

## MODULE 9: Business model generation and value proposition design

<b>OBJECTIVES</b>	<ul style="list-style-type: none"> <li>✓ Outline key steps in the business planning process starting from the idea design / creating a vision process</li> <li>✓ Compare lean start-up approaches to conventional business planning tools and methods</li> <li>✓ Become aware of the importance of understanding the project's customers and competitors</li> <li>✓ Analyse how to reap the benefits from a startup's products or services</li> <li>✓ Identify systems, resources and processes needed to deliver services/products</li> <li>✓ Reflect on the process of engaging with customers and delivering services/products in the most effective way.</li> </ul>
<b>METHODS</b>	Reading material, video's, links to resources, application exercises, quizzes & discussions
<b>DURATION</b>	2,5 hours for participants

SESSION			DURATION	PARTICIPANTS...
Online	9.1	Business Vision	40 min.	✓ Outline key steps in the business planning process starting from the idea design / creating a vision process
	9.2	Lean Start-up	40 min.	✓ Compare lean start-up approaches to conventional business planning tools and methods
	9.3	Business models	60 min.	<ul style="list-style-type: none"> <li>✓ Identify systems, resources and processes needed to deliver services/ products</li> <li>✓ Reflect on the process of engaging with customers and delivering services/products in the most effective way.</li> </ul>

## 9.1 Business Vision

### Reading material

#### Business Vision

**Before we start, please grab a notebook or open an empty document where you will be able to write some answers to questions that will be posed to you. Once you went through the three sessions of this module, you will be asked to share your notes on the forum.**

#### Brainstorming

From your experience how does a business come about?

Collect ideas **in this text field/on a note book** : How do you think a business is started and built up from the initial idea to the actualisation of the idea. Write down your personal experiences, businesses you know about or how you think a business comes about.

#### Answer/Summary Businesses come about because of one person (or a group):

- ...having an idea or being challenged.
- ...managing to convert the idea / solving the challenge into a vision (an image of what they want the business to be in the future).
- ...working towards making the vision happen.

**Animated Video Input (refer to Moodle):** Watch the video and learn more about business visions.

#### What was said in the video?

MC: Which one of the following answers is not correct?

A vision...

- is an image of what you want your business to be in the future.
- is a statement about what you don't want your business to be.
- captures the essence of where you want to take your business.
- sets the direction for your business and outlines what your business ultimately is to achieve.

#### What was said in the video?

MC: Which ones of the following answers are not correct?

**The vision for your business should be:**

- short
- simple

- **complicated**
- **specific to your business**
- **clear**
- **inspirational**
- **hard to remember**
- **memorable**

**What was said in the video?**

**t/f True or false?**

For you, the potential entrepreneur, it is important to have a vision that guides your decision-making process and to help you grow your business to the purpose of actualizing that vision.

- **true**
- **false**

**What was said in the video?**

**t/f True or false?**

A vision for your business is only important for yourself and not important for your staff or clients.

- **true**
- **false**

**Key points/ Take aways**

**Graphic 2.1**



Reflect: Sir Winston Churchill once said: "I don't have time to write you a short letter, so I'm writing you a long one"

MC How do you think does that translate to a business vision?

- it is easy to express an idea in a short, simple, clear and specific way.
- it is very hard to express an idea in a short, simple, clear and specific way.

Reflect: Which one of the following examples for a food stand seems like a good vision to you?

MC:

- To be the best.
- To use the healthiest regional products for nutritional meals that make men, women and children happy due to their health benefits, good taste and fair price and incline customers to come back and buy more.
- To serve regional quality food at a reasonable price.
- To be the best known and most visited food stand for healthy regional food on the market.

Reflect: What do you think is the main problem regarding the following example for a business vision?

"To be the best."

MC:

- It is not memorable.
- It is not specific.
- It is not inspirational.

Reflect: What do you think is the main problem regarding the following example for a business vision?

“To use the healthiest regional products for nutritional meals that make men, women and children happy due to their health benefits, good taste and fair price and incline customers to come back and buy more.”

MC:

- it is too short.
- it is not inspirational.
- it is neither simple nor clear and therefore not memorable.

Reflect: What do you think is the main problem regarding the following example for a business vision?

“To serve regional quality food at a reasonable price.”

MC:

- It is not very inspirational.
- It is not specific to the business.
- It is not short enough.

**Animated Video Input (refer to Moodle):** Watch the video and learn more about Michael and Jane’s business vision.

Reflect: What was good or bad about the business vision MJ’s Chili Paste Business came up with?

**“Providing all these local women with the best chili paste.”**

Was it:

- Short (just one or two sentences)?
- Simple, so that a 10-year-old can understand?
  - Specific to your business?
  - Clear and leave nothing open to interpretation?
  - Inspirational?
  - Memorable?

