

Blue Ocean Strategy: Case Study on PT. Wismilak Inti Makmur, Tbk

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ABSTRACT

PT. Wismilak Inti Makmur is an Indonesian cigarette company that has started commercial activities producing hand-held cigarettes since 1962 in Surabaya. This research was conducted to formulate and test the blue ocean strategy in the cigarette industry. The research method used is based on literature studies to understand consumer preferences and current industry trends. By implementing the blue ocean strategy, it is hoped that WIIM can get out of the red ocean and have a new market in the blue ocean. This research provides input in developing innovations that can be carried out by the cigarette industry in the face of intense competition using research methods The Four Actions Framework and Six Paths Framework.

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1. INTRODUCTION

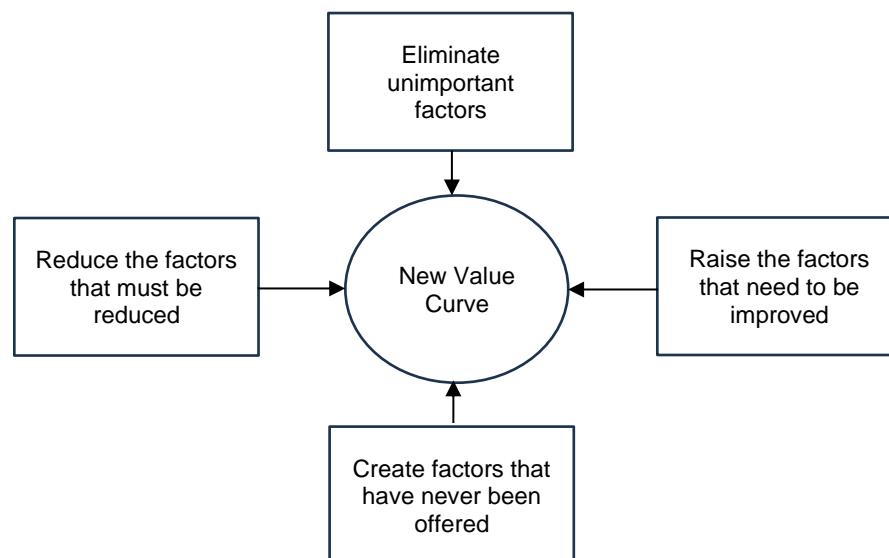
Competition in the world business between cigarette companies is very tight with a very large market share in Indonesia. This makes the company continue to compete in red ocean competition with main players including, PT. Gudang Garam and PT. HM Sampoerna which has been acquired by Philip Morris Indonesia. In a red ocean, the company is on a bloody battlefield so that the increase in profits will not be significant due to capturing the same market (Septina, 2007). As one of the cigarette companies, PT. Wismilak Inti Makmur, Tbk. (WIIM) has implemented various strategies and initiatives to achieve sustainable development to build productive capacity and transform opportunities so as to increase their competitiveness. On the basis of this very risky industrial climate, WIIM as one of the cigarette industry players that has been around since 1962, needs to formulate a new, more innovative strategy according to internal and external conditions, namely blue ocean strategy. This will allow WIIM to have new market space so that it has opportunities for profitable growth.

WIIM must get out from red ocean competition and create a blue ocean strategy. Blue ocean strategy is a business strategy by creating a new market space without competition, so that the word competition becomes irrelevant and make a company compete alone without competitors (Puspitasari & Novasari, 2019). Blue ocean strategy needs to be implemented by every company to provide opportunities for new markets, attract more customers and reduce competition (Dewi et al., 2022). The key of the blue ocean concept is value innovation (Fitriani et al., 2021). Value innovation means creating differentiation and low costs simultaneously (Dewi et al., 2022). The following is the difference between red ocean and blue ocean (Samrin, 2021).

Table 1. Eliminate – Reduce – Raise – Create Grid

Red Ocean	Blue Ocean
Compete in existing markets	Creating new market space
Create competition	Competition is irrelevant
Fulfill existing requests	Capture new requests
Choose between value and cost	Breaking down the value and cost
Choose between differentiation or cost leadership	Pursue differentiation and cost leadership

This blue ocean strategy is different from previously existing strategies. By using this strategy the factors aimed at winning the competition are ignored. This research uses The Four Actions Framework, namely by creating The Eliminate-Reduce-Raise-Create Grid. (a). Eliminate is removing factors that are not important for the company. (b). Reduce is reducing factors to below industry standards. (c). Raise is increasing factors to above industry standards. (4). Create is creating factors that have never been done by other companies (Dewi et al., 2022).

**Figure 1.** The Four Actions Framework (Dewi et al., 2022)

The Four Action Framework focuses on creating value for customers. Factors that previously created value for customers but are now unable to compete must be eliminated. Factors that have too large function and do not create value must be reduced. Factors that can improve performance from normal must be identified. Factors that create new sources of value for customers must be created (Lohtander et al., 2017).

