

BM.10

Generate ideas for the revenue streams block

Requires dialogue

This activity aims to generate ideas for how to address hotspots or strategic changes related to the revenue streams block.



INPUTS

- Hotspots or strategic changes related to the revenue streams block from the activities ST.7 Do a SWOT analysis, BM.2 Gather additional data on the business model, and BM.3 Gather additional data on operational performance.

OUTPUTS

- Specific ideas for how to change the revenue streams block to address the hotspots or strategic changes, used in the activities BM.4 Generate business model concepts at the big picture level - if taking a 'Bottom-up' approach, BM.15 Evaluate the benefits, and BM.16 Evaluate the costs and BM.17 Evaluate the risks.

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Innovation in the revenue streams building block will generally be closely linked to innovations in the value proposition block - changing one of these will affect the other. One of the key trends in business model innovation has been the interest in switching from transaction revenues (customer pays for a product in a one-off payment) to recurring revenues (customer makes regular payment or subscription for continued usage of the product or for additional services). Notable examples include:

- *Office printers* – Where the customer now has the option to pay a monthly subscription for the use of the machine instead of purchasing it outright. The subscription fee includes maintenance and service costs and varies depending on the number of pages they print.
- *Jet engines* – Where the customer pays for the number of hours that the engine is flying and the engine manufacturer takes responsibility for maintenance and servicing.
- *Digital music* – Where the customer can have unlimited access to a vast collection of songs and albums to listen to for as long as they remain subscribed to the service.
- *Chemical leasing* – Where, for example, the customer might pay for the service of ‘part cleaning’, rather than for the number of litres of solvent used in the cleaning process.
- Many of these business model innovations have significant customer benefits (e.g. reduced capital expenditure requirements, wider choice, greater flexibility etc.), but such business models can also have significant sustainability benefits, as well as offering a competitive advantage for the manufacturer.

- Sustainability benefits can arise from the fact that the recurring revenue streams in this type of business model often relate to the use of a product or its servicing and maintenance. An increase in revenue for the manufacturer is no longer tightly coupled to the consumption of more resources to produce new products. This can help to encourage efficient use of the product or prolong its useful lifetime and creates an incentive for manufacturers to support the customer in gaining maximum value from each physical product. Social benefits can also occur through the creation of new jobs in repair, maintenance and customer support roles that are required to deliver the new services. The Company should ensure that both women and men benefit from these new job opportunities.

