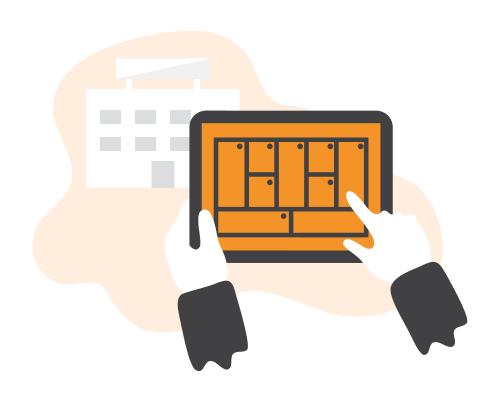
ST.3

Capture the current business model

Complex activity

This activity provides guidance on how to capture the current business model of the company through desk research and a workshop with key personnel.



INPUT

- Good understanding of the *Business Model Canvas template*.
- Some prepared examples of a complete business model canvas.

OUTPUTS

 A completed business model canvas for the company used in the activity ST.7 Do a SWOT analysis.



The term 'business model' is often interpreted in different ways. In this manual, the following definition is used:

A business model describes how a company does business. It is the translation of strategic issues, such as strategic positioning and strategic goals into a conceptual model that explicitly states how the business functions. The business model serves as a building plan that allows designing and realizing the business structure and systems that constitute the company's operational and physical form (Osterwalder et al., 2005).

Capturing the main details of the company's business model can be aided by using the Business Model Canvas (Osterwalder & Pigneur, 2010), which has quickly become a popular framework for describing a business model. The value of the Business Model Canvas is that it allows you to capture the essential elements of a business model on one sheet of paper in a way that is logical and easy to explain and discuss with others. These traits make it very useful for supporting business model innovation

The company's business model can be captured by completing a *Business Model Canvas template* (provided in this activity). This can be done by yourself as desk research or can be done as an optional workshop involving some senior staff members, such as the Marketing Manager and the Production Manager, who, together, will have a good overview of the company. An introduction to the Business Model Canvas is provided in the background information.

HOW TO GO ABOUT IT

- Explain the purpose of the session to the participants to get a complete description of the company's current business model so that it can be taken into account when developing new business strategy proposals.
- 2. Introduce the Business Model Canvas, explaining what each building block contains and provide some examples.
- 3. Work block by block around the canvas asking the participants to fill in the *Business Model Canvas template*.
- 4. Once it is complete ask the participants to review the whole canvas and identify what they consider to be the most important strengths and weaknesses of the current business model.

Business Model Canvas

Project Date Version

Key Partners	Key Activities	Value Propositions		Customer Relationships	Customer Segments
	Key Resources			Channels	
Cost Structure			Revenue Stream	ms	



LEARNING CASE STUDY OF BUSINESS MODEL CANVAS

Labour Energy Vehicle fuel

Key Partners	Key Activities	Value Propositions	Customer Relationships	Customer Segments
Fishermen	Tuna procurement Tuna processing	High quality canned tuna	Telephone-based personal customer service	Local retailers
Mechanic (for vehicle maintenance)		with long shelf life		Wholesalers
	Distribution			International
Processing equipment suppliers				supermarket chains
	Key Resources Experienced buyers		Channels Sales force	
	Fast, efficient processing staff		Sules luice	
	Tuna processing facility			
	Fleet of vehicles	<u> </u>		
		 		
Cost Structure		Revenue S	treams	



TIPS & TRICKS

CAPTURE THE CANVAS

It can be useful to capture the results of applying the Business Model Canvas in an editable digital format for later review or revision. This can be done by recreating the canvas within a spreadsheet or presentation application. During the workshop it is best to use a large sheet of paper to capture the canvas so that everybody can participate freely. You can either write in the blocks directly or use sticky notes, the latter gives more freedom to move around/ remove/reuse items as the session progresses. You can still capture the results in a digital format after the workshop has finished.

PROMPTS ON CANVAS

The original canvas also provides some prompting questions, which can help to understand what information is required in each block of the canvas.

