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Blue Ocean Strategy as A Solution to New Entrants in Higher Educational Industry

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Abstract – **This study was conducted to formulate a business strategy for JR Law College as a new entrant to the higher education industry. However, Indonesia's higher educational industry was still dominated by public sectors and have a high entry barrier, thus the most suitable business strategy must be obtained to overcome these hurdles. The business strategy formulation was preceded by the analysis of external factors using PESTEL, internal factors using value chain analysis, and competitiveness analysis using competitors mapping, competitive analysis, and VRIO framework. Data was collected using literature study, questioners with quantitative and qualitative questions, and interviews with individuals, groups, and focus group discussions to the firm's stakeholders (management, employees, students, alumni of JR Law College) and potential customers. The study found that because of the firm limitation in the physical, human and financial resources, and many intangible assets as the firm competitive advantages, head-on competition is not suitable for the firm and blue ocean strategy as a competitor-free strategy by value innovation, is the most suitable business strategy for JR Law College. Thus, the blue ocean strategy can be used as a solution for new entrants in Indonesia's higher education industry.**

Keywords – **Blue Ocean strategy, Competitive analysis, Competitor mapping, Higher educational institution, New Entrant, PESTEL framework, Value chain analysis, VRIO framework**

I. INTRODUCTION

New entrants to an industry bring new capacity and a desire to gain market share that puts pressure on prices, costs, and the rate of investment necessary to compete. If the barriers to entry remain high, the threat of new entrants is low (Porter, 1985) (Pringle & Huisman, 2011). In Indonesia, the educational industry is still dominated by the government as the provider of education. The tertiary educational industry in Indonesia has a far greater number of private sectors as the provider of education, based on Ministry of Education and Culture data in the year 2018 there are 122 public higher education institutions and 3,171 private higher education institutions. However, based on the number of new students' enrolment, public sectors are still the bigger contributor per unit of institution, with total students' enrolment of 550,797 students for public institutions and 921,359 students for private institutions. This is because the demand side benefit of scale applied, students generally wish to enroll in public higher education institution due to public perception of their credentials, or if they do not pass the national exam or independent exam, they would choose a well established private higher educational institution. This condition, added with the higher education industry as a strictly regulated industry, makes for a high entry barrier, thus it is really difficult for new private higher education institutions to enter the market.

To overcome this difficulty, new entrants to the higher education industry must have a good strategy. According to Rothaermel, a good strategy consists of three elements, 1) a diagnosis of the competitive challenge through analysis of the firm's external and internal environment, 2) a guiding policy to address the competitive challenge through strategy formulation, 3) a set of coherent actions to implement firm's guiding policy, which is accomplished through strategy implementation (Rothaermel, 2017, pp. 6-7). Therefore, we need tools to analyze the internal and external environment, including the competitiveness landscape of the industry, to be able to formulate a suitable business strategy for the new entrant.

Porter said that there are generic strategies that a firm can take based on the competitive scope and competitive advantage, which are cost leadership, differentiation, cost focus, and differentiation focus. A firm has to choose the strategy they follow, being "all things to all people" is a recipe for strategic mediocrity and below-average performance (Porter, 1985, p. 12). Meanwhile, in 2005 Kim and Mauborgne introduced the concept of the red ocean and blue ocean strategy, with the blue ocean as a competitor-free new demand strategy that used value innovation as its cornerstone. Value innovation involves both reducing cost and increasing buyer utility (Kim & Mauborgne, 2005). However, can Porter's generic strategies or Kim & Mauborgne's blue ocean strategy be used not for business enterprise, but for social services organizations such as Indonesia's private non-profit higher education institutions? If it can, how the most suitable strategy should be chosen and formulate.

II. METHODOLOGY

To analyze external factors, internal factors, and competitiveness, a case study research design was used. Primary and secondary data were gathered through literature study, interviews, and questioner to firm's stakeholders (management, employees, students, and alumni of JR Law College) and potential customers

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(persons who have an interest to enter law college or law training, persons who have law educational background, persons who work in law/legal company or department).

Interviews were conducted online in the form of one-on-one interviews, group interviews, and focus group discussions. The questioners were made with an open and closed question with multiple choices, the snowball sampling method was used for questioners to employees, and the voluntary response sampling method was used for students, alumni, and potential customers.

