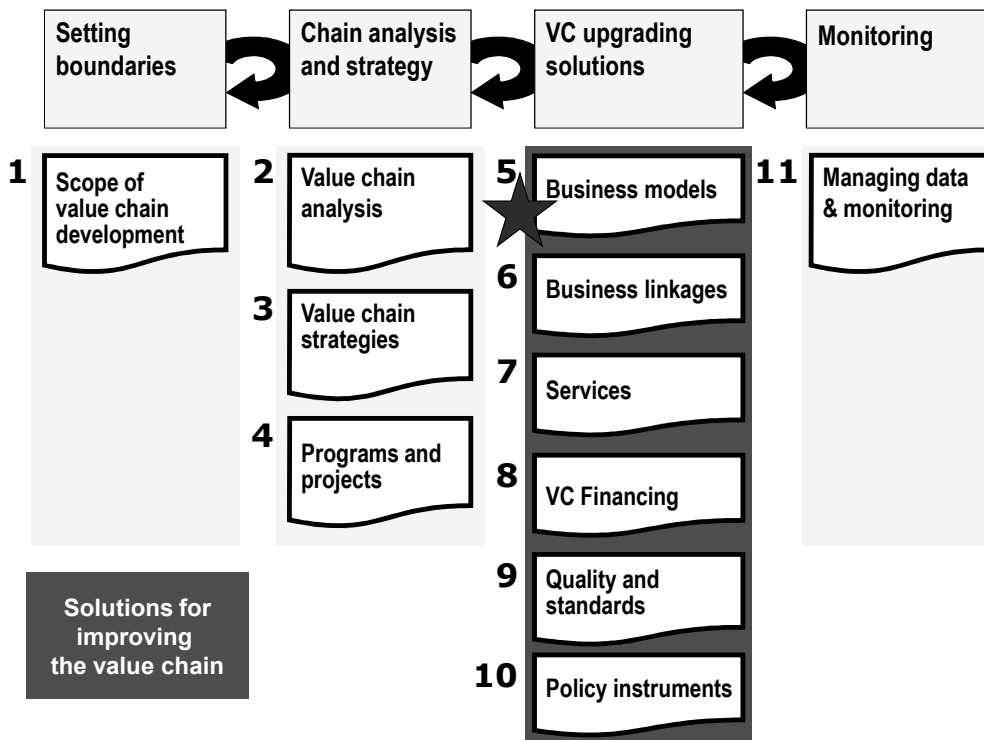
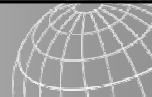




ValueLinks Module 5 Business models

ValueLinks 2.0

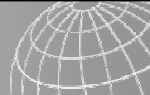




Business models

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- 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 rationale of how an individual firm creates, captures and delivers value”)

Elements of a business model

- 1**
 -
 -
- Product
 - Customers/markets
 - Scale of production (capacity, volume)
 - Type of enterprise (size, localisation, organisation, formal/informal)
 - Technology
 - Backward linkages to suppliers
 - Marketing channels



Business models and the value chain

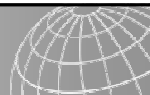
- Every enterprise has a business model, either implicitly or explicitly.
- The value chain as a whole can be decomposed into business models of specific types of operators who follow a similar business model.

1

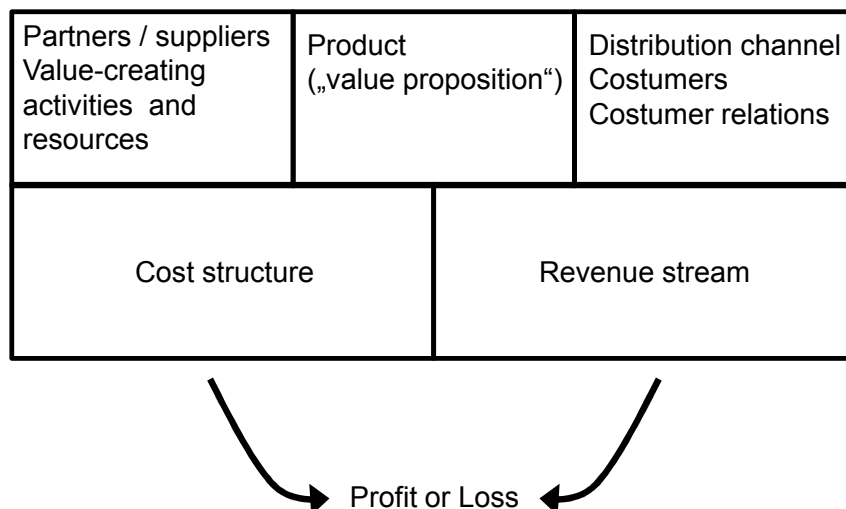
Identifying business models

- 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 ...

5



The “business model canvas” (simplified)



1

6

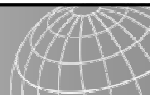


The complete “business model canvas” form

1

<p>Key Partners</p> <p>Key partners? Key suppliers? Which key resources are we acquiring from partners? Which key activities do partners perform?</p>	<p>Key Activities</p> <p>What key activities do value propositions, relationships, distribution channels, revenue streams require?</p>	<p>Value Propositions</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>Customer Relationships</p> <p>Types of relationships with each customer? Are they integrated with the business model? How costly are they?</p>	<p>Customer Segments</p> <p>For whom are we creating value? Who are the most important customers?</p>
	<p>Key Resources</p> <p>What key resources do value propositions, relationships, distribution channels, revenue streams require?</p>		<p>Channels</p> <p>Through which channels are customers reached? Are channels integrated? Which ones - work best? - are most cost-efficient?</p>	
<p>Cost Structure</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>		<p>Revenue Streams</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>		

