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STRATEGIES TO CHANGE THE BUSINESS ENVIRONMENT

IRFAN AZIM
INSTITUT ELKATARIE
Irfan15azim@gmail.com

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Abstract

This paper explores strategies to change the business environment, focusing on key approaches that drive innovation, growth, and competitiveness in today's dynamic market landscape. In particular, it examines the role of network effects, pricing strategies, and disruptive innovations as fundamental elements in shaping business ecosystems. Network effects, both direct and indirect, are identified as powerful drivers of exponential growth, as the value of products and services increases with the expanding user base. Additionally, the penetration pricing strategy is discussed as a tool for rapidly gaining market share, attracting early adopters, and accelerating network effects. The paper further highlights how businesses can leverage these strategies to establish a strong market presence, overcome competition, and foster long-term sustainability. Ultimately, the research emphasizes that the ability to adapt and implement such strategies effectively can lead to significant shifts in the competitive dynamics of industries, fostering a favorable business environment for growth and success.

BACKGROUND

In the dynamic era of globalisation, companies are confronted with an ever-changing landscape that demands continuous adaptation and strategic innovation. The rapid evolution of technology, heightened stakeholder expectations, intensifying market competition, and numerous external pressures create a business environment that is increasingly complex and unpredictable. Furthermore, global events such as economic fluctuations, regulatory shifts, and unprecedented crises—most notably the recent pandemic—have forced businesses to reassess their operational models, pivot their strategies, and implement transformative changes across various industry sectors.

However, real business transformation extends beyond superficial adjustments; it is a structured and deliberate process aimed at enhancing efficiency, profitability, and resilience. Change in business is not merely about responding to external disruptions but also about proactive foresight, requiring meticulous planning, strategic agility, and unwavering execution. In essence, change represents a shift from the current business state to a strategically envisioned future, enabling organizations to maintain their competitive edge and drive sustainable growth(Mello et al., 2021).

A critical aspect of business transformation is resilience. Companies that successfully navigate change are those that cultivate adaptive capabilities, allowing them to withstand disruptions and emerge stronger. Change can manifest in various forms—ranging from minor operational improvements, such as streamlining invoicing systems, to comprehensive overhauls in product and service offerings. Regardless of its scale, every transformation marks a significant shift that can temporarily disrupt daily operations before yielding long-term benefits(Siregar & Marwan, 2020).

The recent pandemic has dramatically reshaped the global business landscape, bringing about shifts that were previously unanticipated. One of the most notable trends emerging from this transformation is the growing emphasis on environmental sustainability. With increasing awareness of climate change and the need for sustainable practices, industries—particularly within the food sector—are shifting towards plant-based alternatives. Many quick-service restaurants and food manufacturers have begun experimenting with and integrating plant-based ingredients into their menus, responding to evolving consumer preferences and regulatory demands(Ahmadi & Rahmani, 2023).

To thrive in this ever-evolving environment, businesses must not only understand but also anticipate market trends and potential opportunities. Proactive monitoring of industry developments, leveraging data analytics, and adopting innovative business models are crucial steps in securing a competitive advantage. As the corporate world continues to evolve, industry leaders must commit to lifelong learning, continuously upgrading their skills and strategic competencies to navigate the complexities of the future.

In the near future, comprehensive references and analytical studies will be published to provide deeper insights into these transformative changes and practical strategies for adaptation. By developing a thorough understanding of the nature of change, recognizing its inherent benefits, and identifying the opportunities it presents, businesses can confidently tackle emerging challenges and achieve sustained growth in an increasingly dynamic global economy(Kasemsap, 2016).

METHODOLOGY

This study adopts a qualitative-descriptive approach to analyze strategic business transformations in response to evolving market conditions and competitive pressures. This research relies on both primary and secondary data sources to ensure a comprehensive understanding of the subject matter. Primary data is gathered through semi-structured interviews with industry professionals and economic experts, offering firsthand insights into the implementation and effectiveness of various business strategies. Secondary data, on the other hand, consists of academic literature, business reports, and journal articles that provide theoretical frameworks and empirical evidence supporting strategic decision-making.

