ValueLinks Module 5

Business models

ValueLinks 2.0

1. Setting boundaries
   - Scope of value chain development

2. Chain analysis and strategy
   - Value chain analysis
   - Value chain strategies
   - Programs and projects

3. VC upgrading solutions
   - Business models
   - Business linkages

4. Monitoring
   - Services
   - VC Financing
   - Quality and standards
   - Policy instruments

Solutions for improving the value chain
Business models

Contents

1 Business models for VC development
2 Improving small-scale farm and SME business models
3 Promoting and supporting entrepreneurship

The business model concept

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

Elements of a business model
- Product
- Costumers/markets
- Scale of production (capacity, volume)
- Type of enterprise (size, localisation, organisation, formal/informal)
- Technology
- Backward linkages to suppliers
- Marketing channels
**The business model concept (2)**

**Business models and the value chain**
- Every enterprise has a business model, either implicitly or explicitly.
- The value chain as a whole can be decomposed into business models of specific types of operators who follow a similar business model.

**Identifying business models**
- Identify a group of operators in the value chain map that shares a particular business model
- number of enterprises following that business model
- Specifics: Names of lead companies, location …

**Tools to analyse business models**

**The “business model canvas” (simplified)**

```
<table>
<thead>
<tr>
<th>Partners / suppliers</th>
<th>Product („value proposition“)</th>
<th>Distribution channel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value-creating activities and resources</td>
<td>Cost structure</td>
<td>Costumers Costumer relations</td>
</tr>
<tr>
<td></td>
<td>Revenue stream</td>
<td></td>
</tr>
</tbody>
</table>
```

Profit or Loss
### Describing a business model

#### The complete “business model canvas” form

<table>
<thead>
<tr>
<th>Key Partners</th>
<th>Key Activities</th>
<th>Value Propositions</th>
<th>Customer Relationships</th>
<th>Customer Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key partners?</td>
<td>Key activities do value propositions, relationships, distribution channels, revenue streams require?</td>
<td>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?</td>
<td>Types of relationships with each customer? Are they integrated with the business model? How costly are they?</td>
<td>For whom are we creating value? Who are the most important customers?</td>
</tr>
<tr>
<td>Key suppliers?</td>
<td>Which key activities do partners perform?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Which key resources are we acquiring from partners?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Which key activities do partners perform?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key Resources</th>
<th>Value Propositions</th>
<th>Customer Relationships</th>
<th>Customer Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>What key resources do value propositions, relationships, distribution channels, revenue streams require?</td>
<td>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?</td>
<td>Types of relationships with each customer? Are they integrated with the business model? How costly are they?</td>
<td>For whom are we creating value? Who are the most important customers?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost Structure</th>
<th>Revenue Streams</th>
</tr>
</thead>
<tbody>
<tr>
<td>What are the most important costs inherent in the business model? Which key resources are most expensive? Which key activities are most expensive?</td>
<td>For what value are customers willing to pay? For what do they currently pay? How much does each revenue stream contribute to overall revenues?</td>
</tr>
</tbody>
</table>

### Business models

#### Contents

1. Business models for VC development
2. Improving small-scale farm and SME business models
3. Promoting and supporting entrepreneurship
Attiéké value chain, Burkina

Locating business models of processors in the VC

Attiéké making business model

Business model canvas (simplified) of mechanized processors

<table>
<thead>
<tr>
<th>Partners</th>
<th>Products</th>
<th>Channel / costumers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment providers</td>
<td>(a) Attiéké</td>
<td>Attiéké traders</td>
</tr>
<tr>
<td>Collectors &amp; traders</td>
<td>(b) Milling service</td>
<td>Other attiéké makers</td>
</tr>
</tbody>
</table>

Cost structure
- raw material
- wages
- installations

Revenue stream
- Attiéké sales
- Income from milling service

Profit or Loss
Assessing small-scale business models

**Financial analysis**

For each of the business models retained, a financial analysis is required to make projections of the attainable income of enterprises and to calculate the investment and financing needs:

- Unit cost of production (current and at improved scale and technology)
- Investment requirements to move from current to the improved status
- Cash flow, payback period
- Estimated profit, income
- Risk

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**Business models**

**Manual versus mechanized cassava milling for attieke**

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Manual milling</th>
<th>Electric milling</th>
<th>Service milling</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value proposition</td>
<td>Packaged attieke</td>
<td>Packaged attieke</td>
<td>Milling service</td>
</tr>
<tr>
<td>Key resources - Type of milling</td>
<td>Manual grinder</td>
<td>Electric mill</td>
<td>Electric mill</td>
</tr>
<tr>
<td>Key partners</td>
<td>Neighbors</td>
<td>Large farmers</td>
<td>Clients</td>
</tr>
<tr>
<td>Channels and end markets</td>
<td>Wholesale traders</td>
<td>Wholesale traders</td>
<td>Attieke makers</td>
</tr>
<tr>
<td>Daily milling capacity, cassava (t)</td>
<td>100 kg/day/person</td>
<td>1 ton / day</td>
<td>1 ton / day</td>
</tr>
<tr>
<td>Number of workers (for 6 months)</td>
<td>7.5</td>
<td>4.6</td>
<td>(2,4 at clients)</td>
</tr>
<tr>
<td>Annual milling, cassava (t)</td>
<td>90 t</td>
<td>130 t</td>
<td>86 t, service</td>
</tr>
<tr>
<td>Likely capacity utilization</td>
<td>100%</td>
<td>60%</td>
<td>40% for clients</td>
</tr>
<tr>
<td>Long-term capital – installations (€)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 hut for storage @ 5 m²</td>
<td>1.500</td>
<td>7.500</td>
<td>7.500</td>
</tr>
<tr>
<td>Cassava grinder, 3 huts @ 5 m²</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term capital – implements raw material and input purchase (€) (for 6 months)</td>
<td>300 21.000</td>
<td>400 26.000</td>
<td>200 0</td>
</tr>
</tbody>
</table>
Assessing small-scale business models

