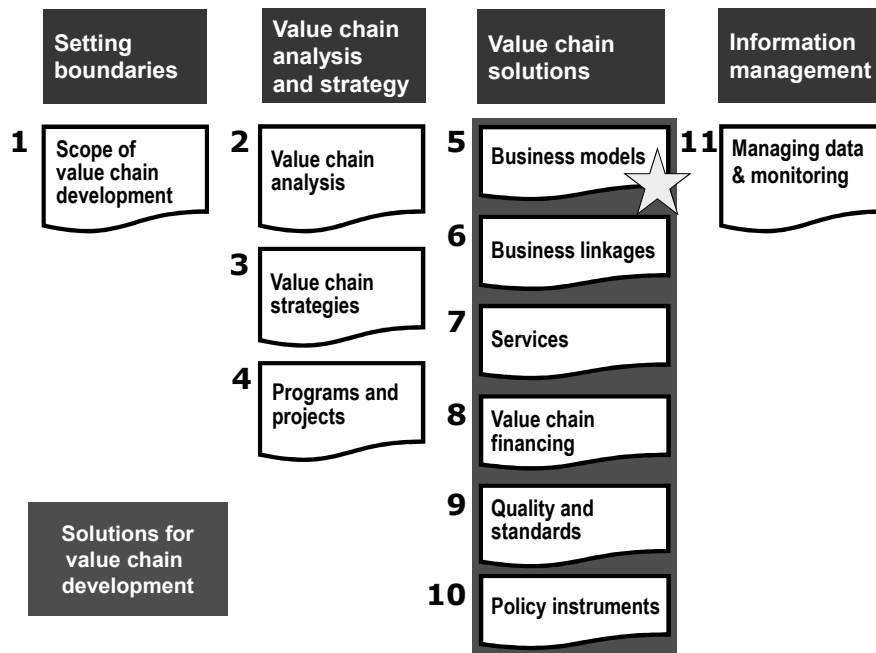




# ValueLinks Module 5 Business models

## Structure of ValueLinks 2.0





## Business models

### Contents

- 1 Business model canvas and financial analysis
- 2 Case example: Attiéké production in Burkina

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## The business model concept

### ***Business models and the value chain***

- Every enterprise has a business model, either implicitly or explicitly.
- The value chain as a whole can be divided into specific types of VC actors with similar business models.

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### ***Definition: A business model is...***

...a specific combination of product/markets, internal operations & technology, supply and marketing links that an enterprise uses to succeed and grow (“the rationale of how an individual firm creates, captures and delivers value”)

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### How can we use the business model approach?










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- Help improving existing business models, particularly for small and medium enterprises
- Generate new ideas, develop a business case for new business models to create jobs and market access
- Introduce technical innovations based on a holistic economic assessment
- Support the replication of improved business models
- Verify that solutions suggested for VC development (such as linkages, service provision, financing) are financially attractive
- Communicate the idea to financial partners to raise funds

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### The complete business model canvas format

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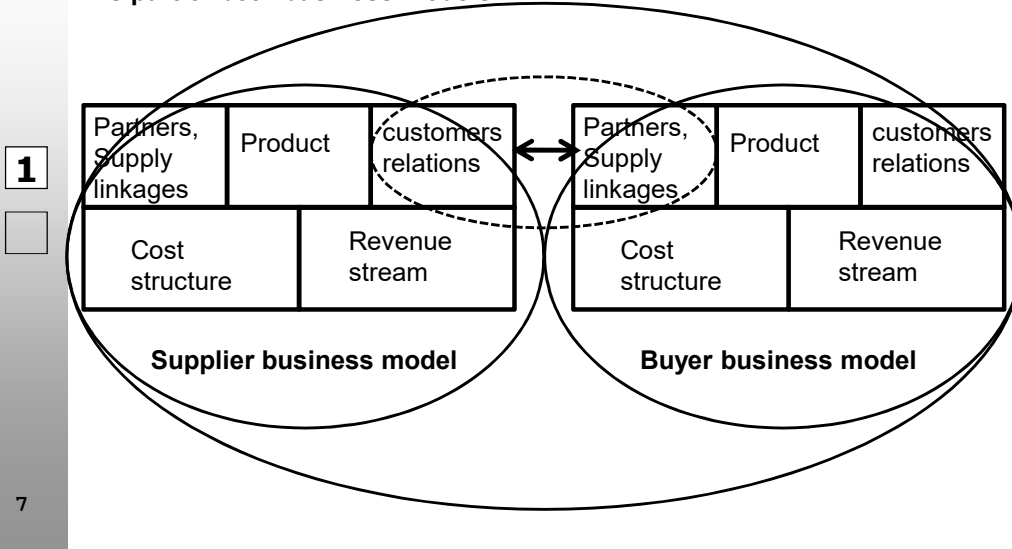
<p><b>Key Partners</b></p>  <p>Key partners? Key suppliers? Which key resources are we acquiring from partners? Which key activities do partners perform?</p>	<p><b>Key Activities</b></p>  <p>What key activities do value propositions, relationships, distribution channels, revenue streams require?</p>	<p><b>Value Propositions</b></p>  <p>What value do we deliver? Which of our customer's problems are we helping to solve? What bundles of products and services are offered? Which customer needs are we satisfying?</p>	<p><b>Customer Relationships</b></p>  <p>Types of relationships with each customer? Are they integrated with the business model? How costly are they?</p>	<p><b>Customer Segments</b></p>  <p>For whom are we creating value? Who are the most important customers?</p>
<p><b>Key Resources</b></p>  <p>What key resources do value propositions, relationships, distribution channels, revenue streams require?</p>		<p><b>Channels</b></p>  <p>Through which channels are customers reached? Are channels integrated? Which ones - work best? - are most cost-efficient?</p>		<p><b>Revenue Streams</b></p>  <p>For what value are customers willing to pay? For what do they currently pay? How much does each revenue stream contribute to overall revenues?</p>
<p><b>Cost Structure</b></p>  <p>What are the most important costs inherent in the business model? Which key resources are most expensive? Which key activities are most expensive?</p>				