Competitiveness mapping was conducted by appointed factors that are most important in Indonesia's higher education competitive landscape gained from the result of Porter's five forces model towards Indonesia's higher education industry. Location (Jakarta and its surroundings) and type of institution (excluded national exam path of the public institution; limiting the scope to bachelor's degree only) were set as boundaries. While price was set as Y-axis, credential as X-axis and institution's market attractiveness that correlated with the number of students enrolments was set as bubble size. Institution's credential was shown by 3 factors, accreditation, the existence of full scholarship, and international collaboration. The author gave the value of -3 for "No" answer and 3 for "Yes" answer for international collaboration and full scholarship factors. And accreditation A given value of 6, 4 for B and 2 for C. The total calculation was set on X-axis.

The firm's competitiveness then analyzed towards competitors found from mapping, with ten parameters of measurements, 1) name or rank of the institution, 2) campus location, 3) accreditation, 4) availability of scholarship, 5) availability of blended learning, 6) quality and name recognition of lecturers, 7) learning and teaching methods and tools, 8) curriculum and courses offered, 9) internship opportunity at famous places, 10) work prospect. These ten factors were questioned to target customers (students) through questioners for their rank of importance. The total value of each parameter was calculated and the percentage against total was appointed as weight. The firm and its competitors were forcefully rank against the ten parameters, the rank will be multiplied with weight. The higher the score, the more competitive the institution.

From competitive analysis, parameters that matter was found. And from value chain analysis, insight of the firm value drivers (number of people that join school registration and number of students enrolled; the number of training held for working professionals as one of school's income; the number of research and publication as one of school's income; the number of scholarship donors; the number of training conducted for researchers, lecturers and students; use of technology; institution's visibility; feedback, evaluation and continuous improvement; partnership and collaboration within and outside the industry; financial condition; accreditation status) was gained.

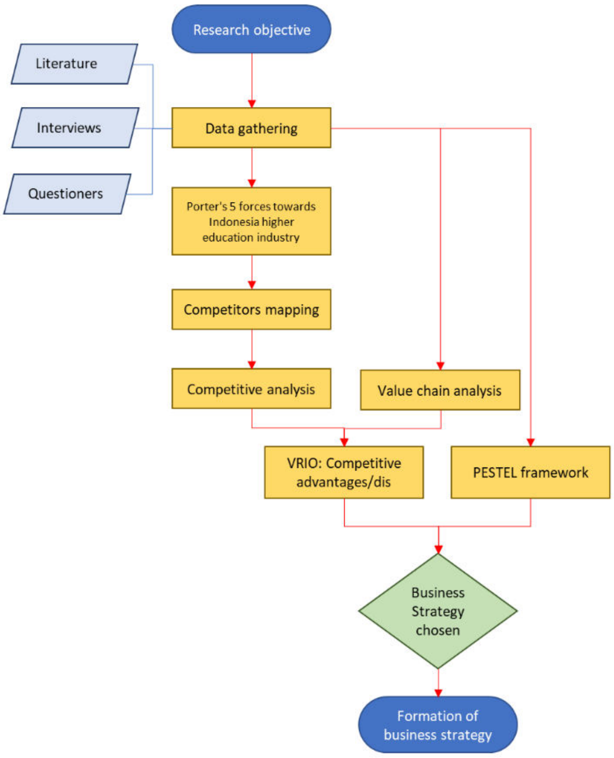

Fig. 1. Research Process

These parameters were used as resources, capabilities, and competencies in the VRIO framework to obtain the firm's sustainable competitive advantages.

The external factors, using PESTEL (Politic, Economy, Social, Technology, Environment, Legal) framework, influence towards competitive advantages were considered and analyzed. From there the most suitable business strategy was chosen. Lastly, the alignment between strategy and long-term purpose of the firm was considered so the firm can have the very best chance of winning.

III. RESULTS

A. *Competitor's mapping*

The mapping showed that the firm has above average credential, offer slightly higher price, but it has less market attractiveness.

