

BUSINESS MODEL GUIDELINE

Instruction Guidelines for Business Model Guideline

August 2019

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ABOUT THE PROJECT

Business intermediaries, owner-managers and universities jointly develop and apply innovative tools and methods for business counselling that respond to the specific needs of owner-managers of small and medium sized enterprises (SMEs). Owner-managers of SMEs tend to be driven by different considerations than SMEs run by employed managers, for example, their own family's well-being, the employees' situations and lack of time for developing their own managerial skills.

INTERMEDIARIES STRUGGLE WHEN COUNSELLING SME OWNER-MANAGERS

Despite of a wide range of professional tools, a majority of business intermediaries experience complex challenges and insufficiency when counselling SME owner-mangers. The majority of their existing tools are for companies with externally recruited and educated management with a rational attitude. Owner-managers are driven by more complex and subjective considerations as for example long-term interest, the local society, employees and relations. The project provides the intermediaries with new tools to improve the dialogue to be more personalized and based on trust. These tools provide that owner managers' attitudes and expectations are taken into account and give the companies tailored solutions that support their development and growth.

TARGETING OWNER-MANAGED MANUFACTURING SMEs

A large number of European SME's are owner-managed and they represent sectors with huge potential for innovation, growth and increased employment. The project includes representatives of such owner managed SMEs in Germany, Poland, Lithuania, Finland and Denmark. Through a co-creation process with non-profit intermediary organizations and universities of applied science the project develops tools and methods for business intermediaries that respond to the challenges the owner-managed SME's faces. Overall, the objective of the project is to establish good and valuable communication between owner-managed SME's and business intermediaries across the Baltic Sea region.

INTERMEDIARY ADDED VALUE

The ability to create and extract value is crucial for an intermediary organization. An intermediary, who is not able to create value for its connected partners as well as for itself, will hardly survive in the long run. There is no issue whether an intermediary should be competing on client value transmission, but rather in what ways and how can the value be delivered. Majority of methodologies, written or verbal, have been aimed at solving universal client issues and disputes, but for a long time a demand for ability to make these tools more actualized and cut for deeper intermediary-client interactions and long-term cooperation. Effectively the tools presented here address this exact demand and will help intermediaries to better understand and consult owner-managed SME's going for non-technological innovations.

The proposed counselling tools within the project can facilitate business intermediaries effectively integrate into the value-chains of owner-managed SMEs, bringing a more natural and personalized approach and thus helping build long-term and value-based relationships. These tools are aimed at creation of long-term vision and strategies, putting forth the SME's societal, employee relation and other long-term interests, which in the long run encourages a more open-ended, idea and value driven dialogues. Intermediaries are able to create added value for themselves by implementing these tools strategically into

their counselling sessions and in a way systemizing their approach to SME owner-manager long-term relations and even one-off consultative meetings. These meetings or sessions always vary depending on the SME, problem complexity and uniqueness. Depending on different counsellors and their lifetime experiences these sessions can be mapped out in disparate ways: some counsellors use protocols with clear guidelines for what comes first, second and so on. Others have less structure and the session unfolds more through the client's story. But overall the overarching structure of getting to know the client still remains the same - at one point or the other tools are adopted in order for the counsellors to create so called backlogs of their sessions and meetings. This helps the intermediary business to contrast and compare meetings, results and overall satisfaction. It is also used for building of novice practices that are attached to different fields of consultations and varieties of SME industries. The approach of intertwining these tools aids for summarizing of the sessions, planning the next and tracking targeted changes and value delivered to the client.

One of the best ways to deliver value for a client, is to challenge its established thinking and norms: to ask difficult questions, interrogate all of the information presented, encourage to consider alternatives and take steps to improve. The tools set out in within this project address all of the challenges mentioned with a systemized methodology that is easily transferred from one counsellor to the other.

The same could be said when thinking from the client's perspective - as the owner-managed SMEs can start tracking the effectiveness, monetary and non-monetary added value gained from the intermediary and its participation in their value-chain. The tools within this project are versatile from the view-point that they can be applied to any given context and any value context that the client is thinking of. Be it time, long-term or short-term, resourcing, environment or other constraints.

