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Blue Bird Group: Competing Markets*

In 2016, Purnonomo Prawiro, President and Director of Blue Bird, the leading taxi company in Indonesia, worried about how to deal with striking BlueBird drivers, unbearable traffic jams in Jakarta, rising competition from new ride-hailing services, and construction of the Mass Rapid Transport. The stakes of making the decision were high: if the problem were not solved soon, the company might find itself struggling to remain competitive. To remain the leading company in the Indonesian taxi industry, it must develop a strategy to keep a sustainable competitive advantage.

Blue Bird Background

Blue Bird Group was officially created in 1972 by Mrs. Mutiara Fatimah Djokosoetono, Dr. Purnomo Prawiro, Dr. Chandra Suharto, and several others. What started as a fleet of only twenty-five taxis, became a pioneer of change in the Indonesian taxi industry. In 2001, Blue Bird Tbk. was officially established and by 2014, it went public.¹ As of 2017, Blue Bird covered all aspects of the taxi and non-taxi segment, including limousine and car rental services and bus charters. Over the years, the holding company expanded its business to include heavy equipment, logistics, property (resort), IT support divisions, and a used car dealership.² The Headquarters and the Operational Office of the company were both located in Jakarta. With reliable vehicles, trained drivers, and customer loyalty, Blue Bird was the most recognized taxi company in Indonesia.

Blue Bird's vision:

"We aim to achieve customer satisfaction and develop as well as maintain ourselves as a market leader in all categories. In land transportation, we provide reliable services with high quality by utilizing efficient resources and we conduct it as a whole team."³

Blue Bird's mission:

"To become a company that, able to survive and promote quality to ensure sustainable prosperity to stakeholders."⁴

With the ever-changing technological change in the transportation industry, the company launched a mobile application, similar to Uber, in which customers could rate, see drivers available nearby, and pre-book taxis for a specified time. Additionally, customers could book taxis and request services on the website.⁵

* This case was originally developed in the capstone course Strategy In Action (STRT 4501). The case is not intended to serve as an endorsement, source of primary data, or illustration of effective or ineffective management.

As for the capabilities of the company, the leadership team was overseen by Purnonomo Prawiro, the President Director. President Director, Mr. Prawiro's statement on Blue Bird's capabilities:

"Company implemented [a] transformation strategy that consists of several breakthrough steps and initiatives to develop the company's taxi and non-taxi businesses to conform to the dynamic demand pattern in the market."⁶

Each director was responsible for their unit and all directors had a direct reporting line to the President Director.⁷ Company leadership took a stance on committing to improve the Indonesian economy, and by the end of 2016 did not employ any foreign workers.⁸ Blue Bird Human Resources conducted a 360 degrees performance assessment and based on the outcome of this assessment, awarded career advancement, remuneration and other benefits.⁹

As seen in **Exhibit 1**, Blue Bird Tbk.'s value chain described the company's primary and supporting activities. The company relied heavily on quality customer service to remain a market leader in the industry. Furthermore, Blue Bird had multiple offices throughout Indonesia with 24,873 regular taxis and 1,114 executive taxis.¹⁰ The non-taxi operating revenue (limo, bus, and rental cars) amounted to \$5,744,899.50 (December 2016 exchange rate) and the taxi operating revenue amounted to \$299,986,490 (December 2016 exchange rate).¹¹

Indonesia

As a democratic country, Indonesia's presidential election was held once every five years. The current president, Joko Widodo, presided alongside his Vice President, Jusuf Kalla. Cabinet members were appointed directly by the President and were expected to help advise on their given area of expertise. The role of innovation in Indonesia's emerging digital market posed new challenges around its current competition law and policy. In 2015, the Transportation Ministry banned ride-hailing applications from operating claiming they violated a 2009 land transportation law.¹² This decision was slammed by President Joko Widodo who canceled the circular ban on such ride-hailing applications. He considered application-based transportation a means of fulfilling public demand created by the country's lack of public transportation reliability. It was not until September 2016 that the government released a legal framework to minimize the chance of monopolization in the transportation industry. To provide certainty, The Minister of Transportation issued the MOTR 32/2016 law that covered public transportation services without fixed routes (see **Exhibit 2** for an illustration of MOTR 32 regulations). Additionally, after a backlash from conventional transport providers, the transport ministry decided to set minimum and maximum tariffs of \$0.26-\$0.45 per kilometer for online car-hailing services in July 2017 to ensure fair and balanced pricing competition.¹³ Blue Bird was the government's official partner in promoting "Wonderful Indonesia", an international marketing campaign to promote tourism.¹⁴