### Answer/Summary

#### Feedback:

Michael and Jane’s business vision is short, simple and specific to their chili paste business and their customers, but it is not inspirational as it is merely describing what they are already doing, not what they aspire to be. Therefore, their business vision is also not very memorable.

Reflect

**Does your business have a vision? (Icon: business vision)**

**If so, please review the vision. Is it ...**

Short (just one or two sentences)?

Simple, so that a 10-year-old can understand it?

Specific to your business?  
Clear and does it leave nothing open to interpretation?  
Inspirational?  
Memorable?

**That was it!**

**1/5**

Congratulations: You have completed the session on “**Business Vision**”

## 9.2 Lean Start-up Approach

### Reading material

#### Lean Start-up Approach

Having a Vision for a business is important, but not enough. An entrepreneur or start-up founder needs to start the business (otherwise the business will remain only a dream and not become reality).

**If you fail to plan your business, you plan to fail.**

**Reflection/Research** What do you think ...

- what should be considered when you plan a business?
- how far ahead should you plan?

**Write:** Take notes in the **Text field**

#### Animated Video Input (refer to Moodle): The Lean Start-up Approach

Watch the video and learn more about business plans and about the Lean Start-up Approach.

**What was said in the video?**

**t/f True or false?**

it is better to just start a business without a formal plan than to write a formal business plan.

- true
- false

**What was said in the video?**

**MC** Which one of the following statements is correct?

- Traditional business plans rarely survive first contact with customers.
- It is quite realistic to forecast three- to five-year plans for a Start-up.
- Start-ups are just smaller versions of large companies.

**What was said in the video?**

MC: The **Lean business start-up principles** propagate a different approach, which is

**iterative** and **incremental**. But what does “iterative” and “incremental” mean?

Iterative means that you offer new products with each cycle. Incremental, on the other hand, relates to the selling price of the product, which can be raised with each cycle.

Iterative means that you repeat a series of cyclical steps, improving your product with each cycle. Incremental, on the other hand, relates to an increase or addition.

Incremental means that you repeat a series of steps, improving your product with each cycle. Iterative, on the other hand, relates to an increase or addition.

**What was said in the video?**

t/f True or false?

A minimum viable product is a product with just enough features to attract a customer base to validate a product idea early in the development cycle of the product.

- true
- false

**What was said in the video?**

**MC** Please choose the right option to finish the following sentence:

“In the start-up phase and during customer development, an entrepreneur searches for a business model that works. In doing so a start-up business ...

- ... creates customers' needs by offering the most desirable product or service.”
- ... interprets customers' needs by creating and offering a value proposition in the form of a “minimum viable” product or service.”
- ... satisfies customers' needs completely by creating and offering a value proposition in the form of the perfect product or service.”

**What was said in the video?**

**MC** Please choose the right option to finish the following sentence:

If customer feedback reveals that the value proposition and the way it is packaged and presented is wrong, the start-up ...

- ... usually goes bankrupt and ceases to exist.
- ... either loses its customers or lowers the price for the product.
- ... either revises the value proposition, the way it is packaged or pivots to a new value proposition.

**What was said in the video?**

**MC** Which one of the following statements is correct?

start-ups summarize their untested hypotheses about their business ...



- ... in a framework called business model canvas.
- ... in a business plan.
- ... without any concrete plan or framework.

### Reflection How is MJ's Chili Paste Business an example for a lean start-up approach?

The stages of the lean start-up being: Build, Measure, Learn

**Write:** Take notes in the **Text field/on your notebook.**

### Answer/Summary

The **Build-Phase** (of a minimum viable product):

- They started with the very small-scale production of chili paste in their kitchen.
- They have a small customer base initially at the local market, then slowly expanding to new customer segments (women selling Kotas).

The **Measure-Phase:**

- After supplying the first customers with the chili paste prototype and that being well received, they expand to receive more customer feedback.
- Making sure there is a large enough customer base, Jane and Michael get the feedback from the women who sell Kotas that the paste is received well and more paste is needed.

The **Learn-Phase:**

- After having received feedback, on the quality and taste of the paste and packaging itself, Michael and Jane can adapt specific aspects of the product and move forward with their business.