HOW TO GO ABOUT IT

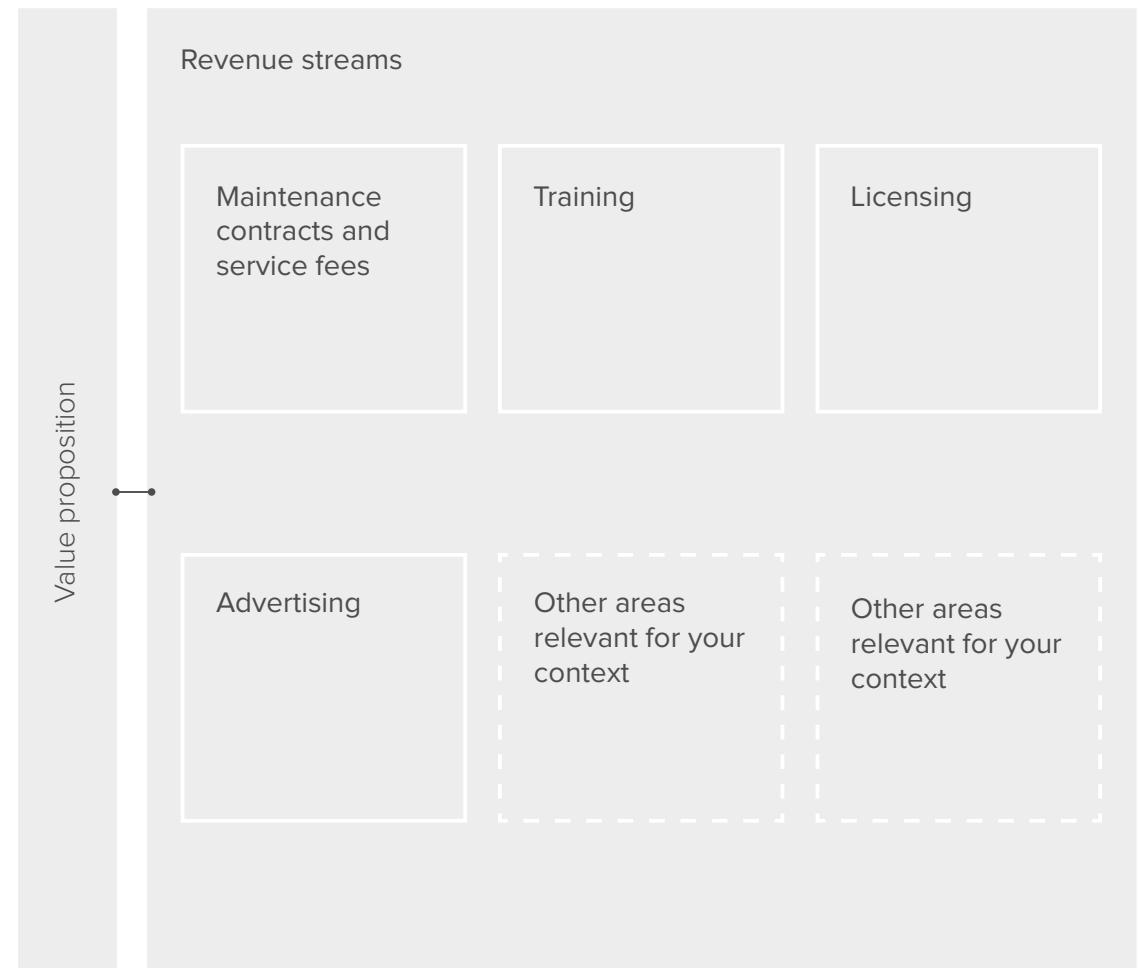
When considering the options for new revenue streams for the company, there are a number of common areas to consider:

- *Maintenance contracts and service fees* – performing regular maintenance and service operations can help to ensure optimal performance of a product and that it will reach its design lifetime. As the manufacturer of the product, the Company should have the right skills and knowledge to offer this service (although being able to deliver these services cost-effectively to the customer is likely to involve a new set of threats and so requires careful consideration and planning).
- *Training* – helping the customer to get the most value out of their product by providing training courses can lead to higher customer satisfaction and at the same time can provide a useful revenue stream for the company.

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- *Licensing* – for companies that hold significant intellectual property, the option to license the use of that intellectual property to a third party can be a low effort way to generate new revenue streams. Careful consideration must be given to the strategic implications of licensing partnerships. For instance, could it lead to new competition within the company's core customer segments? Could it involve a loss of control of the brand leading to loss of brand value?
- *Advertising* – the communications channels that the company has built with their customers can be valuable to third parties if they can be used for advertising. This is the foundation of the 'multi-sided platform' business models discussed in the activity *BM.4 Generate business model concepts at the big picture level*. Again, careful consideration needs to be given to the impact of advertising on the overall business to avoid unintended consequences. For example, will the presence of adverts annoy or alienate the company's target customer segments?