THE BUSINESS MODEL CANVAS BY SNOWMAN

BUSINESS MODEL

Today countless innovative business models are emerging. Entirely new industries are forming as old ones crumble. Upstarts are challenging the old guard, some of whom are struggling feverishly to reinvent themselves. It is of high importance for organizations and companies to take this into account. According to Osterwalder and Pigneur, a business model describes the rationale of how an organization creates, delivers, and captures value.

Business models should be revised and refined over time as an organization's activities, capacity, and reputation develop, and the local funding environment evolves. Despite its importance, there is no one prescribed format to develop a business model and the process can often be overwhelming for staff. In this short brief, we introduce the Business Model Canvas, one tool to facilitate a participatory, rapid design process for business models.

The guideline's main target group is managing staff in intermediary organizations, responsible for strategic organizational change related to counselling operations. The guideline is set to provide instructive knowledge in how the intermediary organization can create sustainable and systemic plans for implementing and operating the new counselling tools provided within the SNOWMAN project: Spider Web Tool and the 6-step Process for Non-technological Innovation.

In order to reach the desired outcome a specific Business Model Canvas tool shall be applied for guidance. The guidelines shall be used by intermediaries in order to intertwine the Snowman tools into their corporate strategies, values and action plans.

Notably, business models are simplifications of real systems that are used for explaining performance and competitive advantage or for rethinking and redesigning an organization's strategy in order to benefit from innovations and other opportunities. Moreover, business models are used to articulate, challenge, transfer and recombine tacit knowledge underlying implicit cognitive schemas and heuristics.

OSTERWALDER & PIGNEUR CANVAS

The purpose of this tool is to suggest solutions to how the business support system as corporate entities can calibrate the counselling tools to their portfolio as a process of organizational changes. The guideline's main target group is managing staff in intermediary organizations, responsible for strategic organizational change related to counselling operations. The output will be designed as an instructive guide of app. 10 pages including procedures in how the organization can create sustainable and systemic plans for implementing and operating the new counselling tools.

A customer of the Business Model Guideline is an intermediary manager who can use this tool for integration of new practices. First of all, the intermediary should self-evaluate its current value proposition, creation and capture when counselling SMEs on non-technological innovation. Through his experience of understanding the functioning of the tool, he will be able to advise his clients to generate added value for

himself. This interview should be the first step in advising clients, and other consultancy instruments could be included if needed.

The Business Model Canvas (see Figure 1) was originally developed by Alexander Osterwalder and Yves Pigneur, business theorists, to simplify the process of developing and updating business models. Effective business models should work as a blueprint for a strategy to be implemented through organizational structures, processes, and systems. The Business Model Canvas consolidates a traditionally lengthy business model into a one-page synthesis. The design of the canvas enables the user to view all parts on one page and see how they interact. The canvas is practiced successfully in multiple organizations throughout the world by companies including 3M, IBM, Deloitte, Ericsson, non-profit global organizations in the third world countries and Government Services of Countries like Canada.

The guide takes it's outpoint in the nine steps or basic building blocks in the Osterwalder and Pigneurs Business Model Canvas, and applies them to the counselling tools as service-oriented products. The nine building blocks are as follows: Key Partners, Key Activities, Key Resources, Value Propositions, Customer Relationships, Channels, Customer Segments, Cost structure and Revenue streams. These nine BM Building Blocks cover the four main areas of business in which customers and business partners are involved (customers, offer, infrastructure, and financial viability). Presented in Annex Number 1 is the Business Model Canvas design form, which has been analyzed and used to define and describe the SNOWMAN Canvas.