START WITH CUSTOMER'S PERSPECTIVE

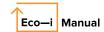
It is often easier to fill in the canvas by starting with the customer perspective (everything in the right half of the canvas) and work around to the 'back end' considerations (everything in the left half).

BACKGROUND INFORMATION

What is the Business Model Canvas?

The canvas consists of nine building blocks, each of which represents a key element of the business model. All nine blocks of the template must be populated to describe a complete business model, although the relative importance of each block will vary according to the business model. Each block has a title that specifies the aspect of the business model that should be described by the user in that block. Next page shows the basic business model canvas, with numbers added to show the order in which they are explained in the text below (with definitions of each block provided by Osterwalder & Pigneur in italic font).

- 1. Customer Segments: This building block defines the different groups of people or organizations an enterprise aims to reach and serve. There are different types of customer segment that you might choose to address. A 'mass market' focus generally requires lower cost solutions and higher volumes of production. A 'niche market' focuses on one customer segment that has a different set of requirements to the mass market, but they may be willing to pay a price premium for a suitable solution. A niche market is often a great starting point for new companies. Finally, a 'diversified market' approach tries to address several different customer segments at the same time and requires the ability to offer customization of the solution provided.
- 2. Value Proposition: This building block describes the bundle of products and services that create value for a specific Customer Segment. This is the central block of the canvas and is often considered the most important aspect of a business model. In this block, we face our customer segments and ask two questions:



"What products and services do we provide to our customers?"

— this is the simple, factual description of the combination of products and services that are offered by a company. The second question is, "How do our products and services create gains for our customers or help to relieve their pains?". To answer this question requires a good understanding of why customers buy our products and services. The value proposition must either help to create gains for the customer (e.g. a tin of tuna brings the customer gains of satisfying hunger, providing nutrition and a pleasurable taste) or help to relieve pains (e.g. car insurance reduces the customer's financial pain if their car is damaged in an accident or stolen). The value proposition should be reviewed frequently to ensure that it remains valid and relevant within the ever-changing market conditions.

3. **Channels:** This building block describes how a company communicates with and reaches its Customer Segments to deliver a Value Proposition. Topics covered in this building block include communication of pre-sales information (i.e. how will the customer hear about the product and understand how it will benefit them?), purchase and delivery mechanism of the product or service (i.e. how will the customer buy the product and make sure it is delivered to them?) as well as post-sales activities (i.e. how will the customer access support/maintenance services and how will we deliver those services?). It is worth remembering that partnering with other organizations can be a fast and cost-effective way to build the complete range of channels required (e.g. distributor, retailer, maintenance organization etc.) – see the Key Partnerships block for further details.

Template of Business Model Canvas

Key Partners	Key Activities	Value Propositions		Customer Relationships	Key Partners
9	7	2	2	4	1
8	Key Resources			Channels	1
	6			3	
Cost Structure			Revenu	ue Streams	
	9			5	



- 4. **Customer Relationships:** This building block describes the types of relationships a company establishes with specific Customer Segments. It is important to understand what the company wants to achieve through its customer relationships and also what is expected by the customer. In a high growth market, the aim of the company may be to acquire new customers and build market share. In a mature market the focus might be on retaining existing customers. The other consideration is what the customer expects in terms of their relationship with the company. Customer segments that are very price sensitive may be happy to use self-service or automated services (e.g. Internet banking available for average bank customers) whereas if you are targeting highend customer segments the customer may expect a higher level of human interaction to provide a more personalized service and a stronger relationship with the company (e.g. dedicated banker available for high net worth customers).
- 5. Revenue Streams: This building block represents the cash a company generates from each Customer Segment (costs must be subtracted from revenues to create earnings). Here, the company needs to decide if they will make one-off sales of a physical product, or lease that product, or ask customers to pay for their usage of the product? Such decisions need to be based on a good understanding of exactly what it is that the customer values about your product or service and what they are willing to pay for it. Personnel involved in sales and marketing should be able to provide good customer insight on this type of issue, but market research may be required when dealing with new products or significant innovations within existing products.