As a developing nation, Indonesia remained the largest economy in Southeast Asia and one of the biggest emerging markets in the world. The increase in GDP per capita helped explain the rise of its Consumer Confidence Index to an all-time high of 126.4 in December 2017 as the expansion of the middle-class continued to grow.¹⁵

Compared to other countries, Indonesia's car ownership was low with most cars concentrated in Jakarta, causing it to rank among the highest in Traffic Congestion Index.¹⁶¹⁷ As a solution to this problem, Jakarta's local government initiated the construction of a new train, the Mass Rapid Transit (MRT) that was expected to be complete by 2019.¹⁸ To further boost infrastructure, Indonesia planned to allocate \$30.23 billion to support infrastructure development which could have included high-speed railway provision

that covered domestic and international airports.¹⁹ This was also to achieve the targeted goal of welcoming 20 million foreign tourists by 2019.²⁰

According to Hofstede Framework, Indonesia had high power distance, highly collectivist, low Masculinity, low uncertainty avoidance, long-term oriented, and low indulgence (see **Exhibit 3** for details). With the 4th largest population in the world, Indonesia experienced rapid urbanization where by 2050, two-thirds of its population was projected to live in urban areas.²¹ The capital city of Jakarta was the second most populated city in Southeast Asia with an estimate of 10.6 million people.²² Overall, a young population and high total literacy rate also added to Indonesia's position as a passenger car using nation.²³

Indonesia was not considered one of the leading countries in science and technology development but had improved significantly from 41st place in 2016-2017 to 36th in 2017-2018 out of 138 economies.²⁵ The internet in Indonesia contributed 2.5% to its GDP in 2016, up from only 1.6% in 2011.²⁶ Smartphone user penetration in Indonesia was expected to be 45.4% in 2018. There were also 104.96 million internet users in Indonesia – one of the biggest online markets worldwide.²⁷

Being a tropical country that straddled the equator, Indonesia had only two seasons: dry and rainy. For urban areas, floods during the rainy season were a recurrent problem caused by rising sea levels, deforestation, and clogged waterways. Air pollution was also a significant problem in big cities, including Jakarta, which ranked the third most polluted city in the world due to its highly congested traffic.²⁸

Industry Background

Despite a weak infrastructure that caused heavy congestion on roads, Indonesia's Taxi industry had been in high demand for multiple reasons. First, there was a low taxi penetration ratio of only 0.24 taxicabs per 1,000 people.²⁹ This contrasted neighboring countries of Malaysia and Singapore, whose ratios were 3.1 and 5.2 respectively.³⁰ Indonesia's comparatively low ratio indicated a less fully developed industry, however, there were only two major players in the market: Blue Bird and Express. This market was largely dominated by Blue Bird – with a 50% share (see **Exhibit 4** for an illustration of Indonesia's taxi market), followed by Express, Go-Jek, and Uber respectively.³¹ Additionally, taxi tariffs in Indonesia were extremely low compared to other countries, allowing both for more to afford taxi transportation and for a possible future price increase. Secondly, due to rapid urbanization and a growing population, residents of Indonesia became more reliant on taxi services for transportation. Furthermore, the rapidly expanding middle class and growing incomes suggested that demand for taxis would increase.³²

Blue Bird's target market was the middle-upper income segment of Indonesia; given this context, business cities and urban areas remained their top priority.³³ The underdeveloped public transportation system in urban areas further allowed the Indonesian taxi industry to bloom. Various problems including safety issues, overcrowding, aging infrastructure, unreliable schedules, and inflexible routes made conventional taxi services a more viable transportation alternative. Without reliable public transport systems, commuters preferred to use their private cars, motorcycles or motorcycle taxis as substitutes. The first phase of the MRT system to be completed by 2019 would not be able to fully satisfy commuter needs, meaning taxis would still be expected to serve as means of transport for many urban Indonesia.

Blue Bird's vehicle suppliers included Toyota, Nissan, and Mercedes-Benz for its executive taxi line. Due to its vast scale of operations, Blue Bird was able to enjoy economies of scale. However, Blue Bird was vulnerable to fuel price fluctuations, and a decrease in the government's subsidy could have impacted the industry and drivers' income as well.

As mentioned above there were only two major players in the Indonesian taxi industry; Express which held approximately 20% of the market share and Blue Bird which held 50% of the market share. Blue Bird targeted middle to upper-class customers as opposed to Express, which targeted lower class customers. However, despite its higher price, the majority of customers across the market preferred Blue Bird, due to its customer service: their drivers were trained, fleets regularly updated with new cars, and of course, their safe reputation.