### That was it!

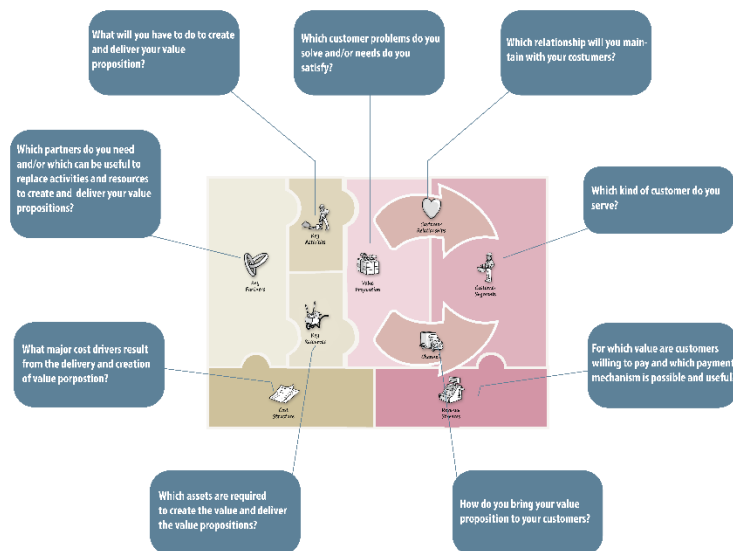
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Congratulations: You have completed the session on "**Lean Start-up approach**"

## 9.3 Business Models

### Reading material

#### The Business Model Canvas



#### Animated Video Input (refer to Moodle):

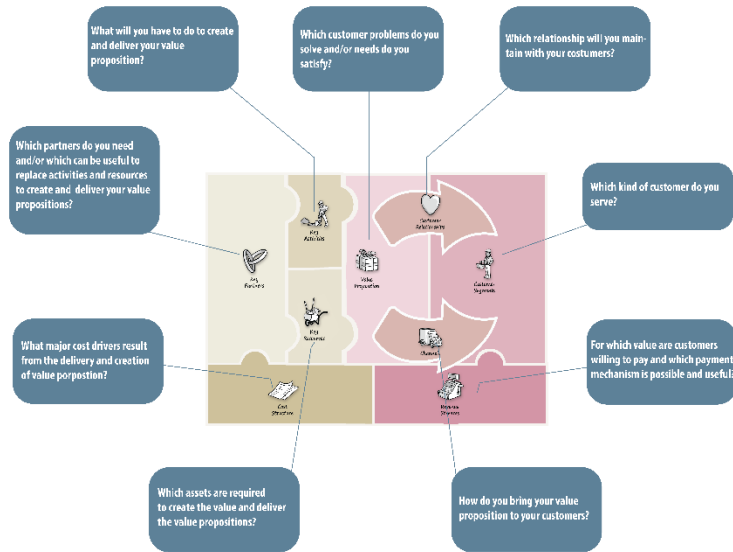
In the previous session you have already heard that in the Lean Start-Up approach the Business Model Canvas is being used. Let us have a closer look at it now in a video.

#### What was said in the video?

**D&D** Please match the following questions with the respective building blocks of the Business Model Canvas:

- Which customer problems do you solve and/or needs do you satisfy?
- Which relationship will you maintain with your customers?
- Which kind of customer do you serve?
- How do you bring your value proposition to your customers?
- For which value are customers willing to pay and which payment mechanism is possible and useful?

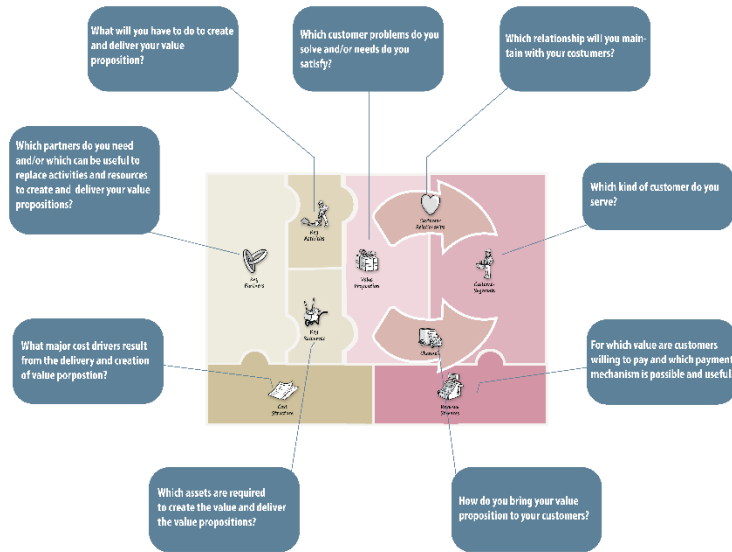
**Building blocks: Customer, Relationship, Channels, Revenue Streams**



**D&D** Please match the following questions with the respective building block of the Business Model Canvas:

- Which assets are required to create the value and deliver the value proposition?
- What major cost drivers result from the delivery and creation of value proposition?
- Which partners do you need and/or which can be useful to replace activities and resources to create and deliver your value proposition?
- What will you have to do to create and deliver your value proposition?

**Building blocks: Key Resources, Cost Structure, Key Partners, Key Activities**



### Small image of Graphic 2.4; Deepening the knowledge on Customer Groups/ segments

**D&D:** Please match the following words into the sentences:

**Customer groups** represent separate segments if:

- Their **needs** require and justify a distinct product offering.
- They are reached through different **distribution channels**.
- They require different types of **relationships**, ranging from personal to automated.
- They have substantially different **profitability**, which means the profit that can be generated through each segment is different.