Data collection is conducted through literature reviews, document analysis, and in-depth case studies of companies that have employed strategies such as limit pricing, predatory pricing, and network effects to secure market dominance. Thematic analysis is utilized to identify recurring patterns and strategic trends, while comparative analysis is applied to evaluate the relative effectiveness of different approaches across diverse industries. By examining real-world cases, this study seeks to bridge the gap between theoretical perspectives and practical applications, offering a nuanced exploration of how businesses navigate complex competitive landscapes. To ensure the validity and reliability of findings, this research employs source triangulation by cross-referencing multiple data points, enhancing the credibility of interpretations. Additionally, a peer review process involving discussions with economic scholars and business strategists is conducted to refine analytical insights and mitigate potential biases. This rigorous methodological approach ensures that the study presents a well-substantiated and critical evaluation of strategic business adaptations, ultimately contributing to the broader discourse on managerial economics and sustainable competitive advantage.

RESULTS AND DISCUSSION

ENTRY PREVENTION

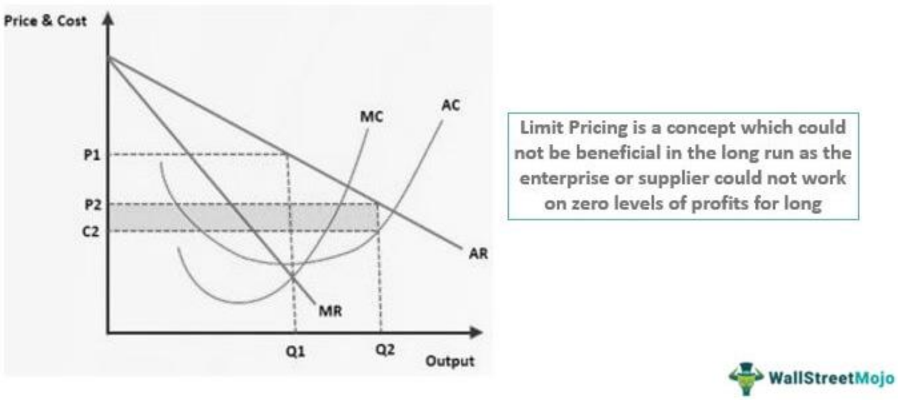
A strategy or tactic used to prevent or block the entry of new competitors into an existing market. This can be done through various means, including the use of strong brand power, economies of scale, advanced technology, or government regulations that limit the entry of new competitors. The goal of Entry Prevention is to preserve a company's existing market position by reducing the risk of more intensive competition from new competitors(“The Rise of the Gig Economy: Challenges and Opportunities for Indian HR,” 2024).