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## Business models are connected by linkages

### *Connected business model*

In which the business linkage between a supplier and a buyer is part of both business models



## Criteria to evaluate the quality of a business model

### *Internal coherence of the business model canvas*

- Business model canvas is complete with realistic statements
- Elements of the canvas fit and support each other

### *Financial viability*

- Financial viability is key: Financial projections show that the business is likely to make money
- Financing of investments assured

### *Actual availability of business partners and services*

- Sufficient supplies of raw material, inputs and equipment and of services (training, maintenance) are available
- Buyers / clients can be named

***Social benefits***

- Poor entrepreneurs can use the business model
- Number of quality jobs created
- Fair employment conditions for workers

***Environmental benefits***

- Improved resource efficiency - water, energy and material inputs
- No additional emissions and waste generated

***Development benefits***

- Number of enterprises that can adopt the business model
- Multiplication effects: Role of the business model in the value chain for improving business opportunities for other companies, especially for micro and small enterprises

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***Three levels of business model analysis*****1. Level: Business model canvas**

- Business model analysis including some financial and technical parameters (technology, cost, prices, marketing) and main criteria to judge whether the business model may seem viable in general

1

**2. Level: Excel sheet**

- Detailed profitability analysis, break-even calculation
- Analysis of the most important parameters of the business model (e.g.: capacity utilization)

**3. Level: Full investment calculation**

- Can rarely be done externally by projects, responsibility of the entrepreneur himself

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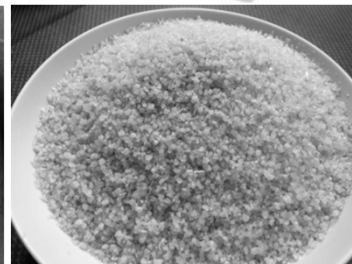
## Business models