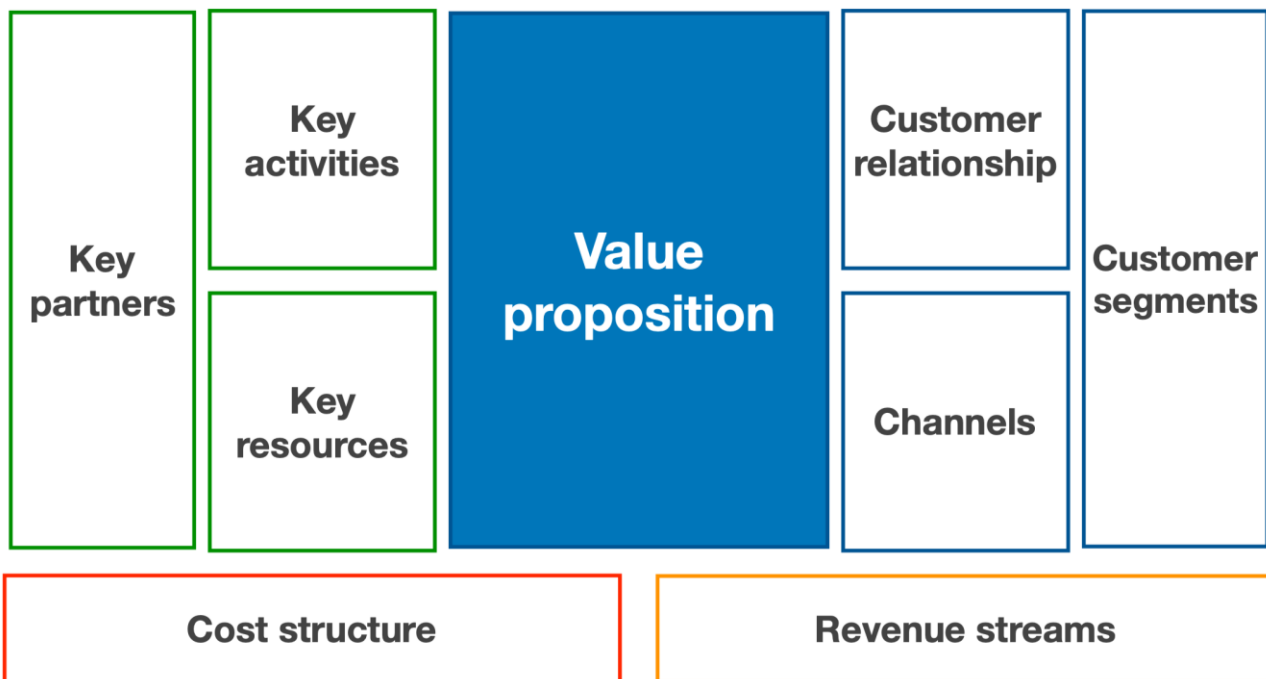


Figure 1: Osterwalder & Pigneur Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers (2010)

Using the business model canvas an organization can map out its entire business model in one image. The canvas can be used to share and disseminate strategic directions of the organization. By creating a common language and a commonly understood frame of reference, the canvas (the blueprint of the strategy) can be a powerful communication tool. This works even more effectively where the strategic direction is being co-created across the organization.

The business model canvas can be a key tool and template for the generation and testing of ideas and, when combined with design thinking approaches and customer development process, makes a powerful innovation enabler. The tool can be used by individuals and organizations to facilitate design and re-design of business models as it provides a shared language of business model terms and clarifies their relations.

Possibly the most potent use of the business model canvas is to provide a shared language across the various functions of the organization (e.g., product/service development, operations, finance, marketing, and sales). Often the business unit an employee belongs to will frame their view of the business based on their lens. For example, finance may see the business in a very different way than marketing. The canvas and its nine components create a commonly understood language and a complete reference of the business front and back stage as well as financial.

The canvas framework consists of three core areas:

- **The customer-facing area** (front stage), which consists of the target groups for whom value is created, the value proposition that creates the benefits customers expect, the channels through which the business interacts with its customers, and the strategies by which the business manages their customer relationships.
- **The infrastructure** (back stage), which includes the activities, resources, and partnerships required to build and deliver value to customers.
- **The financials** (sustainability) of the business, which balance revenues and costs.

The most important steps to observe are how the tools can be incorporated to **improve channels and relations** toward the customer, the SME owner-managers, and especially how the services can be operated as proposition of new values for them - compared with existing tools. For the intermediary organizations the result of a successfully executed business model can be measured by increase of the owner-manager's motivation for expanding the cooperation with intermediaries in defining and operating non-technological innovation.