Other than base model taxis, Go-Jek and Uber also entered the Indonesian transportation market. These ride-hailing companies were able to offer a lower-priced alternative to the traditional taxi companies. Additionally, the ease of access to such services drew customers towards ride-hailing companies and away from Blue Bird and Express. Although Blue Bird already had an app in place when these ride-hailing services entered the market, its lack of promotion rather negated its existence. Given these factors, the Taxi industry could be divided into two strategic groups (see **Exhibit 5** for an illustration of strategic groups within the taxi industry): Express and Blue Bird made up the higher-priced group, offering a classic taxi service and Uber and Go-Jek offered a low-cost service via a ride-sharing app.³⁴ It was also worth noting that switching costs for the transportation industry were low.

Customers were not tied down to any company and thus tended to choose the cheapest and best quality option. The industry lay at a tipping point: once a stagnant industry was forced to innovate, there was no clear way to determine which competitor would achieve long term success. In Indonesia, to fight what they viewed as the main enemy, Uber, Blue Bird teamed up with Go-Jek.³⁵ Traditional companies teaming up with technology-based firms seemed to be the latest trend, although it was still unclear if this could lead to the survival of taxi companies or just the prolonging of their death.

Situation Surrounding Challenge

The first event in Blue Bird's timeline (see **Exhibit 6** for details), often overlooked, was the creation of the My Blue Bird App in May 2011. Although the app had been around for many years, before the various ride-hailing services penetrated the market, the app was largely unknown. After years of continual growth, Blue Bird went public with a \$400 million IPO in 2014.³⁶ The main reason for the IPO was to seek further funds for development and growth.

For its part, Uber entered Jakarta in August 2014. Despite fierce competition within the transportation market in Indonesia, ride-hailing companies prospered. Traditional taxi companies such as Blue Bird suffered financially and lost market share due to the ability of said ride-hailing companies to charge a lower price. In May 2016, thousands of taxi and motor-taxi drivers brought Jakarta to a standstill when they held violent protests against what they perceived to be unfair competition from ride-hailing apps. The drivers were angry that services such as Uber, Grab and Go-Jek were offering rides at lower prices, claiming they were not paying taxes and were operating without official permits, arguing that these ride-hailing cars were illegal taxis.³⁷ On numerous other occasions, major demonstrations were held by taxi drivers to incentivize the Indonesian central government to regulate ride-hailing companies.

Largely unregulated before government intervention, both mobile services were given deadlines to obtain the necessary permits and licenses to operate as car-rental companies. The terms included having a legal entity and having the vehicles undergo a KIR (roadworthiness) test before they could operate. As of June 2016, it was reported that only 171 cars under Uber's cooperative partner, Jasa Trans Usaha Bersama, passed the KIR.³⁸

This demonstrated that ride-hailing cars were less regulated than public taxi companies and the surrounding protests pushed the government to regulate these companies. To compete with other app-based transportation, Blue Bird finally began improving and promoting its My Blue Bird App, something

which they were reluctant to do previously due to their success without it. With the app update in May 2016, the Blue Bird App provided the ability to rate taxi drivers and view a more accurate tracking system. Furthermore, Blue Bird also launched a cashless service on its mobile application.

The updated app looked very similar to other transportation apps. To book a taxi, users chose the type of vehicle they wanted, input their pick-up and drop-off addresses, added pick-up instructions for the driver, and selected their pick-up time (it did not have to be immediate). Customers then saw an estimated cost for their ride. Should they want to contact the driver, they could call using a feature on the app.³⁹

Blue Bird did not stop solely with its new app. In February 2017, Blue Bird partnered with Go-Jek, in the Jakarta area. The collaboration meant that Blue Bird taxis would be added to the Go-Car fleet in Jakarta.⁴⁰

Even with new legislation in place to regulate the ride-hailing industry, the intense pressure brought about by new ride-hailing companies affected regular taxi companies negatively. Express taxi announced in October of 2017 that it was selling off a portion of its fleet and laying off 400 of its employees. This came following an underwhelming quarter when Express' revenues were down almost 60%.⁴¹

Decision to be Made

Based on the information presented, Blue Bird sat at a critical point. Despite recent improvements in its My Blue Bird app and a strategic partnership with Go-Jek, Blue Bird was no longer a titan of the transportation industry. Despite its history and continued presence in the Indonesian landscape, Blue Bird needed to gain a new competitive edge if it wanted to remain relevant in comparison to Uber and other ride-hailing apps.