### Different customer segments can also be the formal vs. the informal sector.

A business must make a conscious decision about which segments to serve and determine what the individual segments' needs are, regarding the product. Once this decision is made, a business model can be carefully designed around a strong understanding of specific customer needs.

The formal sector is defined as encompassing all jobs with normal hours and regular wages, and which are recognised as income sources on which income taxes must be paid.

The informal sector, or informal economy is the part of an economy that is neither taxed, nor monitored by any form of government.

**Imagine, you have a company that sells vegetables and fruit.**

**MC** Which one of the following statements is correct?

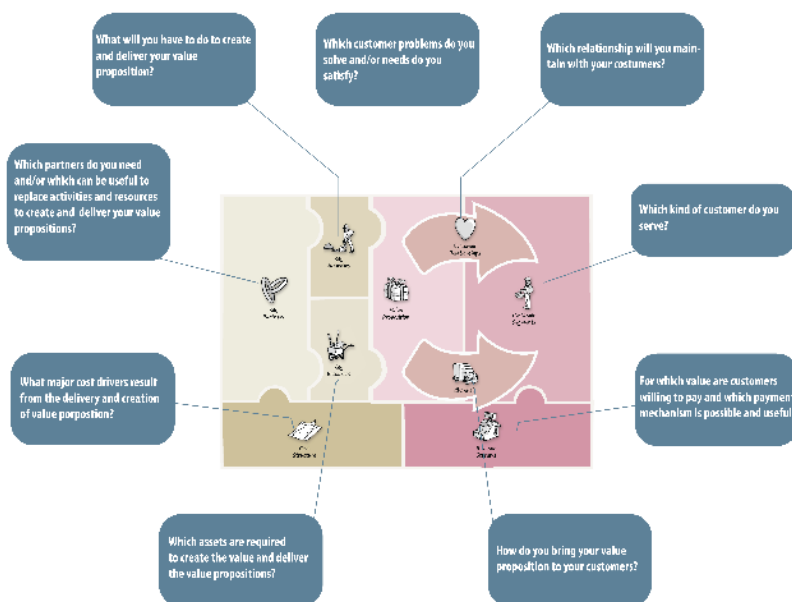
If I want to sell my fruits and vegetables to different customer segments, formal or informal, they will all buy the same product if the quality is high.

If I sell fruits and vegetables to customers of the formal sector, like supermarkets or restaurants, then these have different needs than individual customers or small street vendors.

The package design and size that I sell my fruits and vegetables in, can be the same for the formal and the informal sector – the different customers will buy what I offer them.

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### Deepening the knowledge Value Propositions – Performance Features



A value proposition is based on the **performance features** and **uniqueness** of a product and/or service.

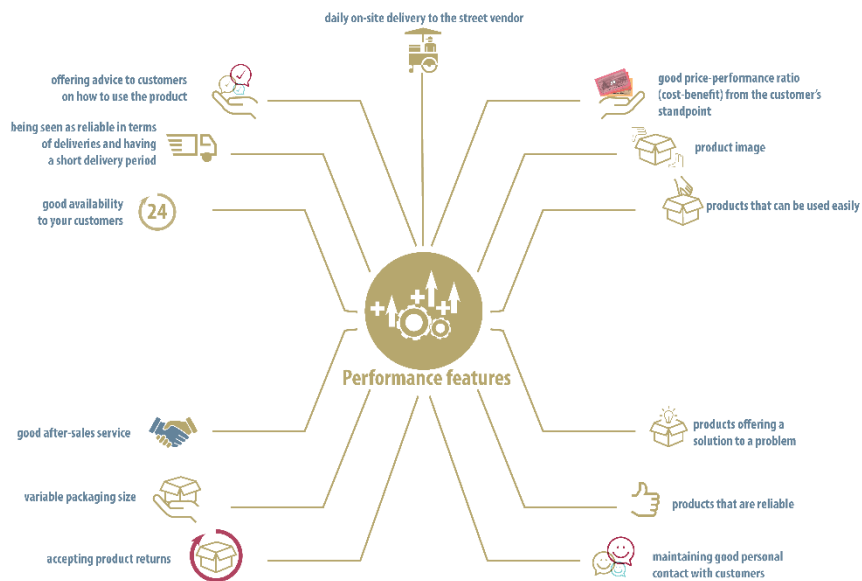
The customer's decision to buy from you or from the competition depends on the customer's perception of your product's **performance features**, your complementary services and their perception of your business.

An example of a performance feature is a good price-performance ratio from the customer's standpoint.