The Canvas is meant to be a living document, whereon entrepreneurs write out their assumptions and initial ideas, only to continuously update these thoughts with new information. Its simple composition and ease of comprehension mean that it can be introduced and used quickly, while the common use of sticky notes, white boards and single sheets of paper imply the mutability of what is written down; iteration is

encouraged. Assumptions are made more tangible through writing and are then able to be tested against information.

The Business Model Canvas is a facilitated brainstorming exercise intended to generate ideas. For well-established organizations, the process may help sharpen the value proposition and lead to a better understanding of what clients (i.e. sources of revenue) are and are not interested in. For newer organizations, or ones experiencing change, the Business Model Canvas can be a tool to help identify where an organization should be in the future and establish a plan for getting there. The canvas may not necessarily result in an externally-facing product, but it can be used to inform strategic conversations with funders and stakeholders.

GUIDELINE FOR CANVAS FILLING AND INTERPRETING

1. Print Annex Number 1.
2. This tool resembles a painter's canvas—preformatted with the nine blocks—which allows you to paint pictures of new or existing business models. The Business Model Canvas works best when printed out on a large surface so groups of people can jointly start sketching and discussing business model elements with notes or board markers. It is a hands-on tool that fosters understanding, discussion, creativity, and analysis.
3. Take two colours pencil.
4. Organize a focus work group of the important stakeholders within the intermediary organization in order to successfully fill in and assess the Business Model Canvas.
5. Most important building blocks to be taken into account to reach the desired strategic organizational change are Channels and Customer relations. These are the blocks that the Snowman tools aim at improving.
6. The focus group session should be dedicated for brainstorming and reaching an overall consensus for what the adjusted business model should look like with the integrated counselling tools.

During the discussion fill the Canvas Blocks with the current situation in one colour, desired/expecting situation in another colour pen. Desired/expected situation should be more or less related to the implementation of non-technological innovation. Canvas'a consist of nine basic building blocks, there is no big difference in how canvas can be filled, but it is suggested to fill in the following order Key Partners, Key Activities, Key Resources, Revenue Streams, Channels, Cost Structure, Customer Segments, Customer Relationships and Value Proposition.

Key Partnerships describe the network of suppliers and partners needed to make the business model work.

Companies forge partnerships for many reasons, and partnerships are becoming a cornerstone of many business models. Companies create alliances to optimize their business models, reduce risk, or acquire resources. We can distinguish between four different types of partnerships:

1. Strategic alliances between non-competitors
2. Coopetition: strategic partnerships between competitors
3. Joint ventures to develop new businesses
4. Buyer-supplier relationships to assure reliable supplies

Main questions: Who are your Key Partners? Who are your Key Suppliers?

The status quo (first color pencil) needs to be clarified: all the major external players that the company contacts with in their role in the company activity, how long it has been cooperating, how well it has cooperated, the reasons why they are cooperating and what alternatives are possible.

It is also necessary to find out (second color pencil): how the respondent imagines the key partners ideally - who they should be, why the desired partners are not partners in the company now.

Key activities are the actions a company performs to make the business model work. The Key Activities Building Block describes the most important things a company must do to make its business model work.

Every business model calls for a number of Key Activities. These are the most important actions a company must take to operate successfully. Like Key Resources, they are required to create and offer a Value Proposition, reach markets, maintain Customer Relationships, and earn revenues. And like Key Resources, Key Activities differ depending on business model type.

Main questions: What Key Activities do your Value Proposition require?

The status quo (first colour pencil) needs to be clarified: what kind of activities the company carries out, which ones generate the highest added value, whether there are non-essential activities or whether there are seasonal activities.

It is also necessary to find out (second colour pencil): how the respondent envisions the key activities ideally - what activities the company would like to carry out, and what reasoning activities are still missing.

Key Resources correspond to the most important assets required to offer and deliver value and make the overall business model work.

Every business model requires Key Resources. These resources allow an enterprise to create and offer a Value Proposition, reach markets, maintain relationships with Customer Segments, and earn revenues. Different Key Resources are needed depending on the type of business model.

Main questions: What Key Resources do your Your Value Proposition require? What is your distribution channel?

The status quo (first colour pencil) needs to be clarified: what Key resources the company is using and why. What are the possible substitutes what competitors use. It should be distinguished Key resources to offer and deliver.