7



Business models

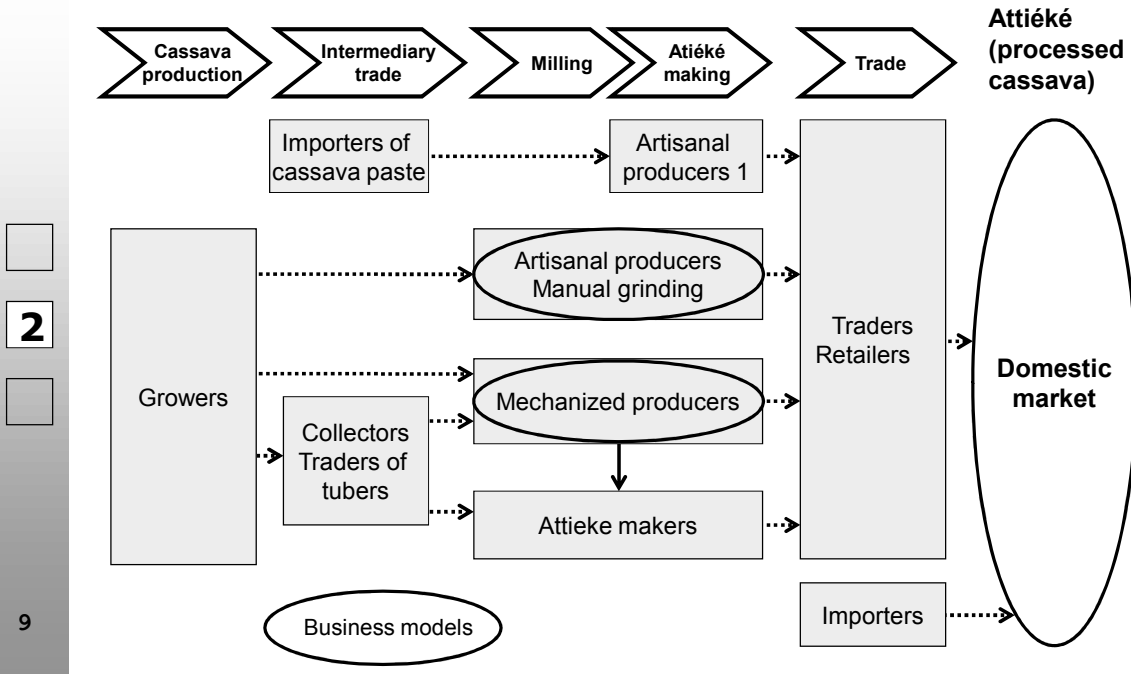
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Attiéké value chain, Burkina

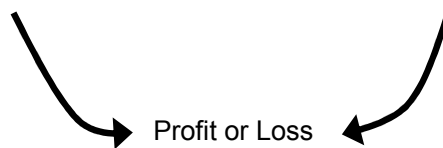
Locating business models of processors in the VC

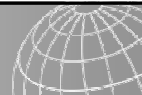


Attiéké making business model

Business model canvas (simplified) of mechanized processors

Partners Equipment providers Collectors & traders	Products (a) Attiéké (b) Milling service	Channel / costumers Attiéké traders Other attiéké makers
Cost structure - raw material - wages - installations		Revenue stream - Attiéké sales - Income from milling service





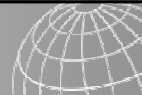
Financial analysis

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



2



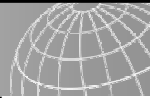
Manual versus mechanized cassava milling for attieke

Parameter	Manual milling	Electric milling	Service milling
Value proposition	Packaged attieke	Packaged attieke	Milling service
Key resources - Type of milling	Manual grinder	Electric mill	Electric mill
Key partners	Neighbors	Large farmers	Clients
Channels and end markets	Wholesale traders	Wholesale traders	Attieke makers
Daily milling capacity, cassava (t)	100 kg/day/person	1 ton / day	1 ton / day
Number of workers (for 6 months)	7,5	4,6	(2,4 at clients)
Annual milling, cassava (t)	90 t	130 t	86 t, service
Likely capacity utilization	100%	60%	40% for clients
Long-term capital – installations (€) 1 hut for storage @ 5 m ² Cassava grinder, 3 huts @ 5 m ²	1.500	7.500	7.500
Short-term capital – implements raw material and input purchase (€) (for 6 months)	300 21.000	400 26.000	200 0



2





Manual versus mechanized cassava milling for attieke

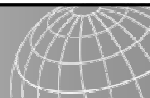
Parameter	Manual milling	Electric milling	Service milling
Capacity utilization (%)	100%	60%	40%
Volume of cassava processed (t)	90 t	130 t	86 t
Volume of attieke obtained	45 t	65 t	(none)
Fixed cost (FC) per annum (€)			
Repair, depreciation, renewal of implements	525	980	(40% of FC)
Interest on investment (8%)	120	600	
Variable cost (VC) per ton (€)			
Raw material (Cassava)	18.000	26.000	0
Labor	2.000	1.200	0
Energy, water, packaging, other inputs	1.800	2.700	1.300
Average unit cost per ton of attieke (€)	357	346	13 per t milling
Volume of attieke sold (t)	45 t	65 t	(86 t cassava milled)
Sales price per ton (€)	500	500	Milling fee = 15
Total Revenue (€)	31.500	45.360	1.300
Total Cost (€)	22.470	30.320	1.080
Profit (€)	9.030	15.040	220



2



13



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)



2



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

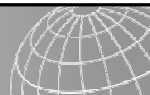
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Business models

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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
- 3** ▪ 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 tools, 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.