BM.16
Evaluate the costs

Requires dialogue

The aim of this activity is to capture (and quantify) the costs of implementing each of the business model concepts in a systematic manner using the Business Model Canvas template.

INPUTS

- Complete business model concepts, from the activity *BM.4 Generate business model concepts at the big picture level*.
- Data from In-Depth Assessment, from the activity *BM.2 Gather additional data on the business model,* and *the activity: BM.3 Gather additional data on operational performance*.

OUTPUTS

- An assessment of the implementation costs of the business model concepts, used in the activity *BM.18 Integrate all the evaluations and make the final selection*.

BM.16 Evaluate the costs

When considering the costs involved in implementing a business model it is worth considering two aspects. First, there are the monetary costs, which you should attempt to list and estimate. The level of detail and precision in these figures may be quite low at this stage but you should aim to assess the approximate costs of major items that will require an initial investment by the company, such as:

- labour costs in designing new products or processes
- labour and material costs for prototyping the new solution
- purchasing new production equipment or facilities
- employing new staff (sales, marketing, research or production
- training staff in new procedures

The second aspect to consider is the effort required to implement the new business model. This is important to consider because some business model options may simply require too much effort to implement. Also, if you have a choice between two business model options that are identical in terms of likely benefits, risks and economic costs, the deciding factor would be the effort to implement them.

Understanding the effort required to implement a new business model requires an understanding of the gap between how the company performs today and how it needs to perform to successfully implement the business model, across all areas of the company. Identifying these performance gaps can be done systematically by reviewing each of the Business Model Canvas building blocks and identifying issues where the new business model requires the company to operate in a way that is new or different.

HOW TO GO ABOUT IT

1. Review the Business Model Canvas for one of the business model concepts. Start by look at block of the canvas and compare the list of points in that block with the list of points in the same block of the current business model.
2. Give each point in that block a separate rating using the following scale:

   - - A key activity, capability, channel or resource required for the new business model is not present or is significantly below the performance required.

   - A key activity, capability, channel or resource required for the new business model is present but is below the performance required.

   + A key activity, capability, channel or resource required for the new business model is present and meets the performance required.

   No symbol against a point means that no change is required.

3. Do the same for each of the remaining eight blocks of the canvas until you have rated the entire business model.
4. Repeat the process for the remaining business model concepts.

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

Business Model Canvas

Project _____ Date _____ Version _____

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

Original template from Osterwalder, A., & Pigneur, Y. (2010). Used during activities
ST.3, BM.2, BM.4 and BM.16

Eco—i Templates

BM.16 Evaluate the costs

Eco—i Manual

LEARNING CASE STUDY OF BUSINESS MODEL CANVAS

Key Partners

Fishermen +

Mechanic (for vehicle maintenance) +

Key Activities

Tuna processing +

Distribution +

Accounting -

Key Resources

Fast, efficient processing staff +

Tuna processing facility +

Fleet of vehicles +

Value Propositions

Tuna processing and canning service

Distribution and sale service

Higher margins for fishermen from selling finished canned product rather than raw tuna fish

Customer Relationships

Telephone-based personal customer service

Membership network --

Channels

Sales force

Peer to peer member recruitment --

Customer Segments

The fishermen

Cost Structure

Labour

Energy

Vehicle fuel

Economies of scale benefits from processing higher volumes of tuna

Revenue Streams

Annual membership fee

Sales of tuna processing service

Sales of distribution and sales service

BM.16 Evaluate the costs

Eco—i Agri-foods

LEARNING CASE STUDY OF BUSINESS MODEL CANVAS

The cooperative business model for Mango Pulp Co. does not require a lot of direct investment, but the implementation effort is significant as the company lacks some of competencies required to implement the new model. The investment needed depends on the type of eco-innovation projects that will be implemented. For instance:

- A number of eco-innovation projects can be implemented with little investment by line-extension, i.e. using the same production line to produce other type of products.
- Larger investments might be required if new technologies are to be implemented. Such technologies can include new production lines for valorisation of by-products, or installation of a biogas digester for biogas production.

Conducting a performance gap evaluation, comparing the old and new proposed business models of Mango Pulp Co., showed that the company currently lacks some important requirements for implementing the new business model such as:

- The company does not currently have an organic label, which also requires cooperation with a certification body.
- The company does not have any in-house R&D capabilities, which will be required to develop valorised by-products and new customized packaging solutions.