- 6. **Key Resources:** This building block describes the most important assets required to make a business model work. This can refer to the basic raw materials used to make product, the people employed by the company that are important to its success, or financial resources that enable the company to invest in research and development. Intellectual resources, such as patents and trademarks, can also be very important as these can be used to protect your business model from replication by competitors.
- 7. **Key Activities:** This building block describes the most important thing a company must do to make its business model work. This could be the development of new products, production processes, problem solving or even the creation of a platform or network.
- 8. **Key Partnerships:** This building block describes the network of suppliers and partners that make a business model work. For a partnership to be successful, all parties have to see a clear business benefit for participating and have incentives to ensure they will deliver their element of the partnership arrangement. Reasons for pursuing partnerships include: working with a reseller or distributor to enter new geographical markets; partnering with a company in a related market to provide a more integrated service for the customer (e.g. hotel operator partnering with a taxi company to offer pre-booked airport transfers for hotel customers); collaborating with a university research centre to get access to new technology and intellectual property etc.
- Cost Structure: This building block describes all costs incurred to operate a business model. Costs may be 'fixed', which are independent of the number of products sold or services delivered (e.g. rent and salaries), or 'variable', whereby the costs increase



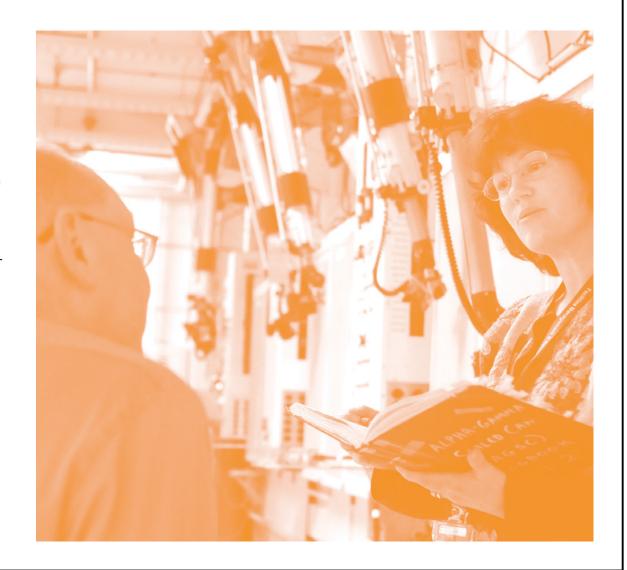
with the volume of products and services delivered (e.g. production process energy costs, raw material costs etc.). It is worth noting in this block any 'economies of scale' benefits that the business model offers (e.g. bulk discount on large orders of raw materials).

References and resources

Business Model Canvas:

- Osterwalder, A., & Pigneur, Y. (2010). Business model generation: a handbook for visionaries, game changers, and challengers. Wiley, London.
- The Business Model Canvas can be downloaded here: http://www.businessmodelgeneration.com/downloads/business_model_canvas_poster.pdf
- Example of the Business Model Canvas being used to review the business model of Nespresso, available from: http://hbr.org/web/2013/05/why-the-lean-start-up-changes-everything/sketch-out-your-hypothesis

Further information in the Agri-food, Chemicals and Metals Supplements





LEARNING CASE STUDY OF BUSINESS MODEL CANVAS

The current value proposition of Mango Pulp Co. is that they make packaged mango pulp. It is the quality and taste that differentiate Mango Pulp Co. from its competitors and the reason why they can charge a higher price for their products.

They currently sell three products:

- · canned mango pulp for the export wholesale market,
- · bottled mango pulp for the domestic market, and
- mango pulp packaged in aseptically sealed bags in barrels that is exported to mango jam manufacturers.

Their operations consist of procuring mango from agents that collect mango from farmers, processing the mango, making cans and finally selling the packaged product. As they are only working business-to-business they are using direct sales as a sales channel as well as personal customer service. All this can be summarized in the business model canvas for Mango Pulp Co.:

Below you will find an example of a completed business model canvas for Mango Pulp Co.