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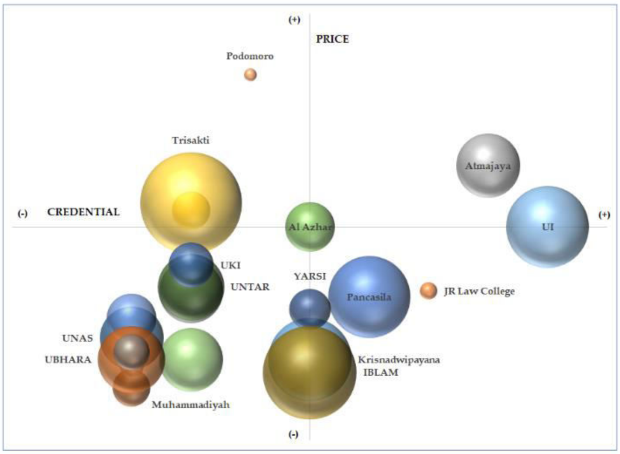

Fig. 2. Competitors Mapping

The University of Atmajaya was shown as the most competitive, meanwhile, the firm is in the second place with high values in parameters number 4, 6, 7, 8, and 9 (note: blended learning given the same value because due to Covid-19 pandemic, each school has blended-learning but it is not clear whether it would be continued after pandemic).

Institution	Parameters										Total score
	1	2	3	4	5	6	7	8	9	10	
The firm	7.3	27	7.6	56.5	7.4	74	68	50	51.5	10	359.30
Pancasila	36.5	10.8	38	11.3	7.4	14.8	13.6	12.5	20.6	50	215.50
Al Azhar	21.9	5.4	22.8	33.9	7.4	44.4	40.8	37.5	30.9	30	275.00
Yarsi	14.6	16.2	15.2	22.6	7.4	29.6	27.2	25	41.2	20	219.00
Atmajaya	29.2	21.6	30.4	45.2	7.4	59.2	54.4	62.5	10.3	40	360.20

Fig. 3. Competitive Analysis

B. Value chain analysis

From value chain analysis we gained insight that the firm is having administrative weaknesses, weaknesses in planning and execution, an unsophisticated IT system, has no alumni organization, unfocused marketing, and promotion activities with no actual budget.

Employees are loyal and love their job, although they felt that benefit and compensation is lacking.

Financially the firm is still positive, although the financial recording is such that full analysis cannot be conducted.

The firm has a good reputation and clear value, vast network, international network, research culture, and unique courses.

C. VRIO model

The insight of critical success factors obtained from competitive analysis and value chain analysis is then entered into the VRIO model.

Resource or Capabilities	Valuable	Rare	Inimitable or Costly to imitate	Organized to capture value	Impact on competitive advantage
Established institution	No	No	No	No	Competitive disadvantage
Accreditation A	No	No	No	No	Competitive disadvantage
Campus location	Yes	No	No	No	Competitive parity
Availability to offer full scholarship	Yes	Yes	Yes	Yes	Sustainable competitive advantage
Highly qualified and famous lecturers	Yes	Yes	Yes	Yes	Sustainable competitive advantage
Varied learning method and tools, with academic and practical integration	Yes	Yes	No	Yes	Temporary competitive advantage
Good reputation and clear values as reformist campus	Yes	Yes	Yes	Yes	Sustainable competitive advantage
Vast network for partnership, collaboration and funding	Yes	Yes	Yes	Yes	Sustainable competitive advantage
International network	Yes	Yes	Yes	No	Temporary competitive advantage
Research culture	Yes	Yes	Yes	Yes	Sustainable competitive advantage
Unique courses	Yes	Yes	Yes	No	Temporary competitive advantage

Fig. 4. VRIO Analysis

VRIO model showed that the firm has two competitive disadvantages, they are not established yet and they still have low accreditation. Although they have a good reputation and clear value, research culture, highly qualified and famous lecturers, a vast network for partnership, collaboration, and funding, and the ability to offer full scholarship as their sustainable competitive advantage.

D. PESTEL framework

The exploration of external factors of the higher education industry through the PESTEL framework resulted as follow:

P Political	E Economic	S Social	T Technology	E Environment	L Legal
- Influence on education budget and resources - Influence on curriculum - Political instability	- GDP per capita - Household spending	- Demography - Employment - Social trend - Distribution of Education	- Industrial revolution 4.0 - Digital transformation - Big data analytics	- Rising of Environmental Concern - Climate Change - Covid 19 Pandemic	- Omnibus Law - Free learning Free campus policy - PerMen DikBud No 7/2020 - Tax incentive

Fig. 5. PESTEL Analysis

External analysis using the PESTEL model showed that the external factors that can sustain the firm competitive advantages are the social trend of private and public companies towards CSR (corporate social responsibility) movement to the education sector because the firm income mostly comes from donors, and tax incentive can be used to better the firm financially.