While Six Paths Framework are six principles that drive the success of implementing the blue ocean strategy (Adicandra, 2017). This identification process allows the company to create a market where there are no competitors. With six basic assumptions, namely alternative industries, strategic groups within the industry, buyer chains, complementary product and service offerings, emotional or functional appeal to buyers, and time (Utaminingsih, 2011).

This research was conducted to formulate and propose a blue ocean strategy that can be carried out by WIIM and create increased demand for WIIM products. The benefit of this research can increase market share and reach a wider range of consumers. Apart from that, this research can find out alternative strategies and innovations that can be carried out in the cigarette industry.

2. RESEARCH METHOD

The method used in this research is The Four Actions Framework (Dewi et al., 2022) and Six Paths Framework (Dewi et al., 2022). This analysis method was chosen to analyze factors can influence the cigarette industry which can become value innovations. This research was carried out by conducting a literature study to identify existing strategy canvas.

Based on the analysis of problems and opportunities, strategies can be formulated. The formulated Blue Ocean Strategy is then tested and evaluated regarding the impacts that occur. Once it is appropriate, the strategy can be implemented in the company and regular monitoring is carried out to see the performance of the strategy and the results achieved.

3. RESULTS AND DISCUSSIONS

To get an idea for implementing a blue ocean strategy, first analysis of the existing blue ocean canvas strategy is carried out. Cigarette circulation is increasing, especially after the Covid-19 pandemic. This is because consumers of expensive cigarettes are starting to switch to cheap cigarettes. Companies have continued to complete to launch dozen of products over the last 2.5 years. Looking at the current industry is divided into two, namely cheap cigarettes (Wismilak ARJA, Minak Djinggo, Kansas American) and expensive cigarettes (Esse and Marlboro). So with this grouping of cigarettes we can divide the two groups by looking at the factors of price, raw material quality, production complexity, brand image, target market, promotion, low tar and nicotine, taxes, and packaging design.

The four action framework is the actions that must be taken to create a blue ocean strategy. This step needs to be taken to create a new value curve, to challenge the strategic logic and business model in the cigarette industry. The following is a scheme of the main actions, namely reduce, eliminate, raise, and create (Dewi et al., 2022) that need to be carried out by WIIM. (a). Reduce focuses on identifying factors that can be reduced to create a competitive advantage. This can be done by reducing harmful substances such as levels of tar, nicotine, and other dangerous substances so that it can serve consumers who are health conscious but still at an affordable price. Apart from that, companies can also reduce packing waste and cigarette butts. (b). Eliminate focuses on eliminating certain aspects so as to differentiate from competitors. Eliminate traditional marketing methods such as advertising on television and billboards which are expensive. Apart from that, companies can also eliminate traditional distribution channels. (c). Raise focuses on where the industry can raise or improve certain factors to provide uniqueness. WIIM can improve the packaging design to be unique and environmentally friendly so that it is different from other cigarettes. Apart from that, WIIM can also increase the use of online platforms to make sales. (d). Create focuses on completely new factors that can create new market spaces. This can be done by creating innovative and less dangerous alternative and less dangerous alternative tobacco products or alternative products to replace cigarettes such as aromatherapy or relaxation to create new experiences for smokers, creating exclusive smoking rooms equipped with cigarette butt bins which will later be reprocessed so that they do not become waste for the environment.

From the results of the explanation contained in the paragraph, the following is an illustration of the eliminate-reduce-raise-create grid scheme that WIIM needs to carry out. This scheme encourages companies to act based on the four actions framework to create a new canvas strategy. The strategy canvas is an action to create a good blue ocean by encouraging activities to change focus from competitors to alternative industries and from consumers to non-consumers (Aini et al., 2021).

Table 2. Eliminate – Reduce – Raise – Create Grid

Eliminate		Raise	
Traditional marketing method		Unique packaging design	
Traditional distribution channels		Sales via online platforms	
Reduce		Create	
Dangerous substances		Healty cigarettes	
Packaging waste and cigarette butts		Alternative products to cigarettes	
		Environmentally friendly cigarettes	
		Exclusive smoking room	
		Cigarette butt trash can	