Of the many options facing Blue Bird, three emerged as the most promising: a joint venture with the government introducing a bus system in Jakarta - *Blue Bus*, motorcycle sharing - *Blue Bike*, or water service - *Blue Boat* (see **Exhibit 7** for a general SWOT analysis of Blue Bird and **Exhibits 8, 9, and 10** for relevant SWOT analyses of *Blue Bus*, *Blue Bike*, and *Blue Boat*, respectively).

Option 1: Blue Bus

Blue Bird's first option was a joint venture with the Indonesian government to open a privately-run public bus service. Although Indonesia already had a bus service, *BlueBus* would provide a differentiated option as the busses would have a lesser capacity and provide increased comfort to customers. One of the major threats, not only for Blue Bird but for other transportation companies in Jakarta, was the unreliable commuting times: Jakarta was home to the world's worst traffic.⁴² Existing buses in Jakarta were often overcapacity and sometimes lacked speedometers or proper brake systems.⁴³ These busses had dedicated lanes in which to travel, which often stood empty in comparison to gridlocked cars.⁴⁴ This market threat, coupled with strengths such as Blue Bird's strong ties with the local community and government and the already present infrastructure meant that a joint venture with the government for a bus service could be a viable option.

The necessary government negotiations were a major drawback of this venture. Given the existing bus system, the Indonesian government may be reluctant to introduce another player into the market. The introduction of Blue Bird would provide a safe and quality service into the industry while at the same time it could push TransJakarta to improve its offering or risk its service becoming obsolete. At the same time, Blue Bird had a positive relationship with the government as seen from it being chosen as Indonesia's official partner for "Wonderful Indonesia," Indonesia's tourism initiative.⁴⁵

Option 2: Blue Bike

Blue Bird's second option was a Motorcycle sharing service – a blue ocean strategy in which Blue Bird would pioneer a new brand of service in Indonesia. A high percentage of Indonesians wanted to combat congestion, with almost 86% owning a motorcycle.⁴⁶ Akin to bicycle-sharing services in American cities such as Citibike in New York and Hubway in Boston, Blue Bird considered an idea of motorcycles. Blue Bird's excellent brand image and deeply rooted ties to the local community bolstered the position: motorcycle stands could be simply added to existing taxi stands. Existing motorcycle ownership and daily traffic congestion present *Blue Bike* as another viable option.

A major drawback of *Blue Bike* would be that despite the similarity to many American bike rentals, renting a motorcycle would be a more complex process: a self-service kiosk would not be sufficient. Existing attendants at taxi stands could be trained to aid Blue Bird's new arm as a solution. However, risk management could be a huge issue as the safety of the consumers would be paramount when riding motorcycles. Theft and vandalism of the motorbikes could also be a challenge.

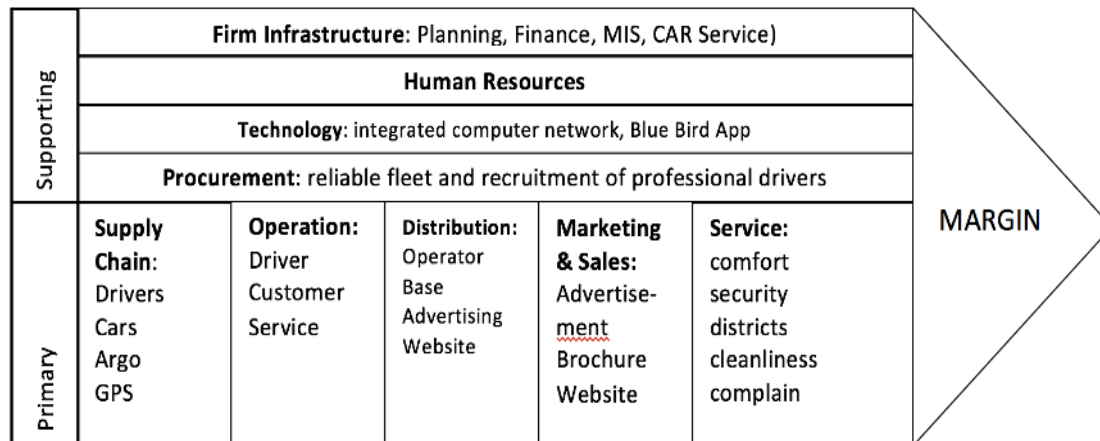
Option 3: Blue Boat

The last option was further expanding Blue Bird's core line of business into the boating industry. Kepulauan Seribu (Thousand Islands) was a popular tourist destination, however, getting to these islands was difficult as ferries typically departed twice a day.⁴⁷ For a destination that attracted thousands if not millions of visitors annually, transportation was severely lacking. This was where Blue Bird, Indonesia's primary transportation company, could enter.