Key Partners

Mango farmers

Sales agents

Transportation company

Processing equipment supplier

Key Activities

Mango procurement

Mango processing

Sales

Value Propositions

High quality, good tasting, packaged mango pulp

Customer Relationships

Personal service either face to face or by telephone

Customer Segments

International wholesales and retailers

Local retailers

International mango jam manufacturers

Key Resources

Processing facility

Experienced permanent staff

Loyal seasonal workers

Suppliers

Channels

Direct selling

Cost Structure

Mango procurement

Waste disposal

Labour

Packaging materials

Transportation

Marketing

Utilities

Revenue Streams

Canned mango pulp

Bottled mango pulp

Aseptically packaged mango pulp



BACKGROUND INFORMATION

Common business models used in the food and drink processing industry

The business model used by a food and drink processing company will greatly depend on the company's position in the value chain. For example, an ingredient manufacturer that is not selling directly to the end market might focus on price and functionally, while a manufacturer making consumer-ready products will focus more on quality and product differentiation. While performing the preliminary assessment, it may be useful to classify the business model(s) used by the company in order to highlight the key elements of the business model. The following table gives a summary of common business model in the food and drink processing industry and key elements of the business model.

Table 4. Business models used in the food and drink processing industry.

Type of business model	Description
Patented ingredients	Food ingredients that give increased functionality, nutrition or health benefits are often protected by patents. Revenue is made either by manufacturing and selling the ingredient or by selling licenses to manufacture and use the patented ingredient.
Branded ingredients	This type of business model is similar to the model above. The main difference is that the use of trademarked brand names by ingredient companies. Revenue is made by licensing the right to use the ingredient and brand name to companies downstream in the value chain. Using trademarked ingredients might add value to a food product.
Product and technology based	This model refers to companies that manufacture and sell their own food ingredients/ products. The key elements of this type of business model are companies relying on their key resources such as competence and technology to manufacture a competitive food product. The marketing strategy, which is an important aspect of the business model, can vary from companies that are cost oriented to companies that cater to niche and high-end markets.
Processing services	This business model is also based on products and technology, but refers to companies offering a processing service rather than selling their own product. The processing service is offered to other food companies with established brand names, to food distributors as private label products, or to primary producers as a value-adding service. Globally, the consumer market for food products is very competitive. This makes it difficult for new products to enter the market. For this reason this business model might be used by companies without enough marketing resources.
Service innovation	A food company can base its business model around innovative services offered to consumers. For example, online retailing and home delivery of groceries is increasing in popularity.
Subscription/ recurring revenues	A business model based on recurring revenues is still quite uncommon in the food industry. However there are a few examples of companies succeeding. Notable the Nespresso® business model is based on selling coffee machines at a low margin while making profit from sales of capsules designed specifically for the Nespresso® machine.



TIPS & TRICKS

CLASSIFY CURRENT BUSINESS MODELS TO BETTER UNDERSTAND HOW THE COMPANY OPERATES

By classifying the business models currently being used by the company according to those shown in the 'Background Information', you can better understand the business models' key elements and how the company interacts with its customers and end markets as well how it differentiates its products in the marketplace (e.g. low-cost or differentiation).

LEARNING CASE STUDY OF BUSINESS MODEL CANVAS

TipTop Textiles' direct customers are the local garment factories that sews the fabrics provided by TipTop Textiles Co. to finished apparel, as well as the distributors and retailers ordering the textiles from the company. Downstream the value chain, the end customers are for instance hotels and schools, requiring corporate wear and school uniforms, respectively. Furthermore, parents of infants and toddlers, tourists, and young adults buy the goods produced by TipTop Textiles Co.. The company delivers high-quality textiles made from polyester, cotton or polycotton and as they produce their own synthetic yarn and ink, they are able to rapidly fulfil the orders and have competitive prices. They communicate with their customers via an integrated customer relationship management (CRM) system. In addition, they have dedicated key-account managers that maintain B2B relationships. TipTop Textiles Co.'s revenues are generated through selling the textiles they produce.