The six paths framework is part of the blue ocean strategy by looking at existing data with a new perspective. To get out of the red ocean, companies must break down the common boundaries of how to compete. The following is the application of the application of the six paths framework to the cigarette industry. (a). Pay attention to alternative industries. Alternative industries are industries that have similarities in function, form and purpose to the cigarette industry. This concerns similar products or services that serve similar customer segments. In the cigarette industry, the alternative nicotine substitute industry can be candy, chewing gum, or inhalers as a substitute to fulfill the need for addiction to stop smoking. Apart from that, the vaping industry is an alternative industry to replace cigarettes with the tagline healthy cigarettes. So considering the health factors promoted by the vape industry, many cigarette users are switching to using vape. (b). Pay attention to strategic groups in the industry. A strategy group is a collection of companies pursuing similar strategies with similar customer segments. Identification of this group is necessary to meet customers who have not been met by the existing industry. Presenting the premium segment with unique, environmentally friendly packaging designs and unique branding at affordable prices. (c). Pay close attention to the buyer chain. Looking across buyer groups, identifying potential segments that are underserved or overlooked. For example, consumers are health conscious so companies must develop tobacco products that have low risk and can serve consumers who are looking for healthier smoking options at affordable process. (d). Pay close attention to complementary product and service offerings. Identify complementary products or services that can be offered to add value to cigarette products. Offering an exclusive smoking room can enhance customer experience. Apart from that, it can also create aromatherapy as a relaxation tool to replace cigarettes or to remove cigarette odor. (e). Pay attention to emotional or functional appeal to buyers. Some industries compete to fulfill a function, but most also compete based on feelings or using emotional appeals. To be attractive from an emotional perspective, companies can create attractive packaging designs so that they stand out on the shelf and are different from other products. Apart from that, companies can also create branding with storytelling which can be developed through advertising on social media so that the storytelling approach can connect consumers on an emotional level. (f). Pay attention to time. Take into account emerging trends and changes in consumer mindsets over time. This also needs to be considered by presenting alternative products to replace tobacco considering the increasingly active government in creating a smoking ban and also the shift in consumer behavior towards smoking.

Based on the results of the four action framework and six paths framework, there are changes to the previous elements included in cheap cigarettes into a new value curve by adding alternative products, exclusive smoking rooms and cigarette butt trash bins. The canvas strategy aims to look at the conditions of the existing market space so that we can find out the industry factors that are competing and where the company can innovate (Fitriani et al., 2021).

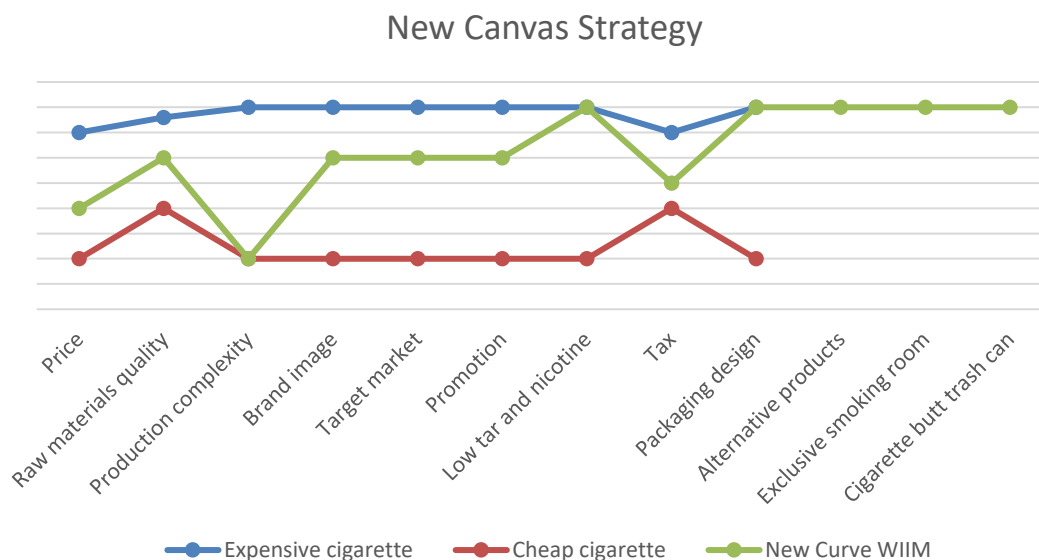


Figure 2. New Canvas Strategy

4. CONCLUSION

PT. Wismilak Inti Makmur is an Indonesian cigarette company with three subsidiaries, namely PT. Gelora Djaja (manufacturer), PT. Gawih Jaya (distributor), and PT. Galan Gelora Djaja whose status is still inactive. Currently the company has four production facilities in Surabaya and Bojonegoram as well as four regional logistics centers in Medan, Jakarta, Solo, and Gresik. The company also has 21 distribution areas, a stock point, and 27 marketing agents throughout Indonesia.

Competition in the business world between cigarette companies is very tight, making WIIM have to get out of red ocean competition and create new market space so that it can become an opportunity for greater growth. From the results of the analysis carried out to create a blue ocean strategy, WIIM can eliminate traditional marketing methods and traditional distribution channels so that it can reduce costs, reduce harmful substances and packaging waste and cigarette butts so that it can reach new customer segments, increase the uniqueness of the design packaging and sales via online platforms considering the increasing use of e-commerce today, and WIIM can also create healthy cigarettes, alternative products to replace cigarettes, exclusive smoking rooms and cigarette butt bins so that it can be different from other cigarette companies.

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