BUSINESS MODEL

A TOOL FOR DESCRIBING FORESTRY SERVICE COMPANIES

EUROPEAN UNION

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Diversification through Inclusion and Specialisation

THE GUIDEBOOKS IN THIS SERIES:

All guidebooks are produced as a joint effort of the Prosperous Forest – partnership. The main authors of each guidebook are listed below:

WHAT IS A SERVICE?
Elias Andersson, SLU

RELATIONSHIP AND TRUST
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FOREST OWNERS' DECISION-MAKING
Anne Matilainen, UH Ruralia

ORDERING COMPETENCY
Paulina Enoksson, Swedish Forest Agency

INCLUSIVE SERVICE DEVELOPMENT
(Only in Swedish and Finnish)
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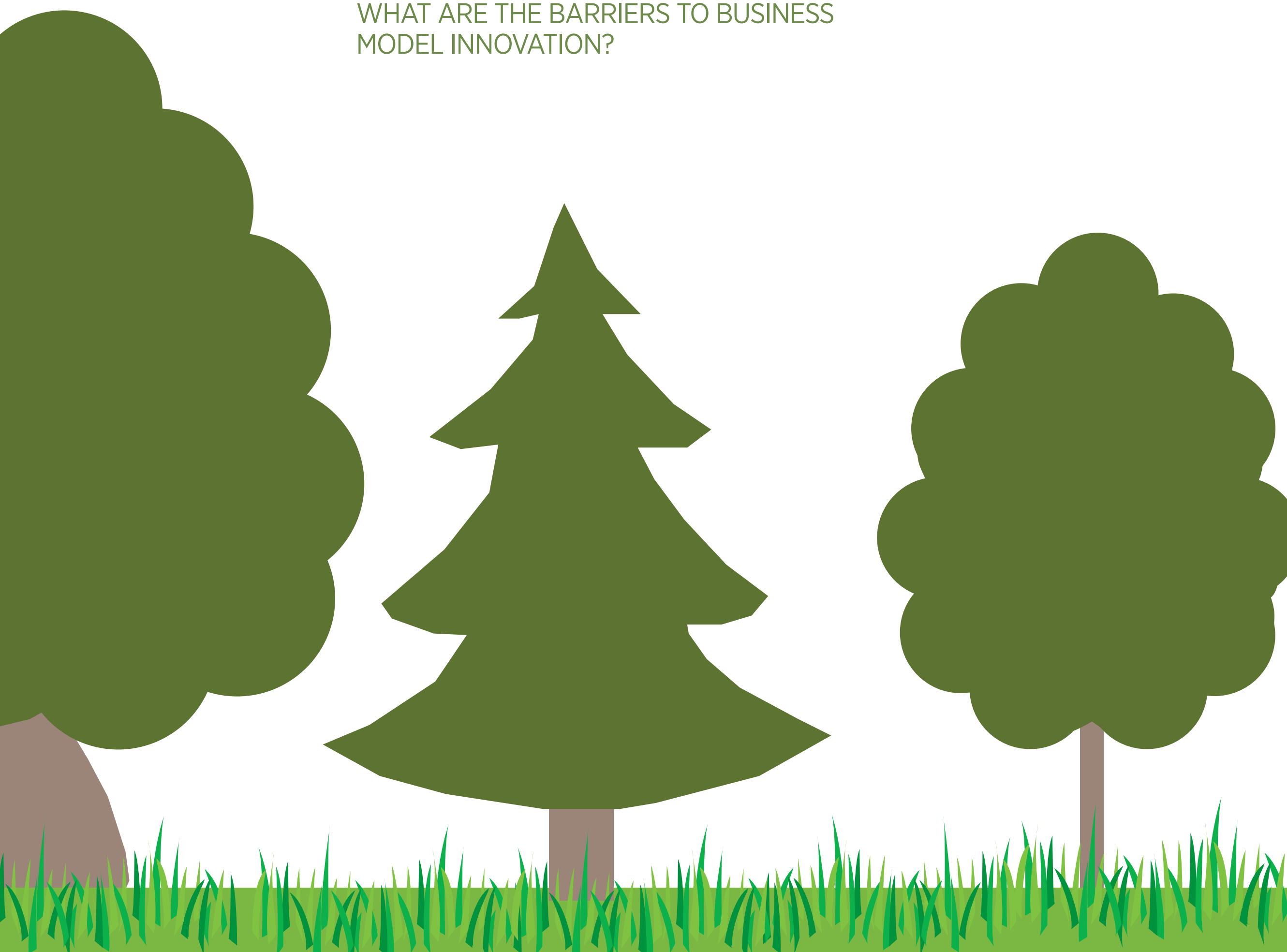

What is a business model?

"A successful business model is key for every company's long-term profitability and survival."