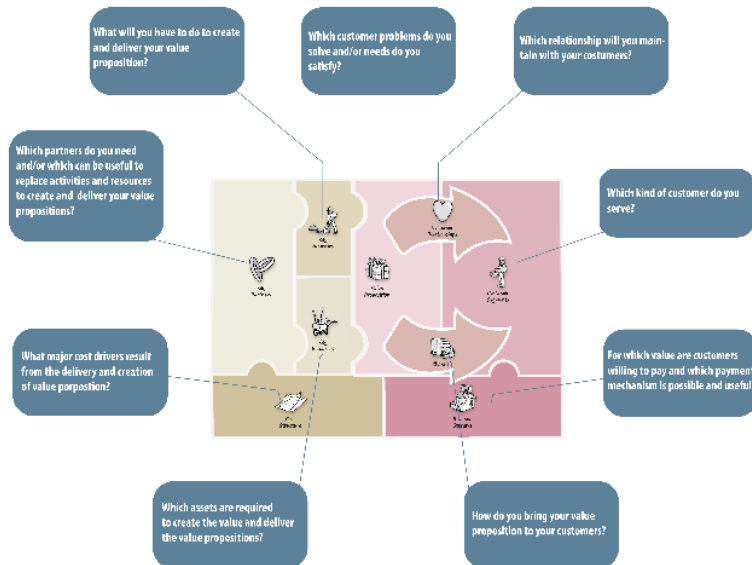
Can you think of any other examples of performance features?

**Write:** Please take notes in the text field/on your notebook.

### Answer/Summary Value Propositions – Performance Features



### Deepening the knowledge on Value Propositions – UNIQUENESS



What makes your product/service unique?

If you know the answer to this question, ask yourself whether your customers do too?

If you are aware of the uniqueness of your products and/or services, you will be able to convince your customers of it. The more you can tell your customers about the unique features of your products or services, and the more your customers clearly see that you solve their problems and that you are not simply trying to sell a product/service, the more the price will move into the background.

A unique product/service usually has a **competitive advantage**, meaning that it is superior to that of the competition. A competitive advantage must satisfy 3 criteria.

**Write:** Please try to imagine which ones and take notes in this field.

### Answer/Summary Value Propositions – UNIQUENESS

**1. The product/service must exhibit a performance feature which is important to your customers.**

Example: Amina came up with digital stickers that incorporate different aspects of some African countries cultures. In online communication these stickers offer users a stronger connection and way to express themselves and quickly transport a concept or emotion, such as e.g. emojis

**2. The advantage must be perceived by your customers.**

Example: Amina's digital stickers are a product targeting local markets and are catered to users in Africa. Because of their specific cultural connotations the merit is very

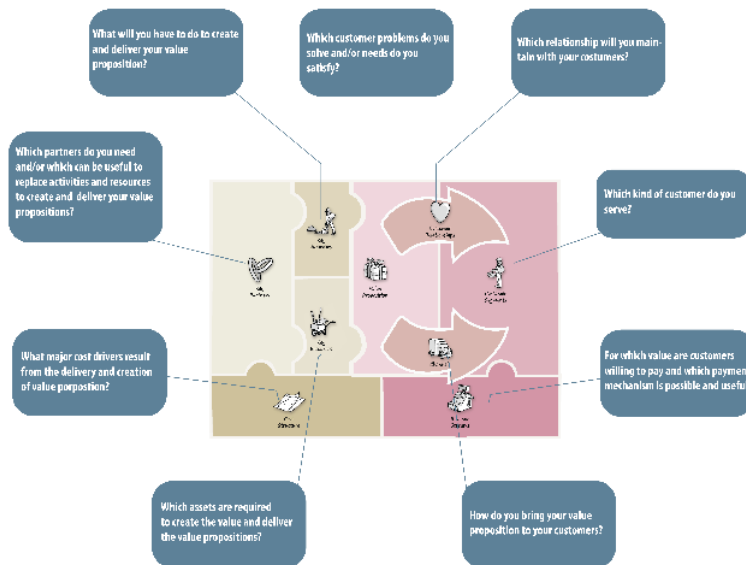
- evident to users and offers a unique way of expressing thoughts, emotions and such.
3. **It must not be possible for the competition to quickly catch up and offer this advantage. In other words, it must display sustainability.**  
 Example: Amina's digital stickers are very specific to a certain customer segment and therefore not something other entrepreneurs or bigger companies have thought of before. If she manages to be the first one to cooperate with big messaging companies and have them use her stickers, she will secure the market and maybe even apply for a patent that prevents other digital artists from copying her work.