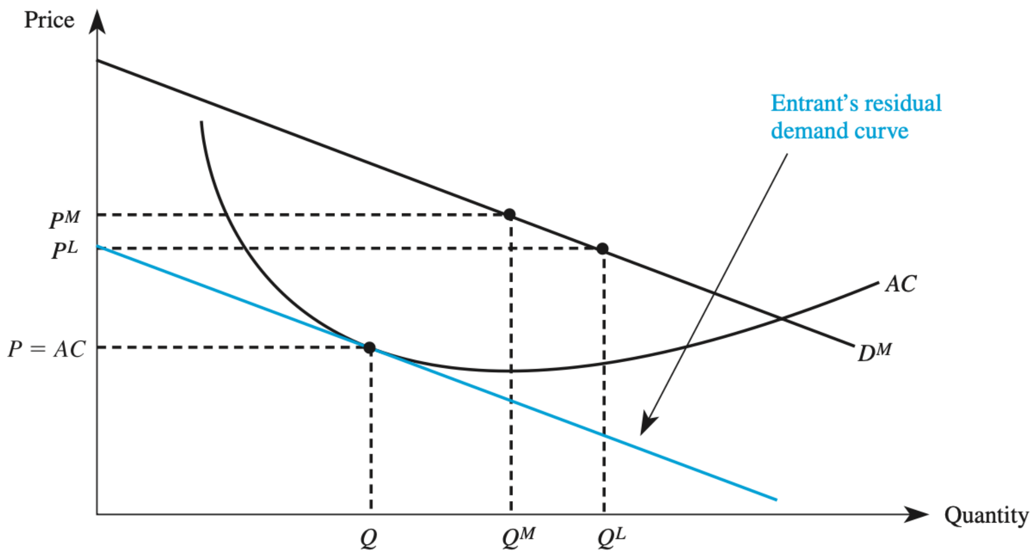
1. Limit Pricing to Prevent Entry

   Limit pricing is a strategic pricing approach used by incumbent firms in a market to prevent or discourage potential competitors from entering. The incumbent company sets its prices low enough to make market entry unattractive or unprofitable for new competitors. This strategy is commonly employed in industries with significant economies of scale, where the incumbent firm enjoys cost advantages over potential entrants. Several key indicators must be considered when implementing a limit pricing strategy. First, low pricing involves deliberately setting prices below the profit-maximizing level, making it difficult for new entrants to compete effectively. Second, economies of scale play a crucial role, as firms operating at a larger scale can produce goods or services at a lower cost, allowing them to sustain lower prices while maintaining profitability. Third, barriers to entry may further strengthen the incumbent's position by creating structural or strategic obstacles for newcomers, such as patents, exclusive access to distribution networks, strong brand recognition, or control over essential resources. Finally, sustainability is vital, as the incumbent must be able to sustain low prices over the long term. This requires financial strength, a loyal customer base, or an established market reputation that deters potential competitors from attempting to enter the industry(“Sustainable Finance: Strategies and Challenges for Green Investments,” 2024).

2. Theoretical Basis for Limit Pricing

   Consider a situation where a firm monopolises or controls the entire market. The demand curve for the monopolist's product is DM in Figure M1-1. Monopoly profits are maximised at price PM, and the monopoly profits are given by ÿM. Unfortunately for the incumbent, if the new entrant is aware of this profit opportunity and has the technological know-how to produce the product at the same cost as the incumbent, then the profit enjoyed by the monopolist will be eroded if the new entrant can enter the market profitably. This entry will change the industry from a monopoly to a duopoly and reduce the incumbent's profits. Over time, if more firms enter the market, profits will erode further. One strategy for the incumbent is to set prices below the monopoly price in an attempt to discourage new entrants. entry of new entrants. To see the potential benefits of this strategy, suppose that the costs incurred by the entrant firm are equal to the costs incurred by the incumbent firm and that the entrant has complete information about the incumbent firm's costs and the demand for the product. In other words, imagine that the potential entrant knows all the information enjoyed by the incumbent(Zhou, 2024).





3. Limit Pricing May Fail to Deter Entry

Barrier pricing is a pricing strategy used by firms, especially monopolists or dominant firms in an industry, to deter potential new entrants from entering the market. It involves charging a price below the monopoly price to make new entrants appear unattractive. However, cap pricing may fail to deter new entrants in some cases. For example, if the new entrant is a rational decision maker with complete information, then the new entrant may enter the market even if the price set by the incumbent firm is low. In addition, if the new entrant has lower costs than the incumbent firm, the new entrant can still enter the market even if the price set is below the monopoly price. Furthermore, if the incumbent firm cannot commit to maintaining its current level of output in the face of entry, the new entrant can still enter the market. To truly prevent entry, the incumbent firm must engage in activities that reduce the profitability of the entrant after entry. Price cap alone may not be effective in protecting the profits of the incumbent firm unless there are other factors that link the price before entry to the profit after entry. Therefore, a better strategy for the incumbent firm is to threaten to increase output to a level that would make entry unprofitable. If potential new entrants believe this threat and stay out of the market, the incumbent firm can earn higher profits compared to setting a price ceiling. However, it is difficult for the incumbent firm to commit to producing at a level that would make entry unprofitable(Afifah & Rusnani, 2024).

