance. Observations are made by examining, reviewing records or reports regarding market attractiveness, core competence, competitive advantage, value creation and business performance of the pay TV companies from different institutions related to the problems to be studied.

4. RESEARCH FINDINGS

Verification analysis was designed to examine the influence of pay TV market attractiveness and the core competence on value creation and competitive advantage and their implications upon business performance by using multiple relationship model among variables, in which information is obtained simultaneously (Malhotra, 2004), so that the analysis techniques quantitatively uses structural equation modeling/SEM. Structural equation modeling (SEM) consists of two types namely covariance-based SEM is often called SEM (structural equation modeling) and variant-based SEM or a component that is often called PLS (partial least square). This statistical technique is used to verify the relationship among the research variable.

4.1 The influence of market attractiveness and core competence on value creation either partially or simultaneously. (Hypothesis 1)

The relationship between Market Attractiveness and the value creation is 0.113; the T value obtained is 2.191, which is greater than 1.96, so that it was significant. The influence formed is 0.113^2 or 1.27%. The relationship between Core Competence and Value Creation is 0.774; the T value obtained is 20.647, which is greater than 1.96, so that it was significant. Influence formed is 0.774^2 or 59.9%.

The influence formed simultaneously by the Market Attractiveness and Core Competence on the Value Creation is 63.60%. The results of the above analysis prove that first hypothesis is accepted, that the market attractiveness and core competence influence value creation either partially or simultaneously.

This is in line with the opinion of Cravens and Piercy (2009), which states that the market attractiveness can be measured by market growth rate projections and attractiveness assessments made by management, while Best (2000) argues that a more complete market attractiveness can be measured through market force, competitive intensity, and market access.

Companies must identify a suitable competence to create consumer value. Consumer value consists of benefits and cost. In this case Craven and Piercy (2009), emphasizes the management to be able to offer superior value to the consumer by using competence produce value match based on consumer needs (Ketchen, 2009; Knight, 1998 and Mooney, 2007).

4.2 The influence of Market Attractiveness and Core Competence on Competitive Advantage of Pay TV industry in Indonesia. (Hypothesis 2)

The relationship between market attractiveness and competitive Advantage is 0.230; the T value obtained is 4.341, which is greater than 1.96, so that it was significant. The influence formed is 0.230^2 or by 7.36%. Relationship between core competence and competitive advantage is 0.382; the T value obtained is 6.077, which is greater than 1.96, so that it was significant. The influence formed is 0.382^2 or 14.60%.

The result of the above analysis proves that second hypothesis is accepted, that the market attractiveness and the core competence give influence to the competitive advantage. The results of the study support the statement of Dawid and Reimann (2010), that the market attractiveness and company primary

resource (core competence) can be used as a basis of competitive advantage formulation (Kotler, 2012; Dalborg 1999; Markides and Williamson, 1994). Competitive advantage is formulated from the analysis of core competence and market attractiveness (Bani-Hani and Faleh, 2009; Slater and Narver, 1994; and Luo, 1998)

4.3 The influence of Value Creation on Competitive advantage of the Pay TV industry in Indonesia. (Hypothesis 3)

Relationship between value creation and competitive advantage is 0.498 the T value obtained is 8.384, which is greater than 1.96, so that it was significant. The influence formed is 0.498^2 or 24.80%.

The influence formed by value creation on competitive advantage through is 24.80%. This means that 24.80% of changes in the competitive advantage are affected by changes in market attractiveness and competence core through value creation. The remaining 75.20% is influenced by other factors beyond these variables. The results of the above analysis prove that third hypothesis is accepted, that the market attractiveness and the core competence give influence to competitive advantage either directly or through the value creation.

In pay TV industry, the value chain is very complex and requires a large capital investment so that giving the better value for the customers compared to other companies is needed to improve the competitiveness of the company. Relating to the creation of value, Hitt et al, (2009) explains the importance of creating value for customers, lowering costs in building customer value and establishing relatively favorable position to the competition (Sharma, 2001; Parasuraman 1997; and Huber and Hermann 2000).

This hypothesis is consistent with Pearce and Robinson (2005) theory which states that if in a situation where the company and its competitors have relatively the same resources, the company performance can be generated from the creation of customer value on the market perspective or market-based.