Over the last two decades, the term "business model" has become increasingly popular to use when describing what companies do and how they work. This trend is closely related to the development of the internet and increasing online activity, which has forced businesses to re-think how they operate and interact with customers and suppliers. Indeed, this development has not been restricted to any single industry or branch but has affected all types of businesses. A successful business model is key for every company's long-term profitability and survival, and there are many examples of companies that have disappeared from the market after failing to adapt their business model quickly enough to changing market conditions. A business model can be understood as a plan for ensuring that the business, and its different parts, adapts and pulls towards the same goal and has the same focus. This applies to both service-oriented firms and manufacturers of physical goods. In recent years, the forestry sector, both forest owners' associations and forest companies, has worked hard to renew their business models to meet the changing needs and expectations from customers, forest owners and the society at large. However, many forest service organisations still find it difficult to understand the changing needs of their customers and some have been reluctant to change their current way of thinking. As such, they miss opportunities to serve certain segments of forest owners.

So what is a business model? Since the concept of business models is still relatively new, there are many different views about what a business model really is and how it should be defined. However, they often include a few general components. First, a business model explains what products or services the company offers and what value they offer to customers using these products or services. A business model needs to define the intended customers and the targeted market segments. It also needs to be clear how and with which resources the products or services will be produced, marketed and distributed to customers. Finally, the business model needs to define the cost and revenue structures of the company's activities. In other words, will the business be profitable and what is needed to achieve profitability? So a business model not only explains what companies do but also how they do it. Additionally, the focus of a business model is at the company level rather than on detailed descriptions of single products or business units.

How can you describe your business model?

One of the most commonly used tools for describing business models is the Business Model Canvas (BMC), developed by Alexander Osterwalder and Yves Pigneur. As shown in Figure 1, it consists of nine components. Central is the value proposition that the company offers to customers through its products and services. To the left, you find key activities, resources and partners that are involved in the production of these goods or services, and to the right you have the customers and the channels and customer relationships through which the goods and services are delivered to them. Finally, all these activities generate costs and revenues, which are depicted in the bottom of the BMC. Mapping these key elements of the company's business can provide a good overview and understanding of the interconnections between different parts of the business.

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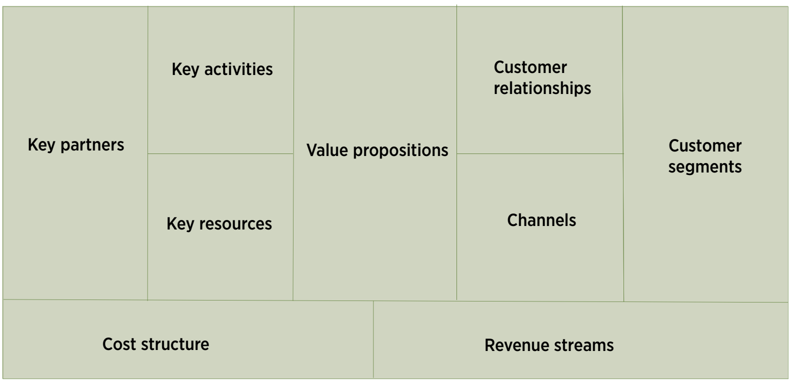

Figure 1. Business Model Canvas

Value proposition: Value can be defined as the benefits customers receive from the goods or services minus the costs (time, money, resources, etc.) related to their consumption. Thus, since value is ultimately defined by the customer when consuming the product or service, the company cannot define the value. It can only make a value proposition. Success in this area requires knowledge on costumer's/forest owner's motivations and needs. It is also important to note that customers in most cases will be co-producers of value, e.g. through their interaction with company staff. This is particularly evident for service offers, as these are often produced and consumed at the same time.

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Key activities: Processes related to the production, marketing and delivery of goods and services that are vital in order to generate revenues to the company. Thus, in a forest company this may include a broad variety of activities, such as forest planning and management, wood harvesting and transportation, production of goods at sawmills or pulp mills, as well as sales activities targeted towards the buyers of forest based goods and services.

Key resources: Physical (e.g., forest machines, sawmills and buildings), intellectual (e.g., patents and knowledge), human (e.g., forest machine operators, forest planners, managers and other staff) and financial resources that are vital to the business operations.

Key partners: External organisations that are vital to the business operations, e.g., suppliers and sub-contractors. For a forest company, this can include forestry contractors, forestry consultants, forest certification organisations, worker unions and other stakeholders.

Channels: Includes websites, physical stores, sales agents and other form of channels that are used for marketing and delivery of the offered services and goods to the customer. This can also include forestry fairs, forest excursions and other types of events targeted to a specific customer group.

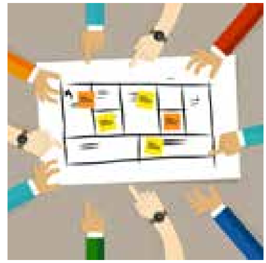
Customer relationships: Companies can apply different levels of standardisation in their interaction with customers, depending on the nature of the product or service. Normally, customers with more complex problems and needs will require more personal interaction. However, as customers are co-producers of services, relationships are important in, e.g., value propositions, quality assessments and business retention.