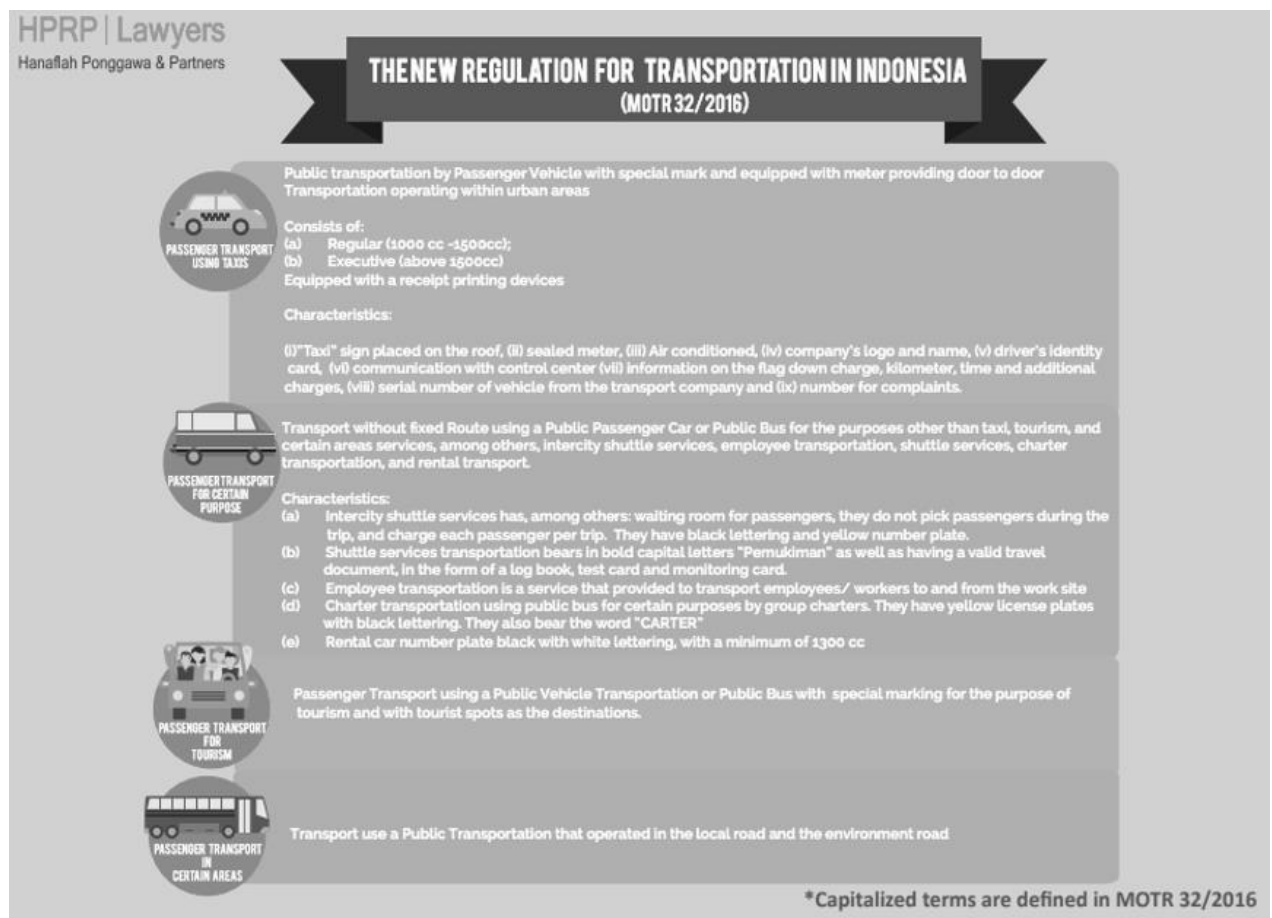
Blue Boat would serve as a water taxi to transport passengers from island to island. Instead of visitors being at the mercy of the infrequent boat schedule, they would be able to arrive and depart from the islands at their convenience. The increased accessibility of these islands would also help the locals who depended on tourism for a large part of their livelihood. Visitors would be able to hail a water taxi from the My Blue Bird app and travel to whatever island as needed.

The major drawback of this recommendation would be the lack of infrastructure. Unlike the *Blue Bus* or even the *Blue Bike*, *Blue Boat* would require a large investment as Blue Bird had neither the water taxis in its current inventory nor the existing logistical expertise to pull off such a venture.