4. Linking the Preentry Price to Postentry Profits

Linking preentry pricing to postentry profits involves four key components that influence a company's ability to sustain its market position and deter new entrants. Commitment mechanisms refer to strategies or actions taken by a firm to bind itself to specific decisions or behaviors, such as building infrastructure or facilities that limit flexibility in changing output or pricing. This approach discourages competitors from entering the market by making it unprofitable for them. An example is the adoption of a low-price, high-volume strategy, which forces potential entrants to reconsider their plans. Additionally, learning curve effects play a significant role, as companies that have been operating longer benefit from reduced costs due to accumulated knowledge and production efficiencies, giving them a pricing advantage over new competitors. Another crucial factor is incomplete information, where firms strategically commit to long-term contracts, research and development investments, or complex production structures to manage uncertainty about market conditions and competitor strategies. These measures help reduce risks and enable better decision-making in dynamic business environments. Lastly, reputation effects can further strengthen a company's market position, as firms known for aggressively deterring new entrants may discourage potential competitors from entering in the future. However, businesses must carefully assess the long-term costs and benefits of such strategies, considering additional factors like economies of scale, brand recognition, and product differentiation to maintain a sustainable competitive edge(“F. von Wieser’s Theory of Lost Profits: Time as a Source of Alternatives,” 2024).

LESSENING COMPETITION

To reduce competition in business, several strategies can be adopted. One of the most common methods is predatory pricing, where a company sets prices below marginal cost temporarily in an effort to drive competitors out of the market. This practice, also known as loss-selling, involves lowering the price of goods or services significantly below the average market rate, often with the aim of eliminating a competitor and gaining a larger market share. Typically, large businesses with the lowest cost structures—known as price setters—employ this strategy. Although low prices benefit consumers in the short term, they may ultimately be disadvantaged as companies raise prices later to recoup losses(Aramata, 2023). Businesses may monitor sales trends on digital platforms to identify popular products and then sell them at the lowest possible prices, creating temporary price wars. Another strategy is raising rivals’ costs, where a company intentionally increases the operational costs of its competitors. This can be done through tactics that create barriers or impose additional costs, hindering competitors’ ability to compete effectively. By making it harder or more expensive for rivals to operate, a business strengthens its market position and potentially increases its market share. Strategies to raise rivals' costs include managing fixed costs effectively, such as leveraging economies of scale, maximizing resources, securing long-term contracts, collaborating with other businesses, and investing in automation. Businesses may also use vertical integration strategies to optimize operations across various stages of the supply chain, gaining control over their supply chains, reducing costs, and enhancing their competitive position through backward and forward integration, cost reduction, quality control, and risk mitigation(Lafalla, 2024).

RESTRUCTURING GAME TIMING

Assessing whether a company's profits can be improved by altering the timing of decision-making or the sequence of strategic steps, and whether this creates first-mover or second-mover advantages.

1. First-Mover Advantages

   A first mover is a product or service that gains a competitive edge by being the first to enter the market. Being the first often allows a company to establish strong brand recognition and customer loyalty before competitors enter the market. Other advantages include additional time to refine the product or service and set the market price for the new offering. First movers are often followed by competitors who try to capitalize on the success of the first mover and capture market share. Frequently, the first mover has established enough market share and a solid customer base to retain a significant portion of the market. First-mover advantages allow a company to achieve higher profits by committing to a decision before competitors have the opportunity to commit to theirs. The Stackelberg oligopoly model, discussed in Chapter 9 (Basic Oligopoly Models), is a classic example of a strategic environment where the first mover benefits. In this situation, one company (the Stackelberg leader) can commit to a higher output level before competitors (followers) make their own output decisions. The Stackelberg leader gains a higher profit than if it did not have the chance to move first. However, despite the many benefits associated with being the first mover, there are also drawbacks. For example, other businesses can imitate and improve upon the first mover's product, thus taking market share away. Additionally, in the race to be first, a company may overlook key product features in an effort to speed up production. If the market responds poorly, new entrants can capitalize on the first mover's failure to create a product more in line with consumer preferences. Moreover, the cost of creating a product versus the cost of imitating it can be disproportionately large. A case in point is Indomie, which remains the market leader in the instant noodle competition in Indonesia. Indomie can be considered a first mover, as it was the first instant noodle product to be introduced in Indonesia, and its strong position is reinforced by aggressive promotion and marketing. Indomie, produced by PT. Indofood CBP Sukses Makmur, was first launched on September 9, 1972, with flavors like chicken and shrimp. Indomie has become so iconic in Indonesia that the term "Indomie" is often used generically to refer to any instant noodles.