4.4 Influence of Competitive Advantage on Business Performance of pay TV industry in Indonesia. (Hypothesis 4)

Relationship between competitive advantage and business performance is 0.441; the T value obtained is 8.632, which is greater than 1.96, so that it was significant. The influence formed is 0.441^2 or 19.45%

The influence formed simultaneously by market attractiveness and core competence on competitive advantage through value creation and competitive advantage is 19.45%. This means that 19.45% of changes in the business performance is affected by changes in market attractiveness, competence core and value creation. The remaining 80.55% is influenced by other factors beyond these variables. The results of the above analysis prove that hypothesis 4 is accepted, that the market attractiveness and the core competence give influence to business performance either directly or through the value creation and competitive advantage.

Formulation of competitive advantage which is properly implemented will improve business performance (Wheelen and Hunger, 2008; Kaplan and Norton, 1992; Sofyan, 2011; Venkatraman and Ramanujam, 2003; and Olovaretta and Friedman, 1999). Competitive advantage is an approach of

organizations to compete for winning the competition, getting customers, generating power or creating value from resources or competence available and creating competitive advantage.

The company that uses differentiated strategies attempt to gain a competitive advantage based on the uniqueness of the offer. The company develops different goods and/or services from competitors. This strategy requires the power of marketing, research and development, leadership technology and high creativity. Success or failure of this strategy relies on the consumer value creation for the quality and uniqueness of the company's products.

This study uses three generic strategies of Porter, which company can use to win the competition in a sustainable manner, namely: 1) differentiation, which attempts to provide unique products and to give added value for customers, 2) cost leadership, which is the lower operating cost, so that the company is operating at a level of efficiency that is better than the competitors. 3) focus, which is an attempt to serve a particular niche market segment, so that the company can perform optimal service to specific markets or specific customer groups (market niche) (Schermerhorn, 2003).

5. CONCLUSIONS

Based on the objectives and results of the study can be summarized as follows:

Market Attractiveness and core competence give influence to value creation. It proves conformance to the theory which states that the market attractiveness plays significant role in value creation. This can be explained because the market orientation will be obtained through accurate information on the market situation, market forces, the intensity of competition and the ease of market entry. The information in the future is needed in the determination of value creation and competitive advantage.

In terms of core competence influence to value creation, it is proved that the core competence is important in determining the success of value creation. Core competence plays a greater role than the attractiveness of the market in value creation. With core competence, company will have the ability to both value creation according to customer needs in the present and future. Furthermore, management can determine the competitive advantage which is needed to produce the expected performance of the company.

Value creation gives influence to competitive advantage. This proves the theory that the value creation gives influence to pay TV industry. Appropriate competitive advantage can be determined based on the company's ability to create value for customers and will be determined the right competitive strategy that will have an impact on business performance.

Competitive advantage gives influence to the business performance well. This proves that a strategic management theory state that performance highly depends on competitive applies to pay TV industry. Competitive advantage plays a role in determining the performance of the business. This is understandable because the competitive strategy determines the competitive advantage of the company. With the chosen competitive strategy capable of providing the advantages (benefits) are provided to customers than competitors.

Referring to result of this research, Pay TV Company is suggested some of the following:

1. Always monitoring changes in the pay TV market attractiveness and build core competence to be able to determine the appropriate competitive strategy is one among the cost leadership strategy, differentiation strategy or focus strategy.

2. Performing customer value creation process as basis for competitive advantage.
3. Performing efficiency throughout business processes chain to improve competitiveness.
4. Always innovating in finding potential new pay TV program.
5. Always improving service quality to increase customer loyalty.

TABLES AND FIGURE

Figure 1. The Influence of Market Attractiveness and Core Competence on Value Creation

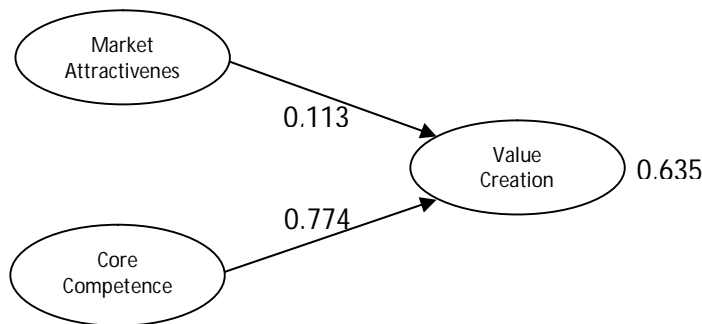


Figure 2. The Influence of Market Attractiveness and Core Competence on Competitive Advantage