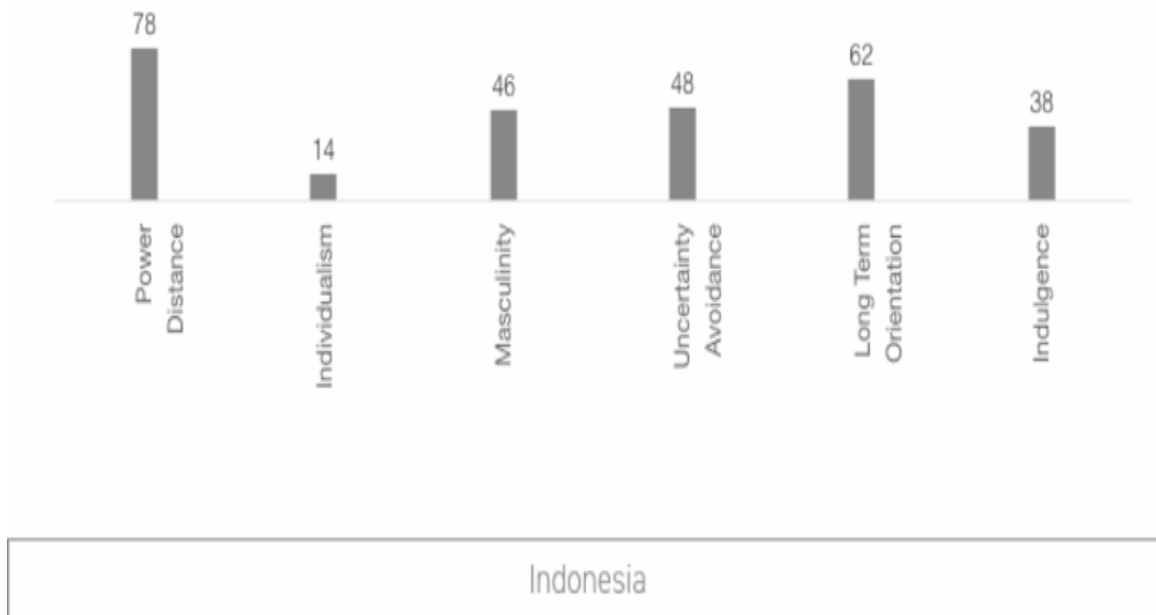
Which direction should Blue Bird choose to ensure its competitiveness and continuous growth?

Exhibit 1 Blue Bird: Value Chain


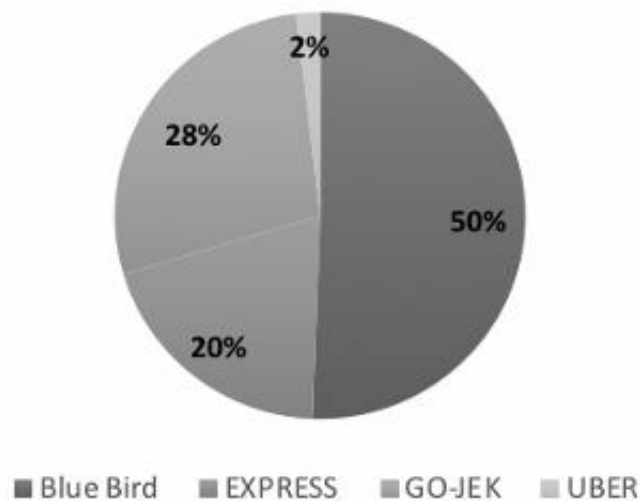
Source: Developed by case writers from references.

Exhibit 2 MOTR 32 Regulations


Source: Hanafiah Ponggawa & Partners. (2016). *The New Regulation for Transportation in Indonesia*. From HPRP Lawyers, http://hprplawyers.com/wp-content/uploads/2014/12/20160825_Transportation-Regulation-MOTR-32-table_HPRP.pdf

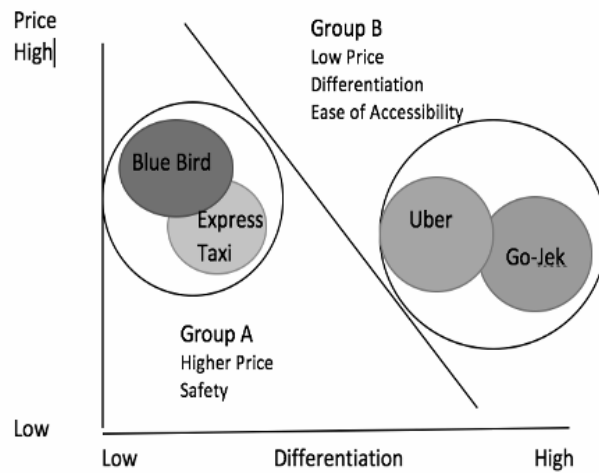
Exhibit 3 Hofstede's Framework – Indonesia

Source: Hofstede Insights. (n.d.). *Country Comparison*. From Hofstede Insights: <https://www.hofstede-insights.com/country-comparison/indonesia/>.