To produce their goods, TipTop Textiles Co. requires certain key resources, which include an IT integrated system for orders, production and inventory control, flexibility, production speed, an R&D department, quality control, all the necessary production equipment, and a strong financial position (good cash flow and reserves).

With these resources, the company produces synthetic yarn from polyester fibres, manufactures ink for printing, weaves or knits, and finishes the fabrics, which includes chemical processing steps such as bleaching, washing, dyeing, printing, and finishing.

In addition, the company treats the wastewater they generate and maintains good relationships with its customers. When it comes to partners, the most important ones are the local garment companies, the distributors of the textiles, and the chemicals and raw materials suppliers.

In addition, the costs for labour, raw materials, energy and the machinery needed to produce the goods are also generated by waste disposal and wastewater treatment. Additional external costs are caused by impacts on the society or the environment. These impacts include emissions from hazardous chemicals during the production process and the effects on the workers as well as impacts on climate change and local air quality.



LEARNING CASE STUDY OF BUSINESS MODEL CANVAS

Key Partners

Local partner garment company

Distributors

Chemical suppliers (ink feedstock, textile chemicals)

Textile raw material suppliers (cotton and polyester pellets)

Key Activities

Customer relationship management

Purchasing of resources

Polyester fibre production

Ink manufacturing

Textile manufacturing: weaving or knitting and textile finishing including dyeing and printing

Wastewater treatment

Key Resources

Raw materials (cotton, polyester, chemicals)

IT integrated system for orders, production and inventory control

R&D department

Quality Control

Production equipment

Strong financial position (cash flow)

Value **Propositions**

High quality textiles made from cotton. polyester or polycotton at Locally competitive prices

Integrated textile mill offering ink production. polyester fibre production, weaving, textile finishing, as well as thread production

Fast fulfilment of orders

Customer Relationships

TIntegrated Customer Relationship Management System

Dedicated key-account managers for strategic B2B customers (includes interviewing customers)

Channels

Integrated Customer Relationship Management (CRM) system for sales, delivery, payment, and postsale feedback

Sales force

Trade conventions

Newsletters to customers on new product offerings

Customer Segments

Direct customers:

Local garment company

Distributors (domestic and export)

Retailers

End customers:

Corporate wear (e.g. hotels)

Schools

Parents of infants and toddlers

Tourists buying promotional apparel (e.g. I love Kenya)

Young fashionconscious adults

Cost Structure

Technical facilities Textile raw materials:

cotton, polyester

Textile wet processing

chemicals

Logistics and

transportation costs for

Hazardous waste disposal

products

Ink and dye raw materials Wastewater treatment

Revenue Streams

Sales of textiles (mostly corporate wear, school uniforms)



BACKGROUND INFORMATION

Common business models used in the chemical industry

The chemical industry provides a variety of products and services that differ with respect to price, functionality and availability, which is reflected in the business model. For example, a commodity chemical supplier will have a business model with a focus on cost, reliability, and product quality, whereas a specialty chemical supplier may have a business model with a focus on innovative custom design with a high degree of customer intimacy. While performing the preliminary assessment, it may be useful to classify the business model(s) used by the company in order to highlight the key elements of the business model. The following figure illustrates key elements of various business models commonly encountered in the chemical industry. The business models differentiate themselves according to customer or end market proximity and product classification (i.e. low-cost or differentiation).

References

Deloitte. (2011). End market alchemy - expanding perspectives to drive growth in the global chemical industry. Deloitte Global Services Limited.





