**9.3 Business Models**

**Reading material**

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| **The Business Model Canvas**  **C:\Users\cgoffard\Desktop\CG\DIU\ML4EO\Module 9\illustrations\2.4.png** |
| **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: Costumer, Relationship, Channels, Revenue Streams**  **C:\Users\cgoffard\Desktop\CG\DIU\ML4EO\Module 9\illustrations\2.4.png** |
| **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**    **C:\Users\cgoffard\Desktop\CG\DIU\ML4EO\Module 9\illustrations\2.4.png** |
| **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:   1. Their needs require and justify a distinct product offering. 2. They are reached through different distribution channels. 3. They require different types of relationships, ranging from personal to automated. 4. 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.  **s** |
| **Deepening the knowledge Value Propositions – Performance Features**  **C:\Users\cgoffard\Desktop\CG\DIU\ML4EO\Module 9\illustrations\2.4.png**  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**  C:\Users\cgoffard\Desktop\CG\DIU\ML4EO\Module 9\illustrations\2.5.png |
| **Deepening the knowledge on Value Propositions – UNIQUENESS**  **C:\Users\cgoffard\Desktop\CG\DIU\ML4EO\Module 9\illustrations\2.4.png**  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**  **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  **The advantage must be perceived by your customers.**  Example: Amina’s digital stickers are a product targeting localmarkets 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.  **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.   1. **Graphic 2.6** 2. **C:\Users\cgoffard\Desktop\CG\DIU\ML4EO\Module 9\illustrations\2.6.png** |
| **Small image of Graphic 2.4; Deepening the knowledge Channels**  **C:\Users\cgoffard\Desktop\CG\DIU\ML4EO\Module 9\illustrations\2.4.png**  D&D: The business interface with customers is comprised of three different kinds of channels. Please match the three options with the respective description:   |  |  | | --- | --- | | **Communication channels** | 1. - raise awareness among customers about a company’s products and services  advertisement 2. - digital marketing, word of mouth 3. - written: email, website, social media (WhatsApp, Facebook, etc.), handouts/flyers, posters, billboards, printed t-shirts etc. 4. - verbal: telephone, radio, local advertising, car/truck with live announcements, face-to-face interaction (e.g. at the stall, market etc.) | | **Distribution channels** | - way in which a product or service is delivered to the customers  - distributors, retail, franchises  - delivery to or pickup by the customers | | **Sales channels** | - place or platform that enables customers to purchase the product or service  - website/ecommerce, retail stores, wholesale, local/nearby (super)market, mobile stands etc. | |
| **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:   1. transaction revenues resulting from one-time customer payments; and / or 2. 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**  **C:\Users\cgoffard\Desktop\CG\DIU\ML4EO\Module 9\illustrations\2.4.png**  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**  C:\Users\cgoffard\Desktop\CG\DIU\ML4EO\Module 9\illustrations\2.7.png  We can distinguish between 4 different types of partnerships:   1. - Strategic alliances between non-competitors. 2. - Co-operation: strategic partnership between competitors. 3. - Joint ventures to develop new businesses / penetrate new markets. 4. - 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**  C:\Users\cgoffard\Desktop\CG\DIU\ML4EO\Module 9\illustrations\2.8.png |
| **Deepening the knowledge on Cost Structures - Production costs**  **C:\Users\cgoffard\Desktop\CG\DIU\ML4EO\Module 9\illustrations\2.4.png**  **A business has 2 types of costs:**   * 1. **1. PRODUCTION COSTS** are those costs that are directly linked to your production. Usually, these costs vary according to your volume of production.   2. **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.   3. Imagine you run a plantation for tomatoes. What are the production costs you can think of spontaneously?   4. **Write**: Take notes in this field. |
| * 1. **Answer/Summary PRODUCTION COSTS:**   2. - seedling costs   3. - costs to plant the seedlings   4. - irrigation costs   5. - costs to grow the plants   6. - costs to harvest the plants   7. - costs to package and present the products to your customers   8. - costs to transport the product to your customers |
| **Deepening the knowledge on Cost Structures – Fixed monthly overhead costs**  **C:\Users\cgoffard\Desktop\CG\DIU\ML4EO\Module 9\illustrations\2.4.png**   * 1. 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.   2. Can you think of any other fixed monthly overhead costs?   3. **Write**: Take notes in this field. |
| **Answer/Summary FIXED MONTHLY COSTS**   * 1. - wages   2. - your own salary   3. - maintenance of e.g., fencing   4. - mobile phone costs   5. - interest cost of loans that you need to repay   6. - 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   * 1. **D&D**: directly into the **graphic 2.10**   C:\Users\cgoffard\Desktop\CG\DIU\ML4EO\Module 9\illustrations\2.10-01.png  (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. |