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Government regulation of free learning and free campus can be an opportunity to increase the utilization of the firm vast network. The firm also could utilize the trend of rising environmental concern into their unique courses. The digital transformation can become a threat if the firm does not improve its information technology (IT) system.

E. Formation of business strategy

The main problem of the firm is that their current strategy is trying to do like any other institutions do, which considers the students as paying customers, therefore try to get students from the general channel as many as they can with half-measured above the line marketing and promotion activity.

Meanwhile, as new entrant their process is not established yet, they generally not well known, has low accreditation (so they are perceived as giving low job prospect), has lower physical, human, and financial resources. However, they do have several sustainable competitive advantages in the form of intangible resources. Considering this, it would be difficult for the firm to compete head-on with its competitors. Therefore, the blue ocean strategy is the most suitable strategy for this condition. For them to go back to their historical foundation as NGO (non-governmental organization), focused (not spreading its efforts across all competition factors), increase the value of their competitive advantages that is offering something different, and avoiding head-to-head red ocean competition.

All the insight obtained from the internal, external, and competitive analysis was used to formulate the four action framework of blue ocean strategy. With this framework, the blue ocean strategy will be easier to communicate and understand, so all employees could embody it in their work.

Eliminate	Raise
○ Above the line advertising ○ Price war ○ Facility opulence (building) competition ○ Hierarchy culture ○ The perspective of students as buyer	○ Increase reputation-enhancing activities. ○ Resource for fundraising ○ Unique curriculum ○ Interactive learning activities ○ Engagement with stakeholder ○ Actively looking for feedback from stakeholder, and perform appropriate feedback evaluation ○ IT infrastructure & capabilities
Reduce	**Create**
○ Competition to attract big name lecturers/professor from outside ○ Redundant or droning-on or zombie courses/lectures ○ Academic bureaucracy	○ Partnership with industry. ○ Talent scouting ○ Feedback to students ○ Basic course to teach student to think freely, critically, logically and problem solving. ○ Services after-graduation, pay-it-forward program.

Fig. 6. Four Action Framework

These four actions are meant to reduce cost, increasing buyer utility, thus thinking from the demand-side perspective and increasing firm differentiation.

IV. DISCUSSION

It is always difficult to be a new entrant in an industry with high barriers and highly competitive rivalry, especially if they do not have high capital, failure is almost an assured thing. Therefore, a suitable business strategy that aligns with firm capabilities and values is needed.

To be able to formulate a good strategy, a diagnosis of competitive challenges through analysis of internal and external factors is the best way to formulate a business strategy (Rothaermel, 2017, pp. 6-7).

The first thing to consider is who are their competitors and the position of the new entrant among their competitors, which was done by making competitive mapping. And then competitiveness assessment is continued with competitive analysis, to measure the firm position on each competitiveness parameter and overall parameters compare to their competitors.

The next step is to measure the firm's capabilities through value chain analysis and identify the firm competitive disadvantages, temporary competitive advantages, and sustainable competitive advantages using the VRIO model.

The third step is to explore current and future external factors that may influence the industry and the firm competitive advantages.

After the competitive landscape, internal capabilities, and external factors are known, the strategy formulation can be performed to obtain the most suitable business strategy.

V. CONCLUSION

Indonesia’s higher educational industry was still dominated by public sectors and have a high entry barrier. However, new entrants such as JR Law College, a private non-profit higher education institution, could use blue ocean business strategy as their solution to overcome the hurdles of limited resources, high entry barrier, and highly competitive rivalry, as long as they have or could find their sustainable competitive advantages to be able to formulate the blue ocean strategy.

From this study, we found that the business strategy theories such as Porter’s generic strategies or Kim & Mauborgne red-blue ocean strategies that were designed for business enterprises can be used for social services organizations such as Indonesia's private non-profit higher educational institutions. The methodology and workflow above are proven can be used for strategy formulation.

Due to the limitation emerge from the Covid-19 pandemic in this study, it is recommended that another data collection through questioner method could be done with a better sampling method and sampling size.

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