Significance for VC development & social benefits

Can the business model be replicated? Does it provide services or products that can become a basis for developing other business models?

- Position of the business model in the value chain - upstream and downstream business linkages
- Number of enterprises that can adopt the business model
- Potential subsequent innovations (business partners, service providers)

Assessment of the likely social benefits

- Income of poor self-employed entrepreneurs
- Jobs created
- Economic opportunities created for (other) small-scale entrepreneurs
- Availability of cheap food

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Financial analysis

**Manual versus mechanized cassava milling for attieke**

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Manual milling</th>
<th>Electric milling</th>
<th>Service milling</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capacity utilization (%)</td>
<td>100%</td>
<td>60%</td>
<td>40%</td>
</tr>
<tr>
<td>Volume of cassava processed (t)</td>
<td>90 t</td>
<td>130 t</td>
<td>86 t</td>
</tr>
<tr>
<td>Volume of attieke obtained</td>
<td>45 t</td>
<td>65 t</td>
<td>(none)</td>
</tr>
<tr>
<td>Fixed cost (FC) per annum (€)</td>
<td>525</td>
<td>980</td>
<td>(40% of FC)</td>
</tr>
<tr>
<td>Repair, depreciation, renewal of implements</td>
<td>120</td>
<td>600</td>
<td></td>
</tr>
<tr>
<td>Interest on investment (8%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variable cost (VC) per ton (€)</td>
<td>18,000</td>
<td>26,000</td>
<td>0</td>
</tr>
<tr>
<td>Raw material (Cassava)</td>
<td>2,000</td>
<td>1,200</td>
<td>0</td>
</tr>
<tr>
<td>Labor</td>
<td>1,800</td>
<td>2,700</td>
<td>1.300</td>
</tr>
<tr>
<td>Energy, water, packaging, other inputs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average unit cost per ton of attieke (€)</td>
<td>357</td>
<td>346</td>
<td>13 per t milling</td>
</tr>
<tr>
<td>Volume of attieke sold (t)</td>
<td>45 t</td>
<td>65 t</td>
<td>(86 t cassava milled)</td>
</tr>
<tr>
<td>Sales price per ton (€)</td>
<td>500</td>
<td>500</td>
<td>Milling fee = 15</td>
</tr>
<tr>
<td>Total Revenue (€)</td>
<td>31,500</td>
<td>45,360</td>
<td>1.300</td>
</tr>
<tr>
<td>Total Cost (€)</td>
<td>22,470</td>
<td>30,320</td>
<td>1.080</td>
</tr>
<tr>
<td>Profit (€)</td>
<td>9,030</td>
<td>15,040</td>
<td>220</td>
</tr>
</tbody>
</table>
Business models

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1. Business models for VC development
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Becoming a better entrepreneur

Strategies developing improved business models

- “Firm-level upgrading”: Upgrading an existing business model making it more profitable for enterprises and improving its economic viability
- Supporting start-ups: Creation of new types of (SME) business models
- Generating and promoting new business ideas
- Preparation of business plans
Promoting/supporting entrepreneurship

**Generic instruments for business skills training**
- ILO: “Start and Improve your business” (SIYB)
- “Competency based economies & formation of enterprise” - CEFE
- UNCTAD: Empretec program

**Sector-specific “agripreneurship” training**
- FBS - Farmer business school (value chain specific)

**Promotion of business start-ups**
- Business incubation / SME counselling / Assistance services

**Financial incentives**
- Business plan competitions
- Grants, venture capital and fiscal incentives
- Public co-investment

Summary: Main lessons to remember

- “Module 5 is the first in the series of modules 5-10 that present the choice of VC solutions to be implemented in VCD programs.
- Business model solutions are the key to VC development because improved profitability of operators is a precondition for the VCD strategy to be effective.
- For one, developing the VC implies improving the business models of the VC operators. Improved business models are key solutions in any VCD strategy.
- Second, business model analysis is used to assess the economic viability of VC solutions addressing environmental and social issues.
- Two main instruments are available – the business model canvas, a qualitative tool, and the quantitative financial analysis of business models. The instruments complement each other.
- An improved business model does not only increase profits, it also provides answers to critical factors such as raw material supply and sales channels, clarifies the capital needs and determines the repayment ability. Here is a connection to module 8 – VC finance.