Template of Revenue Streams Ideas

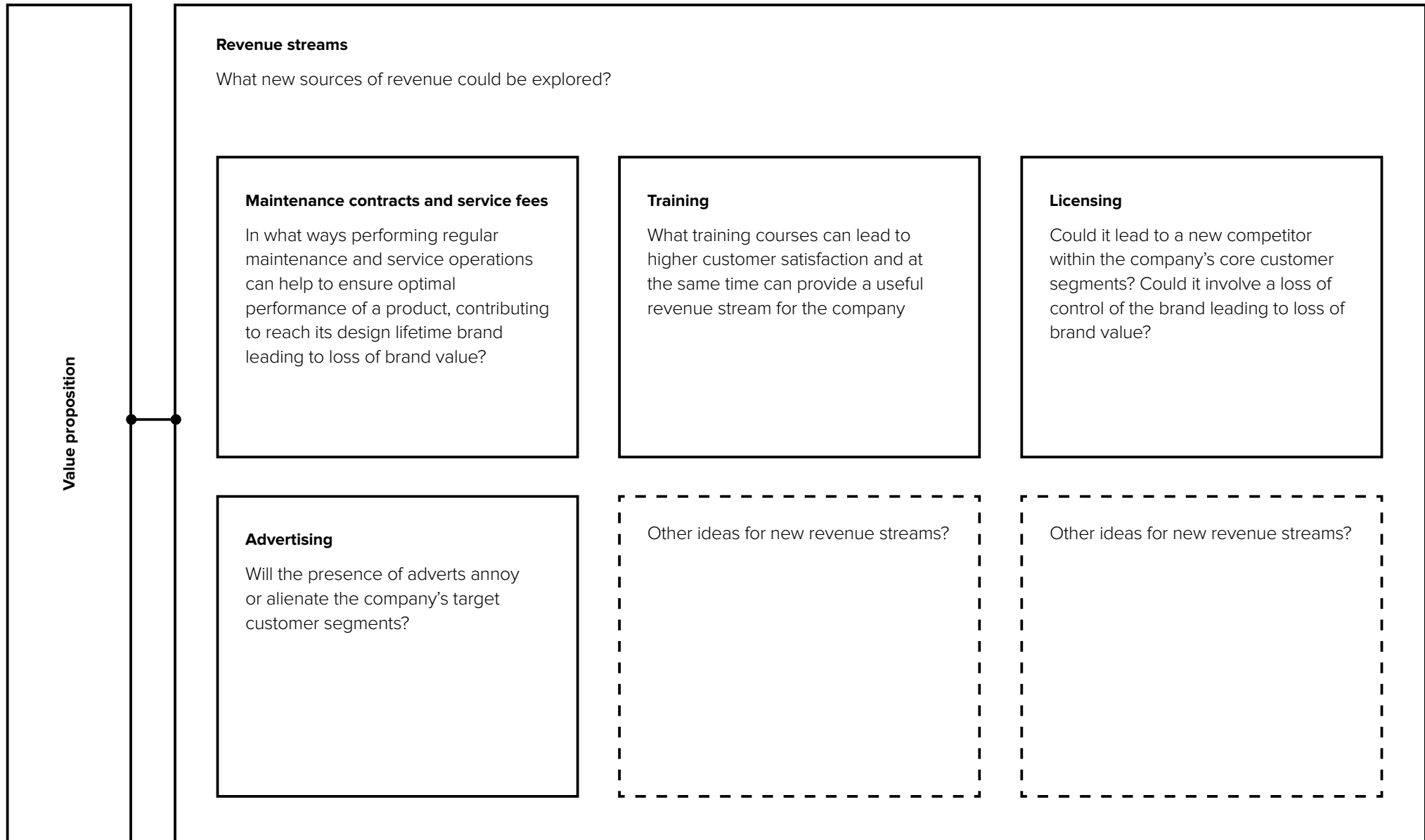


Revenue streams ideas

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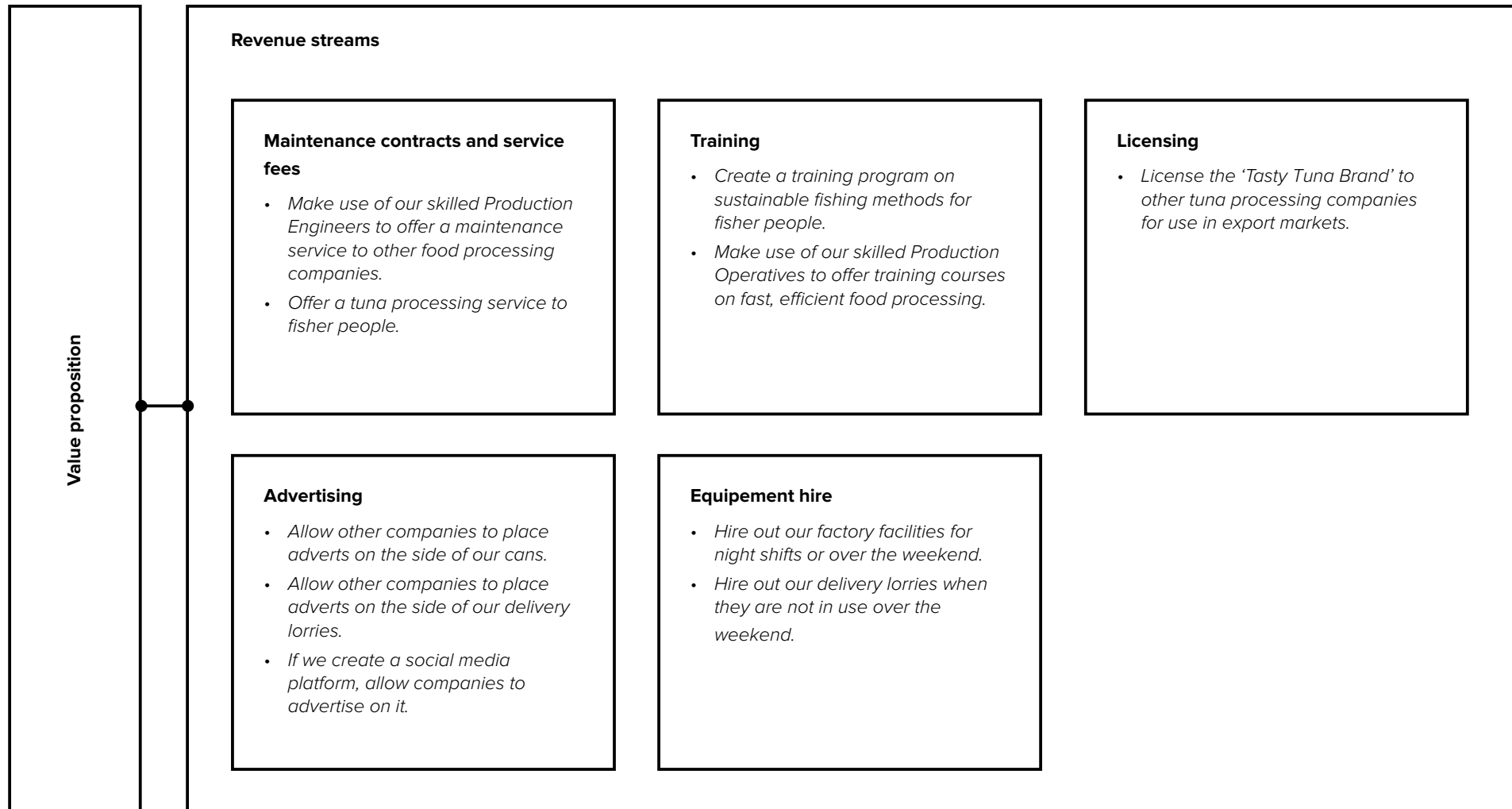
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LEARNING CASE STUDY REVENUE STREAMS IDEAS



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TIPS & TRICKS

PRICING STRATEGY FOR ECO-INNOVATIONS

The main challenge of pricing from an eco-innovation perspective is that if you intend to develop a new or significantly different value proposition it can be difficult to get the right pricing strategy. Deciding on a price and pricing strategy for a product is a topic discussed extensively in other literature (e.g. Gregson, 2007), but one tip that is useful when dealing with business to business customers is to ask them how they would make the business case to their management team for purchasing the product. By getting a better understanding of the potential cost savings or increased revenue the customer is likely to benefit

from, you can make a more accurate estimate at the price that will be acceptable to them. Similarly, if dealing with business to consumer products you can try asking the consumer what they would be willing to pay for the product. When performing this type of market research make sure to consult both rich and poor, women and men consumers.