Exhibit 4 Indonesia's Taxi Market by Share

Source: World Economic Forum. (2017, September 27). *Indonesia Improves in WEF's Global Competitiveness Report 2017-2018*. From Indonesia Investments: <https://www.indonesia-investments.com/id/news/todays-headlines/indonesia-improves-in-wef-s-global-competitiveness-report-2017-2018/item8231>.

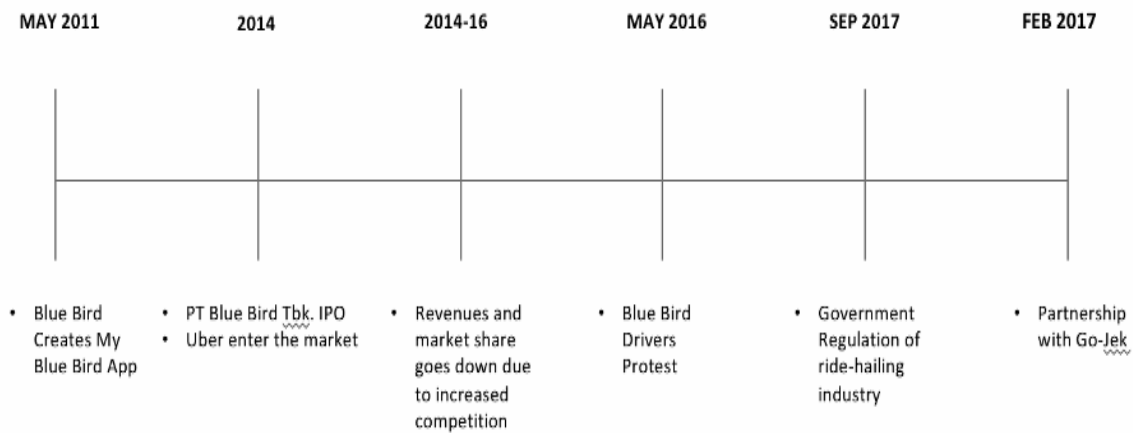
Exhibit 5 Strategic Groups – Taxi Industry



Source: Trading Economics. (2018). *Indonesia Consumer Confidence*. From Trading Economics: <https://tradingeconomics.com/indonesia/consumer-confidence>.

Exhibit 6 Blue Bird's Timeline

Blue Bird Timeline



Source: Blue Bird Group. (n.d.). *Blue Bird Group*. From Blue Bird Group: <http://www.bluebirdgroup.com/>.

Exhibit 7 Blue Bird SWOT

Strengths	Weaknesses
<ul style="list-style-type: none"> • 24-hour service station → highly accessible (Capability) • Taxi-park locations are strategic (Resource) • 46 Service outlets in hotels and airports (Resource & Capability) • Various way of reserving a taxi for customers (Capability) • Trained and reliable drivers (Capability) • Good brand image and reputation (Resource & Capability) • Comfort and safety guaranteed (Capability) • Major player in the taxi industry → Market leader (Capability) • Strong HR/Operations/IT infrastructure (Resource & Capability) • Bus Charter (Resources) • Deep routed roots in the community (Capability) • Tourism ambassador (Capability & Resource) 	<ul style="list-style-type: none"> • Higher transportation fares (Resource) • Does not cover all areas in Indonesia (Capability) • Lower wages for drivers compared to competitors (Resource & Capability) • Lack of marketing effort; does not offer promotion or discounts to the customer (Capability) • Lack of innovation (Capability) • Did not capitalize on first-mover advantage in regard to ride-hailing services (Capability) • Lengthy decision-making process as Blue Bird is a public company with large bureaucracy (Capability) • Lack of additional features in vehicles (Capability) • High maintenance/upkeep fees for vehicles and drivers (Resource)
Opportunities	Threats
<ul style="list-style-type: none"> • Build on a good reputation (Social) • Appreciation of safety in transportation (Social) • Advance technologically (Technological) • Growing middle class and preference for taxis as a way of transportation (Social) • Low taxi penetration - Indonesia (Environment) • Joint Venture with the government to improve public transportation (Political) • Tourism growth in Indonesia (Economic) • Expand options in fleet and features of vehicles (Technological) • Regulations on TNC industry (Legal) • Increased migration to cities (Social) 	<ul style="list-style-type: none"> • Competitor pressure (Environment) • Cost-differentiated competition (Economical) • Emergence of ride-hailing services (Technological) • The construction of MRT in Jakarta → substitute (Political) • Highly dependent on fuel prices → fluctuation in fuel prices may affect business (Political/Economic) • Crime rates might lower customers' trust (Social) • Traffic jam in Jakarta → may lower Blue Bird's mobility as a transportation (Environmental) • Competitors' cheaper price • Loss of place in stock market indices • Negative reviews of Blue Bird and positive reviews of competitors (Social) • Regulations on the transportation industry (Legal) • Taxes on the industry (Legal) • Increased taxes on gasoline (Legal) • Government corruption (Political)