2. Second-Mover Advantages

Second-mover advantages refer to the competitive edge a company has when entering the market later than others. The second mover benefits from the first mover by attracting an existing customer base and using proven marketing strategies. Some second movers create original products for new markets, while others try to imitate existing products. Regardless, the goal is to leverage industry innovations and demonstrate to investors that the business is a safe investment. Being second does not always mean being at a disadvantage; sometimes, the advantages for second movers can be even greater. For example, being second to introduce a new product can result in higher profits than being first, as it allows the second mover to take advantage of investments made by the first mover. This enables the second mover to produce at lower costs than the first mover. Moreover, second movers can benefit from learning from the first mover's mistakes, allowing them to create a better product at a lower cost. Inside Business M3 documents that while many companies benefit from being first movers, some also thrive by being second movers. Advantages of being a second mover include product development, customer acquisition, appeal to investors, pricing strategies, and innovation. A case in point is Mamypoko, a brand of disposable baby diapers produced by Unicharm, Japan. Mamypoko, a second mover, entered the market after the first mover, Pampers, which was the pioneer in introducing disposable diapers. Pampers was initially considered the first mover, but as Mamypoko entered the market with more affordable products of comparable quality, Pampers saw a decline in demand, particularly in Indonesia. Mamypoko continued to innovate by using eco-friendly materials and ensuring the product was gentle on babies' skin. Mamypoko has also expanded its product line with new sizes and a wet tissue product made from pure water, free from alcohol and perfume, making it safe for babies. By collaborating with local exporters and suppliers, and using attractive and educational advertising through print and electronic media, Mamypoko has managed to position itself as a successful second mover, winning the hearts of Indonesian mothers with high-quality, affordable products.

OVERCOMING NETWORK EFFECTS

This section discusses strategies related to network effects, which are crucial for the growth and success of digital products and platforms. Network effects occur when the value of a product or service increases as more people use it, creating a feedback loop that helps businesses grow exponentially. There are two main types of network effects: direct and indirect. Direct network effects happen when the value of a product or service directly increases as more people use it, which is commonly seen with social platforms and communication apps. Examples of direct network effects include social media platforms like Facebook and Instagram, where the value increases as more users join, allowing for more connections, content consumption, and interactions. Similarly, messaging apps like WhatsApp and Telegram become more valuable as their user base grows, creating a broader network of people to communicate with(Alaqeel & Masrom, 2024). Online marketplaces such as Shopee and Tokopedia also benefit from direct network effects, as the more buyers and sellers on the platform, the more products and services become available, increasing its value. Indirect network effects, on the other hand, occur when the value of a product increases due to the availability of complementary products or services. For example, the value of a video game console increases with the number of games available for it, as more users adopting the console incentivize developers to create more games. Similarly, ride-sharing platforms like Gojek and GRAB experience indirect network effects, where the more drivers available, the better the service becomes for passengers, attracting more users to the platform. Additionally, penetration pricing is a strategy where a product is offered at a very low price initially to attract customers and build a strong user base. Once a significant user base is established, the company may gradually increase the price to align with the value of the product. For instance, a new electric vehicle company might use penetration pricing by offering their vehicles at a lower price than established competitors, attracting a large number of early users and strengthening their market position. As the user base grows, the company can then raise prices to reflect the product's value and quality, ultimately creating a competitive advantage in the market.

CONCLUSION

Network effects play a vital role in the growth and success of digital products and platforms, as they create a cycle of increasing value with more users. By leveraging both direct and indirect network effects, businesses can build stronger, more engaged user bases, driving exponential growth. Direct network effects are most commonly seen in social media platforms, messaging apps, and online marketplaces, where the value increases as more people use the service. Indirect network effects, such as those found in video game consoles and ride-sharing platforms, show how complementary products or services can enhance the value of a primary product. Additionally, strategies like penetration pricing can accelerate the adoption of a product by offering it at a low initial cost, building a user base, and allowing for network growth. As the user base expands, businesses can gradually increase prices, aligning the product’s value with its market position. By effectively utilizing these strategies, companies can create a competitive edge, foster loyalty, and establish themselves as leaders in their respective industries.

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