BACKGROUND INFORMATION

References and resources

Pricing Strategies:

- Gregson, A., (2007). Pricing strategies for small business. Vancouver, Self-Counsel Press.

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

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BACKGROUND INFORMATION

The primary revenue stream for most food and drink processing companies comes from the sales of their product to the customers downstream in the value chain. However, some innovative companies are no longer selling products and have instead moved to providing processing services for bigger companies or retailers.

Industry example 2: PacMoore Products, Inc

PacMoore Products, Inc. a company that offers processing services including blending, spray drying, extrusion, heat treatment and packaging to other food ingredient companies further down in the value chain. Additionally, they also offer other services such as R&D, purchasing, storage and shipping. By switching the main revenue stream from sales of products to provision of services, PacMoore face less competition and no longer has to manage and market a portfolio of products. Also, because PacMoore now focuses on a core set of processing activities, it can invest in training and technology, which provides operational efficiency and quality benefits for the whole value chain.

Different strategies can be adopted with respect to pricing. Generically, there are two pricing strategies - sell large volumes with a small margin on each unit or make a large margin on each unit and settle for lower volumes. Companies in most markets are better off if the market is balanced i.e. where some companies compete on price and others on other competitive advantages (such as different taste preferences for different segments) (Perner n.d)

Industry example 3: Upland Rice Millers – Uganda

Unlike other companies in Uganda, Upland Rice millers does not buy commodities from farmers but offers milling services to over 2,000 rice farmers. The farmers supply paddy rice to the company for processing and then sell it directly to customers. In addition to milling, the company allows also farmers to market their products under the company's brand. The company offers extra services to farmers that include free storage facilities and trainings to farmers and traders about the pre-harvesting and post handling practices that contribute to better yields (UN Environment Eco-innovation project)

References

Perner, L., Food Marketing, Consumption and Manufacturing Available at: http://www.consumerpsychologist.com/food_marketing.html

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TIPS & TRICKS

CONSIDER THE STRATEGIC IMPORTANCE OF HIGH REVENUE CUSTOMERS

The 20/90 rule applies to many chemical companies with respect to customer performance – 20% of customers account for 90% of the company's profit margin. Considering the strategic importance of high revenue customers and the overriding importance of pricing on profit, many chemical companies use key account management for their priority customers – See '*BM.9 Generate ideas for the customer relationships' block*' for further details.

BACKGROUND INFORMATION

Selling a product is typically a major source of revenue in the chemical industry. However, sales are often accompanied by technical support. The price mechanism can be either a fixed price, dependent on volume or customer segment.

The sales price has the largest impact on profitability (see '*BM.14 Generate ideas for the cost structure block*') so you could consider different approaches to pricing differentiation, which could include transaction pricing (determining the exact price for each customer transaction), product/market strategy (determining what price yields the optimum position in each market relative to competitors), and industry strategy (determining supply and demand and highly volatile raw materials affect overall price levels).

The chosen channel (e.g. e-sales, distribution, technical sales and support) and pricing mechanism is usually allocated to specific customer segments according to what they value – see '*BM.9 Generate ideas for the customer relationships' block*' for further details.

Other forms of revenue streams are leasing systems that are often found in "Chemical Management Systems" or in "Chemical Leasing"; here, the functional unit of service can be expressed as \$/part cleaned or \$/operating hour.

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BACKGROUND INFORMATION

The revenue stream(s) mainly depend on the value proposition and the customer segment. As seen in the Industry example 3 in **BM.4**, Caterpillar reports that their CAT Reman remanufacturing programme allowed them to dramatically reduce costs for raw materials and thus increase profits.

Aftersales business offers vast profitability potential:

- at least 30% in revenue for machinery and equipment engineering
- up to 65% in profits for engineered products

As stated in the Value Proposition block, such aftersales services can include spare part replacement, improvement of product performance, or consultancy – each with a different business model, level of customer relationship, and revenue stream.

References

- Roland Berger Engineered products/High Tech: http://www.rolandberger.com/expertise/industries/engineered_products_high_tech/Aftersales_services_of_engineered_products.html