Graphic 2.6



Small image of Graphic 2.4; Deepening the knowledge Channels





D&D: The business interface with customers is comprised of three different kinds of channels. Please match the three options with the respective description:

<b>Communication channels</b>	<ul style="list-style-type: none"> <li>- raise awareness among customers about a company's products and services ◇ advertisement</li> <li>- digital marketing, word of mouth</li> <li>- written: email, website, social media (WhatsApp, Facebook, etc.), handouts/flyers, posters, billboards, printed t-shirts etc.</li> <li>- verbal: telephone, radio, local advertising, car/truck with live announcements, face-to-face interaction (e.g. at the stall, market etc.)</li> </ul>
<b>Distribution channels</b>	<ul style="list-style-type: none"> <li>- way in which a product or service is delivered to the customers</li> <li>- distributors, retail, franchises</li> <li>- delivery to or pickup by the customers</li> </ul>
<b>Sales channels</b>	<ul style="list-style-type: none"> <li>- place or platform that enables customers to purchase the product or service</li> <li>- website/ecommerce, retail stores, wholesale, local/nearby (super)market, mobile stands etc.</li> </ul>

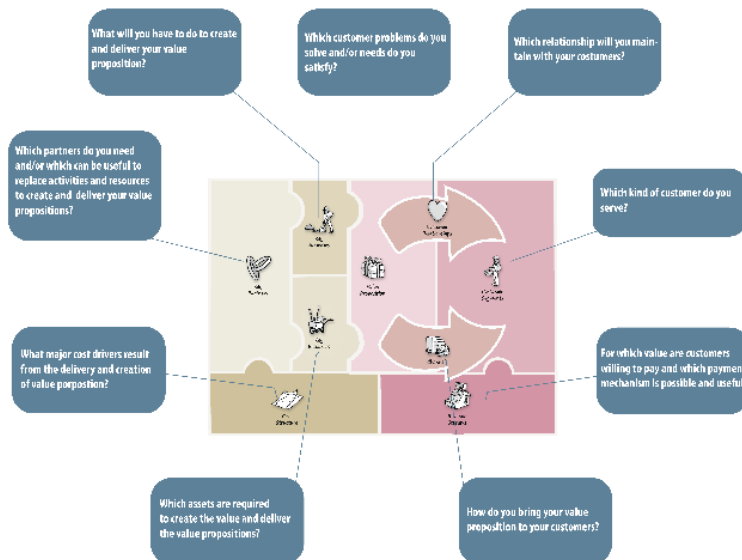
### Deepening the knowledge on Revenue Streams

D&D: A business model can involve two different types of revenue streams. Please match the two options with the respective description:

**transaction revenues** resulting from one-time customer payments; and / or

**recurring revenues** resulting from ongoing payments to either deliver a value proposition to customers or provide post-purchase customer support.

### Small image of Graphic 2.4; Deepening the knowledge on Key Resources



Resources refer to the assets required to deliver the value proposition to the identified customer segments.

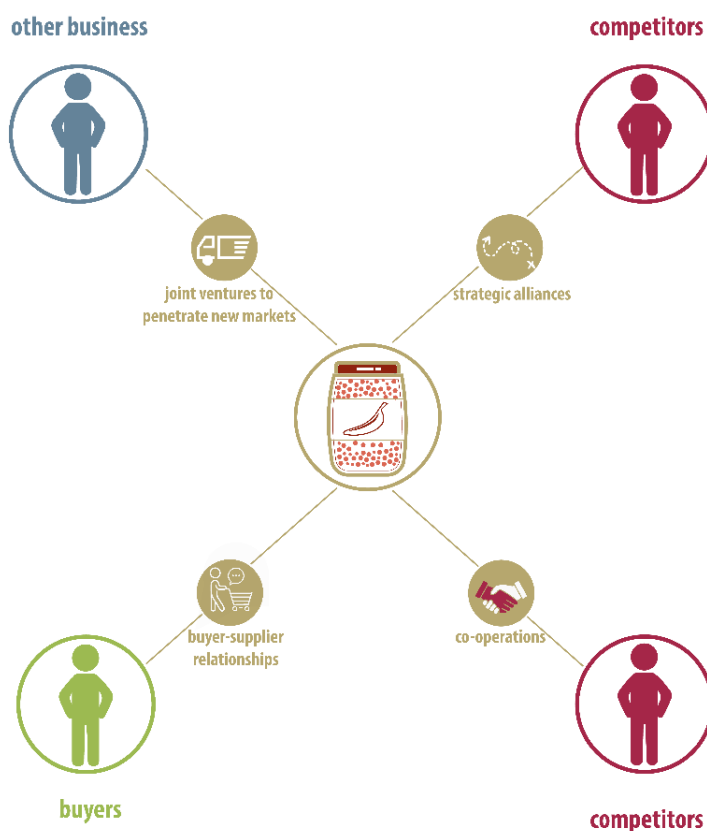
Resources include the following categories.

t/f Which example from the left column belongs to which category?