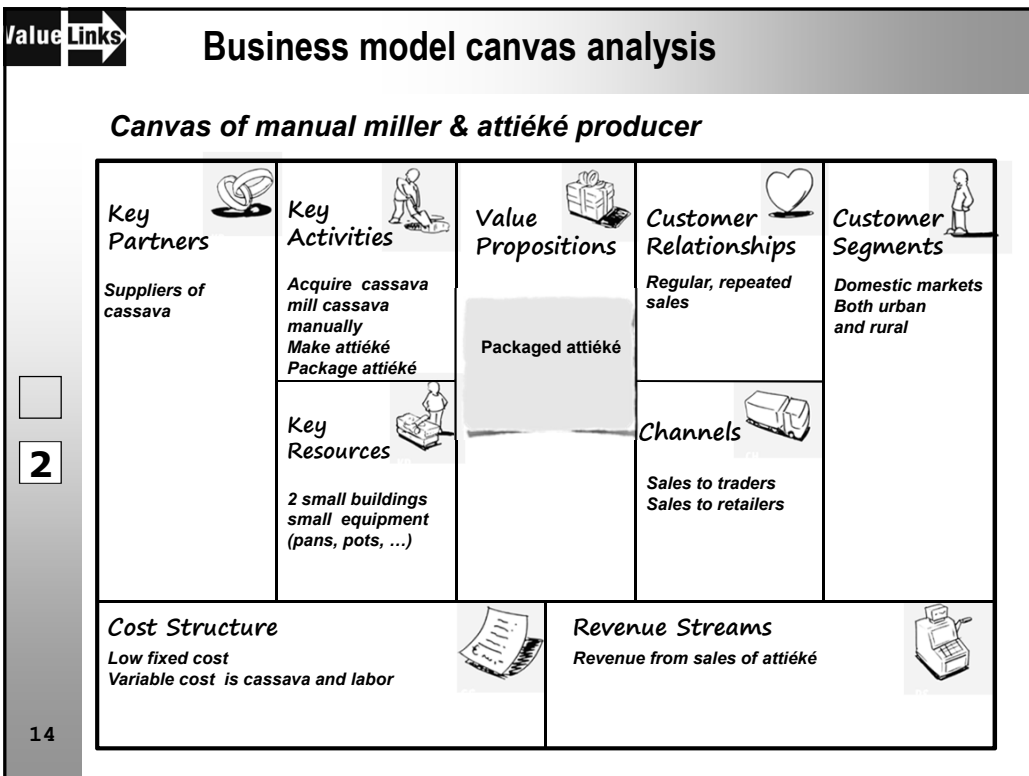
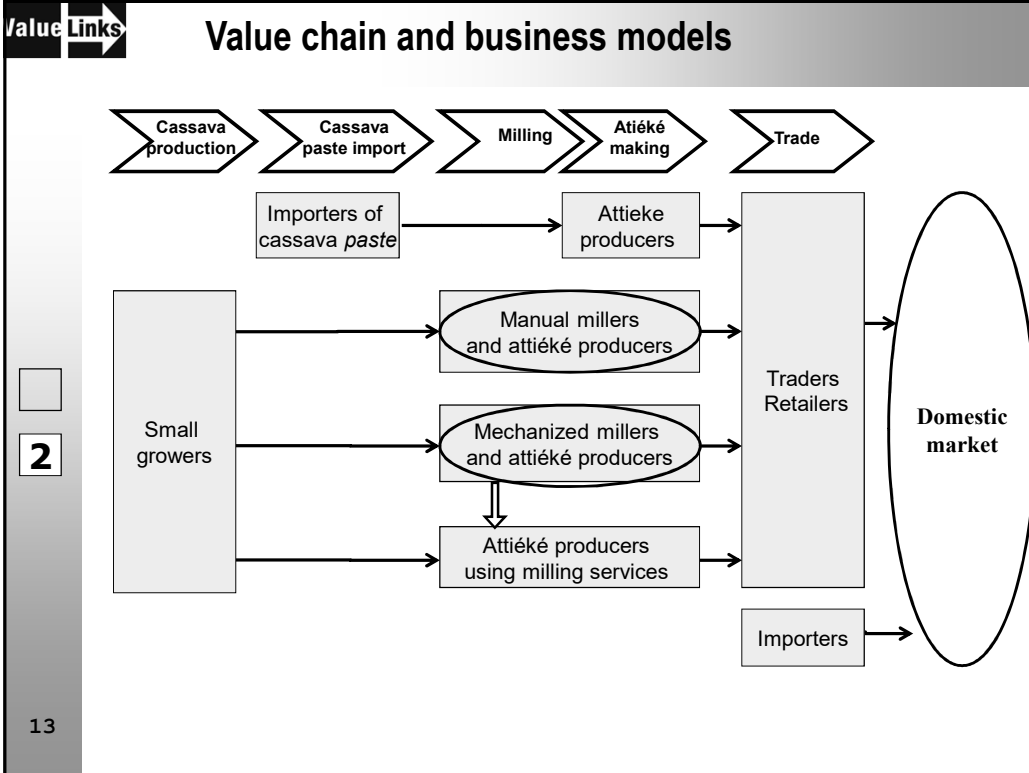
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## Milling cassava and making attiéké, Burkina