Source: Developed by case writers from references.

Exhibit 8 "Blue Bus" Joint Venture with Indonesian Government SWOT

Strengths	Weaknesses
<ul style="list-style-type: none"> • Strong HR/Operations/IT infrastructure (Resource & Capability) • Bus Charter (Resources) • Trained and reliable drivers (Capability) • Deep-rooted ties in the community (Capability) • Minimizing costs and travel time (Capability) • Tourism ambassador for Indonesia (Resource & Capability) 	<ul style="list-style-type: none"> • Higher transportation fares (Resource) • Lengthy decision-making process as Blue Bird is a public company with large bureaucracy (Capability)
Opportunities	Threats
<ul style="list-style-type: none"> • Build on an already good reputation (Social) • Appreciation of safety in transportation (Social) • Providing an alternative transportation option for Jakarta residents (Social/Environmental/Political) • Bus lanes are already present (Social) 	<ul style="list-style-type: none"> • Government corruption (Political) • The construction of MRT in Jakarta → substitute (Political) • Regulations on the transportation industry (Legal) • Long commute times (Social)

Source: Developed by case writers from references.

Exhibit 9 "Blue Bike" Motorcycle sharing SWOT

Strengths	Weaknesses
<ul style="list-style-type: none"> • Deep-rooted ties in the community (Social) • Minimizing costs and travel time (Economic) • Maxi-park locations are strategic (Resource) • 46 Service outlets in hotels and airports (Resource & Capability) 	<ul style="list-style-type: none"> • High maintenance/upkeep fees for vehicles and drivers (Resource) • Lack of resources; must buy motorbikes (Resource) • Lengthy decision-making process as Blue Bird is a public company with large bureaucracy (Capability) • Increased liability (people can injure themselves)
Opportunities	Threats
<ul style="list-style-type: none"> • Build on an already good reputation (Social) • Appreciation of safety in transportation (Social) • Providing an alternative transportation option for Jakarta residents (Social/Environmental/Political) • Traffic Jams in Indonesia (Social/Environmental) • High motorcycle ownership in Indonesia (Social) 	<ul style="list-style-type: none"> • Government corruption (Political) • The construction of MRT in Jakarta → substitute (Political) • Regulations on the transportation industry (Legal) • Security issues (stealing, vandalism) • Regulations on the transportation industry (Legal) • Taxes on the industry (Legal)

Source: Developed by case writers from references.

Exhibit 10 "Blue Boat" Water Service SWOT

Strengths	Weaknesses
<ul style="list-style-type: none"> • Deep-rooted ties in the community (Social) • Minimizing costs and travel time (Economic) • Good brand image and reputation (Resource & Capability) • Comfort and safety guaranteed (Capability) • Making the boats accessible for passengers 24/7 (Capability) 	<ul style="list-style-type: none"> • High maintenance/upkeep fees for boats (Resource) • Lack of resources; must buy boats (Resource) • Lengthy decision-making process as Blue Bird is a public company with large bureaucracy (Capability) • Increased liability (people can injure themselves) • Financial resources required • Training for boat drivers (Capability)
Opportunities	Threats
<ul style="list-style-type: none"> • Build on an already good reputation (Social) • Appreciation of safety in transportation (Social) • Providing an alternative transportation option for transportation for • Building on a gap in public transportation in Kepulauan Seribu 	<ul style="list-style-type: none"> • Government corruption (Political) • The construction of MRT in Jakarta → substitute (Political) • Regulations on the transportation industry (Legal) • Security issues (stealing, vandalism) • Regulations on the transportation industry (Legal) • Taxes on the industry (Legal) • Unfamiliarity with the water transportation industry (Social, Environmental, Political) • Lack of ready-made infrastructure

Source: Developed by case writers from references.

Endnotes

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