	Physical	Human	Financial	Leadership and values	System and information
Land	X				
record keeping systems					X
work ethic				X	
Loans			X		
workers		X			
buildings	X				
staff		X			

Tools	X				
Skills		X			
machinery	X				
information about market prices					X

### Deepening the knowledge on Key Partnerships



We can distinguish between 4 different types of partnerships:

- Strategic alliances between non-competitors.
- Co-operation: strategic partnership between competitors.
- Joint ventures to develop new businesses / penetrate new markets.
- Buyer-supplier relationships to assure reliable supplies.

Of course, it is important to choose your partnerships strategically. There are some key

questions that you should ask yourself to do so. Can you imagine what these key questions could be?

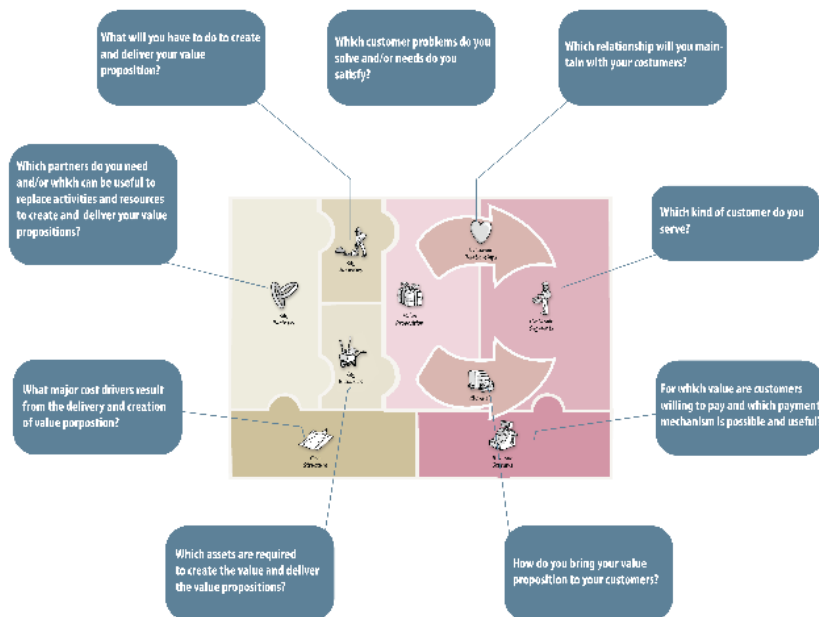
**Write:** Take notes in this field.

## Answer/Summary Key Partnerships

### Graphic 2.8



## Deepening the knowledge on Cost Structures - Production costs



### A business has 2 types of costs:

**1. PRODUCTION COSTS** are those costs that are directly linked to your production. Usually, these costs vary according to your volume of production.

**2. FIXED (MONTHLY) OVERHEAD COSTS** are those costs that are only indirectly related to your production. Usually these costs do not vary directly according to the volume of production.

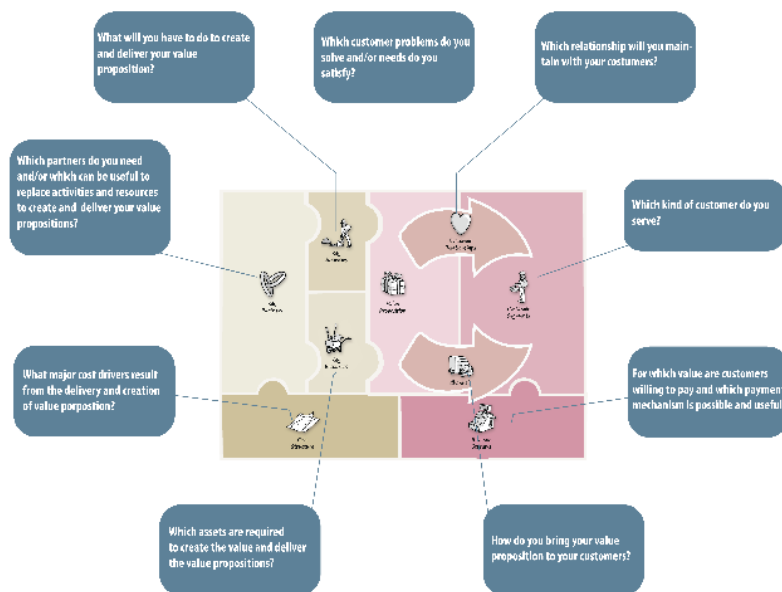
Imagine you run a plantation for tomatoes. What are the production costs you can think of spontaneously?

**Write:** Take notes in this field.

### Answer/Summary PRODUCTION COSTS:

- seedling costs
- costs to plant the seedlings
- irrigation costs
- costs to grow the plants
- costs to harvest the plants
- costs to package and present the products to your customers
- costs to transport the product to your customers

## Deepening the knowledge on Cost Structures – Fixed monthly overhead costs



The second type of costs, the **FIXED MONTHLY OVERHEAD COSTS**: which are those costs that are only indirectly related to your production. Usually, these costs do not vary directly according to the volume of production. Think of your mobile phone costs and the wages you must pay if you employ workers.