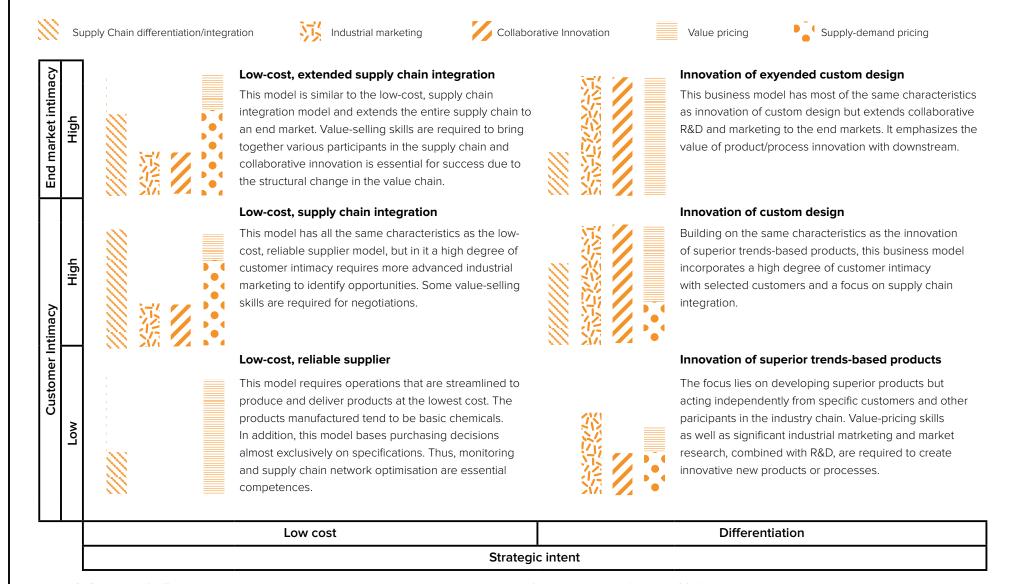


Figure 2. Overview of different typical business models in the chemical industry and their major features based on (Deloitte, 2011)



LEARNING CASE STUDY OF BUSINESS MODEL CANVAS

The BikeBizz Co.'s current business model is based on the Value Proposition of locally produced, good quality bicycles adapted to specific customer requirements at an affordable price. The key activities of the company are manufacturing the bicycle frame out of acquired steel tubes, providing surface treatment, corrosion protection and painting for the frame, producing the spokes out of steel wire and assembling them with the other purchased wheel components as well as balancing the finished wheel, and finally assembling the frame and wheels with the other bike components, also acquired from suppliers. The bicycles can be adjusted to customers' specific requests.

Further key activities are selling the bikes in their own small bike shop. Thus, the key partners of the company are the partnering store in the border region, the suppliers of semi-finished products and components. The key resources are the production machines, the acquired bicycle parts and the skilled staff. The biggest customer segment is constituted by the local customers, the customer relationships are mostly maintained by direct communication and the channels to the customers include media adverts, direct sale and export. The main costs for the company accrue from material procurement, electricity demand and staff expenditures, while the revenue is solely obtained from bike sales.





Key Partners

Suppliers of semifinished products: steel tubes, steel wire, aluminium rims

Suppliers of bike parts: saddle, brakes, chain rings, derailleur etc

Suppliers of process agents: mineral oil based lubricant for cutting, alkaline chemicals for surface degreasing etc

Suppliers of paint pigments (bright colours containing lead), solvent for paint, primer

Electricity provider

Partnering store in the neighbouring border region

Key Activities

Manufacturing of bike frame from steel tubes obtained from suppliers (frame manufacturing, painting)

Manufacturing of spokes from steel wire and wheel assembly and balancing

Procurement of semi-finished products and bicycle

Assembly of bicycles

Adjusting bicycles to customers specific requests

Retail of produced bikes in own small bike shop

Key Resources

Materials: semi-finished products (tubes, wire), chemicals (paint, solvents, alkaline, lubricants), components (rim, brakes, gears, seat, handlebar grips, pedals, tires)

Electricity

Skilled production staff

Production equipment

Value **Propositions**

Locally produced bicycles occasionally customized to customers' specific reauest

Customer Relationships

Direct communication with a customer (telephone/ faceto-face)

Direct communication with a retailer shop in a bordering region (telephone/ face-toface)

Customer Segments

Local customers: personal use. transport

Export (small amounts)

Direct sales to customers with the store

Export sales to the neighbouring border region

Channels

Local media advert

Cost Structure

Production equipment and its maintenance Materials procurement Labour, Electricity, Transport

Revenue Streams

Sales of bikes – locally and export