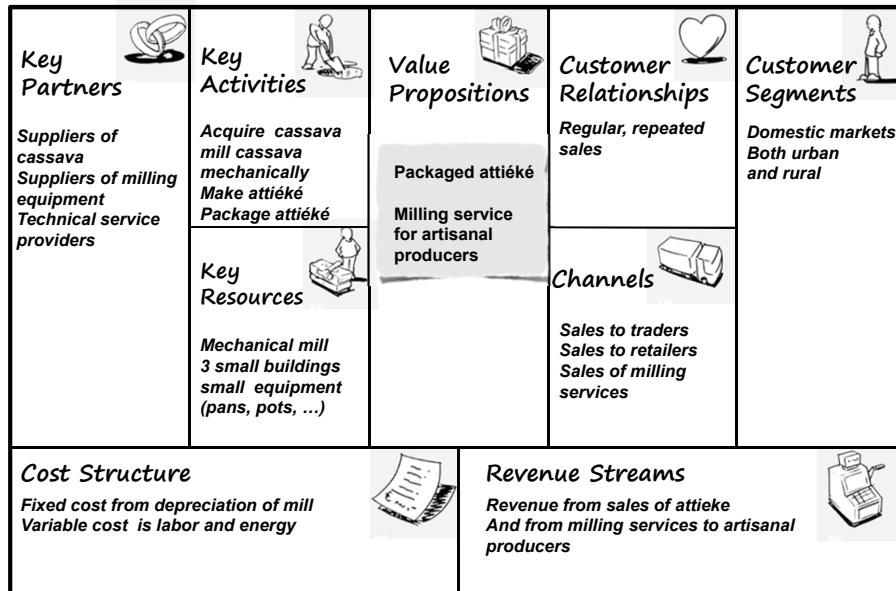
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## Business model canvas analysis

### Canvas of mechanized miller & attiéke producer



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## Comparison of business models

### Two attiéke business models – capital and employment

Parameter	Manual miller & attiéke producer	Mechanized miller & attiéke producer
Value proposition	Packaged attiéke	Packaged attiéke (plus milling service)
Key resources - Type of milling	Manual grinder	Electric mill
Daily milling capacity, cassava (t)	0,1 ton/ day / worker	1 ton / day (max 250 days)
Labor input for milling	5 workers @ 144 days	1 worker @ 144 days
Labor input for attiéke making	3 workers @ 120 days	4 workers @ 120 days
Annual attiéke production (tons)	36,0	48,0
Long-term capital – installations (€) 1 hut for storage @ 5 m <sup>2</sup> Cassava grinder, 3 huts @ 5 m <sup>2</sup>	1.500	7.500
Short-term capital – implements, bags raw material and input purchase (€)	300 18.000	500 24.000
Total capital / assets	19.800	32.000

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## Comparison of business models

### Two attiéké business models – cost and benefits

Parameter	Manual miller & attiéké producer	Mechanized miller & attiéké producer
Fixed cost (FC) per annum (€) Repair, depreciation (20%), renewal of implements, interest on investment (8%)	480	2350
Variable cost (VC) per ton (€) attiéké Raw material (Cassava) Labor, Energy, water, packaging, other inputs	510	490
Sales price for attiéké per ton (€)	550	550
Contribution margin per ton (sales price - VC)	40	60
Break-even point (in tons of attiéké)	12	39
Number of workers required for attiéké making to break even	1,0	3,5
Percentage of milling capacity used to break even	Milling capacity depends on number of workers	15,6% (39 tons of 250 tons)
Service fee per ton milled for others		15

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## Comparison of business models

### Two attiéké business models – profits per year

Parameter	Manual miller & attiéké producer	Mechanized miller & attiéké producer
Fixed cost (FC) per annum Repair, depreciation (20%), renewal of implements, interest on investment (8%)	480	2350
Total Variable cost (VC) per ton of attiéké	18360	23520
Total variable cost for service milling (96 tons)	0	192
Total cost	18840	26062
Total revenue for attiéké sales	19800	26400
Total revenue for service milling	0	1440
Total revenue	19800	27880
Profits per year	960	1818

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***What can we make of the attiéké biz model analysis?***

- The “mechanized milling” business model is an attractive solution for small-scale attiéké producers. It is more profitable than the other.
- Investment is in the order of 6000 €. The development step is feasible for small enterprises.
- While it reduces hard and unproductive labor, it creates jobs in other processes and supplying enterprises, as the capacity and volumes of production go up.
- Artisanal producers benefit from the possibility to use the milling services.
- The technology and business model are “open source” knowledge.
- The limitation is the end market demand. Once a region is served, it does not make sense to support additional investment.

**2**

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- Business model development and financial analysis are always prone to error. The decision to invest and the risk are taken over by entrepreneurs – not by analysts.
- Outsiders often do not have access to the requisite data. Unless enterprises and companies are interested in collaborating with development agencies and a trusting partnership is created, external agencies cannot go for supporting business models.
- Analysts should not spread business secrets that individual enterprises need to stay competitive.
- There are limits to replicating interesting business models because of limited market demand and decreasing product prices in end markets.

**2**

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