Customers: Identifying who the targeted customers are is crucial as it affects what type of channels and relationships are need to reach them with the value proposition. Knowing who the company's customers are is also important when deciding on what type of revenue models to apply, as the ability and willingness to pay for the product or service may differ between groups.

Costs: Depicts the company's cost structure. For example, a company with all production in-house may have a higher share of fixed costs than a company that outsources much of its production and thereby have more variable costs. The choice of channels and customer relationships will also lead to different types of costs.

Revenues: Describes how the company turns the created value into revenues. This can be done through various sales and pricing models, such as fixed list prices (i.e., all customers pay the same price) or dynamic prices set through auctions or personal negotiations with each customer.

Why should you describe your business model?



Describing your business model can serve several purposes. First, since business models can be complex, it is important that you can make it understandable for both internal stakeholders, such as your employees, and external stakeholders, like partners, investors, banks, customers and authorities. One way to simplify and help understanding what it includes is to present the business model graphically, for example by using the BMC. By creating a visual representation of the business model, the interconnections between products, processes and resources can become more apparent. Second, once you have defined your business model, it becomes easier to analyse it and note how it evolves over time. For this, you can use key performance indicators related to the specific components of the business model. These can be quantitative or qualitative in nature and can focus on such aspects as the firm's finances, customer relationships or the internal work environment. This also allows you to compare and benchmark your business model with those used by your competitors or other businesses in related industries. Finally, a clear picture of your current business model can be useful when revising the model and the company's structure and finding new ways of working.

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How to improve and innovate your business model?

Innovation is about introducing new ideas in the form of products, services or processes that offer a better and more effective solution to an identified problem or existing market demand. An innovation is both a process and the outcome of that innovation process (i.e., the end-product). Innovating your business model allows you to create more value and higher profitability. This is because it is harder for competitors to copy an entire business model than just introducing new products or processes. This type of innovation can also require less capital investments. So how can business model innovation be achieved? Four potential sources of value creation and key aspects of business model innovation are presented below:

Novelty: To achieve novelty in its business models, a company can introduce new products or services, or it can change how it produces, markets or distributes its goods or services. These innovations can either be completely new to the market or only new to the company, depending on the level of innovation.

Lock-in: Increasing the customer's cost of switching creates stronger incentives to continue buying the company's products or services. For example, loyalty programmes or dominant technical solutions can encourage the customer to stay with the same service provider. Access to a large number of customers through the company's existing networks can also create lock-in effects.

Complementarities: Are there products or services that can be combined into a package to provide the customer with higher value than if the same products are bought and consumed separately? These products or services can either be produced by the same company or by several partner companies. The greater value for the customer could be in the form of saving time by buying everything at the same time or one product enhancing the experience of the other (e.g., food and wine or consultation service that outlines the benefits of thinning a forest).

Efficiency: How can the company reduce costs? For example, by simplifying and streamlining production and distribution chains and thus lowering the cost of each transaction. When a company's business grows, it can also benefit from economies of scale, such as stronger ability to negotiate purchase prices with suppliers and/or a lower cost per produced unit, since fixed costs for machines and infrastructure will be spread over a larger production outputs.

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The BMC can be used as a tool to experiment with different business model designs before testing them in the real world. It is important to keep in mind that changes in one of the BMC components often require changes in other components.

What are the barriers to business model innovation?

When you are about to innovate and renew your business model, it is important to be aware of potential barriers and limitations that can arise. A start-up company has the benefit of lacking existing company structures, machines and personnel, which gives it more flexibility when choosing its future direction. A mature company, however, will have machines, employees and other resources that may take longer time to adapt to a new business model. Often, it will also be more costly, since employees can require training on new methods or technologies, and machines can need to be replaced earlier than planned. Changes in a business model can also face resistance from employees that experience the changes as a threat to their current jobs. A new business model can also be met with doubt from customers that have certain expectations about how business is traditionally done in a specific sector. For owners and managers who have a high personal investment in and commitment to the company, it can also be difficult to question an existing business model that they may have developed and worked with for a long time. By being aware of these potential barriers, it can be easier to foresee them and mitigate them in time. It is also important to nurture a company culture that allows managers and employees to critically assess the existing business model and suggest new ideas. Finally, it is also important that owners and managers believe in their own ideas and are motivated to implement and explore these.

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In the birch sap pilot, the entrepreneur intended to sell the final product with the help of the same owners who provided the birch sap. As such, these forest owners would be included both in the partner box (as suppliers) and in the channels and customer relationship boxes.

What is the value proposition when selling a birch sap product? Is it the nutrition? Is it health benefits from its minerals? Or is it the experience of Nordic nature? The value consumer can be defined as the experienced benefit minus the cost for the service or product consumed. A product or service that provides a greater value compared to other similar products may offer the company a competitive advantage.

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