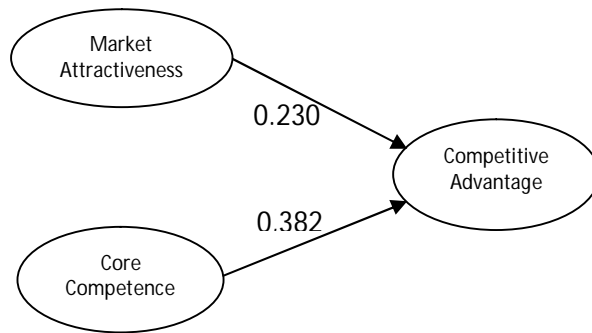


Figure 3. The Influence of Market Attractiveness and Core Competence on Competitive Advantage through Value Creation

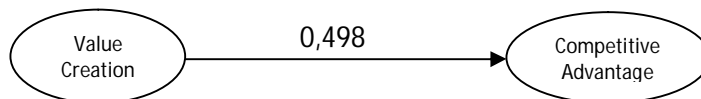


Figure 4. Influence of Market Attractiveness and Core Competence of the Company Performance through Value Creation and Competitive Advantage

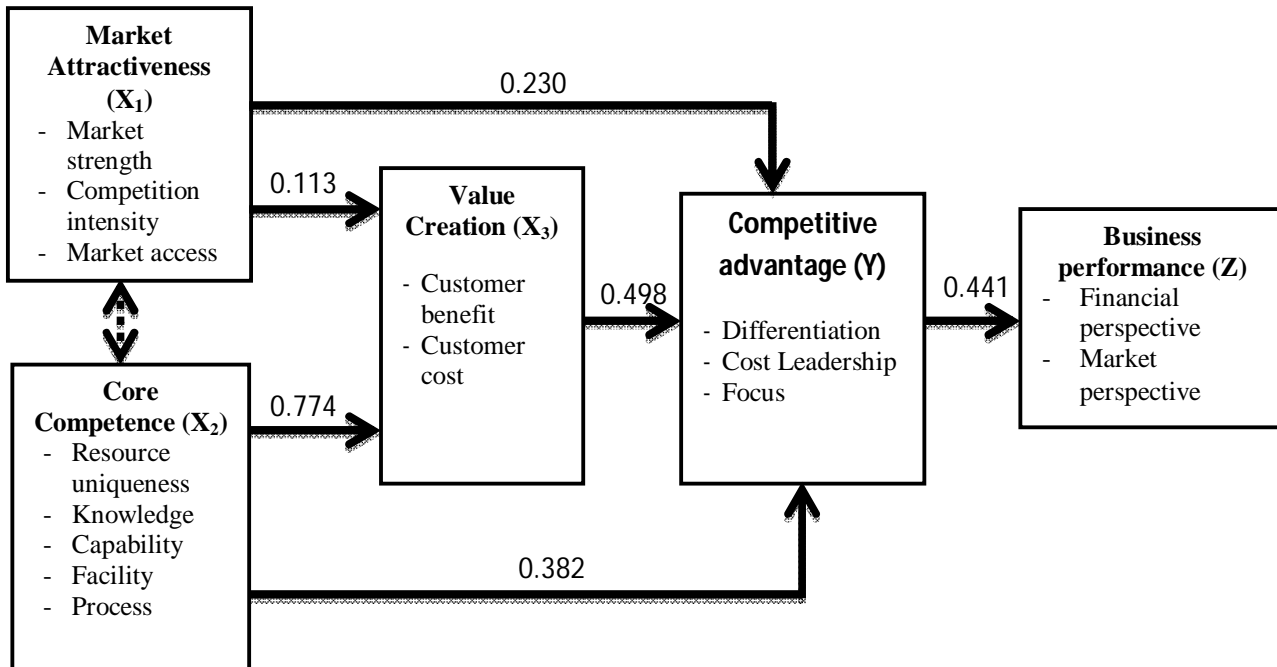


Table 1. Relationship among Variables

Hypothesis	Description	T-Val	Description
H1	Relationships between market attractiveness and value creation	2.191	Significant
	Relationships between market attractiveness on value creation	20.647	Significant
H2	Relationships between Market attractiveness and Competitive Advantage	4.341	Significant
	Relationships core competence and competitive advantage	6.077	Significant
H3	Relationships between Value Creation and business performance	8.384	Significant
H4	Relationship between Competitive Advantage and business performance	8.632	Significant

Sources: Research Findings, 2013

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