Can you think of any other fixed monthly overhead costs?

**Write:** Take notes in this field.

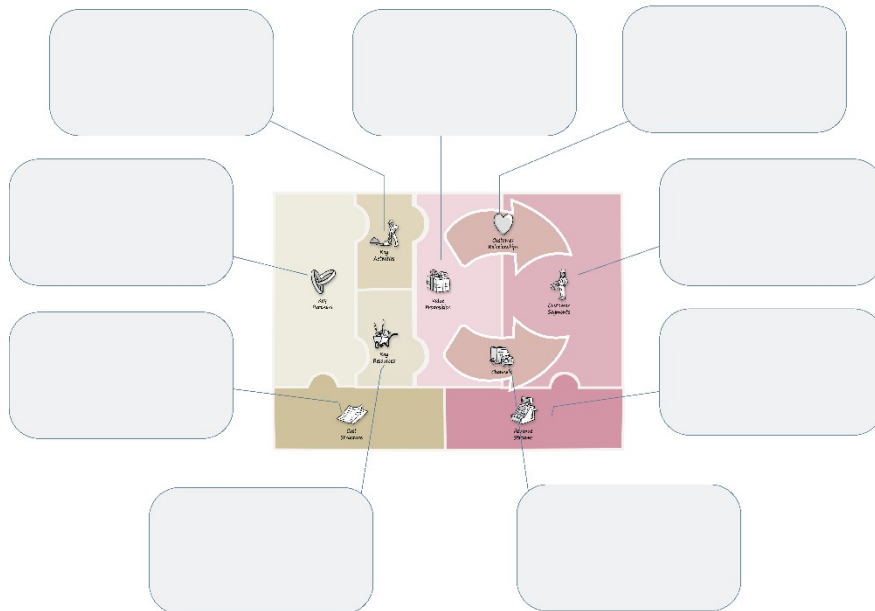
### Answer/Summary FIXED MONTHLY COSTS

- wages
- your own salary
- maintenance of e.g., fencing
- mobile phone costs
- interest cost of loans that you need to repay
- if the business is formalized: taxes

### Business Model Canvas for MJ's Chili Paste

Now, sketch a Business Model Canvas for MJ's Chili Paste thereby dragging the examples of *the most important things MJ's Chili Paste must do to make their business model work* into the correct segments

D&D: directly into the **graphic 2.10**



(Model answers to drag and drop:)

**Customer Segments** (Which kind of customer do you serve?):

◇ The different customer segments for MJ's Chili Paste business are the women who sell Kotas and customers who buy the paste at the local market.

**Value Proposition** (Which customer problems do you solve and/or needs do you satisfy):

◇ "Gendered Value Proposition", which are focused on "Customer Value Proposition" and "Impact Measures", the elements define how to customize and control the business to impact on all genders, to ensure that, the chilli paste product deliver value to all.

**Channels** (How do you bring your value proposition to your customers?):

◇ Women who sell Kotas are the main channel of bringing the Paste to the customers, but the women also are customers themselves.

**Customer Relationships** (Which relationship will you maintain with your customers?):

◇ The women are here classified as the beneficiaries and could benefit from the business as employees or consumers at probably affordable costs in addition they are customers who are direct marketers of the paste through their organization/association.

**Revenue Streams** (For which value are customers willing to pay and which payment mechanism is possible and useful?):

◇ The women selling Kotas are willing to pay for the Chili Paste if it increases their sales and their customers are happy and keep buying more. Buying the paste and reselling it in

the form of Kotas must be profitable for them. The customers at the market would be willing to pay for a product that offers them taste and quality that they cannot find in similar products.

**Key resources** (Which assets are required to create the value and deliver the value proposition?):

◇ The resources necessary consist of the raw materials. After the business starts producing at a larger scale also machinery to process the Paste and resources to run the factory are needed.

**Key activities** (What will you have to do to create and deliver your value proposition?):

◇ Buying and processing the raw materials into Chili Paste and distributing the Paste to customers such as buyers at the local markets and the women who sell Kotas.

**Key partners** (Which partners do you need and/or which can be useful to replace activities and resources to create and deliver your value proposition?):

◇ Women are key stakeholders that are/should be involved in the business as suppliers or channels. In the case of MJ's Chili paste the female customers are key partners for the business as customers and as channels to more customers, by selling the paste in their Kotas.

**Cost structure** (What major cost drivers result from the delivery and creation of the value proposition?):

◇ The biggest costs are the production costs for raw materials and the fixed costs that need to be considered on a monthly basis.

### That was it!

Congratulations: You have completed the session on "Business Model Canvas" and therewith also the online part of Module 9 on Business model generation and value proposition design.