A summary of the performance gap evaluation for the Mango Pulp Company is shown below.

BM.16 Evaluate the costs

Eco—i Agri-foods

Key Partners

Farmers +

University

Financial institutions

Technology suppliers +

Transporters +

Certification body -

Packaging supplier - -

Key Activities

Fruits and vegetable processing +

Research and development - -

Training on conversational agriculture for farmers

Value addition to waste -

Acquire organic label -

Key Resources

Trained farmers

Biomass +

Processing facility +

Creative and experienced staff

Value Propositions

High quality, good tasting, sustainably sourced packaged fruit and vegetable products

Customer Relationships

E-marketing - -

Personal contact +

Channels

Sales force +

Customer Segments

International wholesales and retailers

Local retailers

Animal feed producers

Cosmetic company

Hospitals

Schools

Restaurants

Hotels

Cost Structure

Labour

Ingredients and processing aids

Water

Cleaning chemicals

Wastewater treatment

Natural gas

Packaging

Maintenance of equipment and facilities

Rent

Investment in equipment and infrastructure

Certification

Transportation

Electricity

Revenue Streams

Sales of packaged fruits and vegetable products

Sales of secondary products such as peel and stone to the cosmetic and animal feed industry

BM.16 Evaluate the costs

Eco—i Chemicals

LEARNING CASE STUDY

In the case of the TipTop Textiles Co. new “Fibre Leasing” model, there are significant costs associated with piloting and upscaling the chemical recycling of end-of-life textiles from their customers including technologies for ensuring recycled material purity as well as product quality.

Furthermore, the business model requires significant monetary and labour investments in logistics and servicing the corporate wear customers.

BM.16 Evaluate the costs

Eco—i Metals

LEARNING CASE STUDY OF BUSINESS MODEL CANVAS

Key Partners

- *Suppliers of manufacturing equipment –*
- *Suppliers of steel and aluminium semi-finished products –*
- *Suppliers of process agents and paint pigments +*
- *Energy providers +*
- *Retail partner+*
- *Customers involved in return scheme –*

Key Activities

- *Manufacturing of customised bike frame and rims including treatment steps: coating, painting and assembly of bicycles –*
- *Servicing during use phase: maintenance and repair –*
- *Take back activities: appraisal of returned bikes, repair of bike as a whole or disassembly and reuse of single components –*
- *Marketing, awareness creation & selling of products including export –*
- *Training employees on health and safety issues and providing personal protective equipment (PPE) –*
- *R&D activities -*

Key Resources

- *Flexible manufacturing facilities & manufacturing equipment +*
- *Materials including recycled and reused material and parts –*
- *Non-polluting process fluids used for production: lead free paints, water based solvents –*
- *Skilled and dedicated staff (experienced in e.g. recycling possibilities, design or ergonomic issues) –*
- *Customer service department (e.g. technicians, service vans) –*

Value Propositions

- *Return & Reuse scheme consisting including:*
- *Design and manufacturing of sustainable bicycles customised and accessorised according to the customer's body type, riding style and needs*
- *Bicycle remanufacturing and maintenance*
- *Additional features include:*
- *Different levels of customisation*
- *Different levels of servicing and product warranty*
- *Discount schemes for new bikes when donating other bikes at end-of-life.*

Customer Relationships

- *Personal direct communication with customers and retail partners: face-to-face, telephone, internet +*
- *Customer service –*
- *Customer retention because of warranty service–*

Channels

- *Sales force in own small bike shop +*
- *Marketing*
- *Customer services*
- *Associations (e.g. trade/tourism organization, NGOs)*

Customer Segments

- *Local customers*
- *Personal*
- *Companies*
- *Retailers/ wholesalers/ distributors*
- *Partner retail shop in the neighbouring region (export)*

Cost Structure

- *Economic costs (monetary – fixed, variable)*
- *Materials procurement*
- *Management costs: labour, administrative, marketing costs*
- *Equipment costs (including new equipment for process optimisation)*
- *Transportation (of materials, products and parts)*
- *Performing of repair services for bikes under warranty without getting monetary reimbursement*
- *Paying of customers who return their bikes*

Revenue Streams

- *Sales of sustainably produced bikes – locally and export*
- *Sale of spare parts*
- *Revenue from repair and after sale services*
- *Revenue from scrap selling*
- *Higher profit margins due to reduced processing costs and offered services*

Performance gaps highlighted in yellow