It is also necessary to find out (second color pencil): If the company would like to use other key resources to offer and deliver, if so, why not use now. It should be distinguished Key resources to offer and deliver.

Revenue Streams explain how a company makes money through the revenue flows from the value proposition offered to each customer segment. If customers comprise the heart of a business model, Revenue Streams are its arteries.

Main questions: For what value are your customers really willing to pay? For what do they currently pay? Successfully answering that question allows the firm to generate one or more Revenue Streams from each Customer Segment. Each Revenue Stream may have different pricing mechanisms, such as fixed list prices, bargaining, auctioning, market dependent, volume dependent, or yield management.

The status quo (first colour pencil) needs to be clarified: what products/services the company sells and why customers choose exactly what your company's products/services, what part of those products/services are most valuable to the customer. What kind of the value to the same/similar products/services segment competitors create.

It is also necessary to find out (second colour pencil): how the respondent imagines the Revenue streams ideally.

Channels are the means of getting in touch with the customers. It is the connection between the company value proposition and its target objectives.

The Channels Building Block describes how a company communicates with and reaches its Customer Segments to deliver a Value Proposition Communication, distribution, and sales Channels comprise a

company's interface with customers. Channels are customer touch points that play an important role in the customer experience.

Channels serve several functions, including:

- Raising awareness among customers about a company's products and services
- Helping customers evaluate a company's Value Proposition
- Allowing customers to purchase specific products and services
- Delivering a Value Proposition to customers
- Providing post-purchase customer support

Main questions: Through which Channels do your Customer Segments want to be reached? How are your Channels integrated? Which ones work best? Which ones are most cost-efficient? How are we integrating them with customer routines?

The status quo (first colour pencil) needs to be clarified: what channels your customers are coming from, what SWOT of these channels might be, how customers evaluate these channels, what channels your competitors are using.

It is also necessary to find out (second colour pencil): how the respondent imagines the Channels relationship ideally.

Cost Structure is the representation of all costs resulting from the operation of the business model.

Main questions: What are the most important cost inherent in your business model?

This building block describes the most important costs incurred while operating under a particular business model. Creating and delivering value, maintaining Customer Relationships, and generating revenue all incur costs. Such costs can be calculated relatively easily after defining Key Resources, Key Activities, and Key Partnerships.

The status quo (first colour pencil) needs to be clarified: what is the costs structure, what cost are prevalent, how much is it similar/different from competitors, if so why?

It is also necessary to find out (second colour pencil): how the respondent imagines what costs could be reduced or increased while adding value to the Customer.

Customer Segments define the groups of people or organizations that an enterprise offers value to and aim to reach.

Customers comprise the heart of any business model. Without customers, no company can survive for long. In order to better satisfy customers, a company may group them into distinct segments with common needs, common behaviors, or other attributes. A business model may define one or several large or small Customer Segments. An organization must make a conscious decision about which segments to serve and which segments to ignore. Once this decision is made, a business model can be carefully designed around a strong understanding of specific customer needs.

Main questions: For whom you are creating value? Who are your most important customer?

The status quo (first colour pencil) needs to be clarified: what are the customer segments, which segments are the most important, which are the most promising, which are the least promising, what value do you give to the customers, what ensures their loyalty, which customers can be prioritized; what value do your competitors give to the your/same customers.

It is also necessary to find out (second color pencil): how the respondent imagines the Customer segments relationship ideally.

Customer Relationships are the links a company establishes between its specific customers and itself.

A company should clarify the type of relationship it wants to establish with each Customer Segment. Relationships can range from personal to automated. Customer relationships may be driven by the following motivations:

1. Customer acquisition
2. Customer retention
3. Boosting sales (upselling)

The Customer Relationships called for by a company's business model deeply influence the overall customer experience.

Main questions: What type of relationship does each of our Customer Segments expect us to establish and maintain with them? Which ones have we established? How costly are they? How are they integrated with the rest of our business model?

The status quo (first color pencil) needs to be clarified: how these specific customers came into being, why are you collaborating, whether you are the sole supplier of this product/service.

It is also necessary to find out (second color pencil): how the respondent imagines the Customer relationship ideally.

Value Proposition gives an overall view of a company’s bundle of products and services that represent value for a specific customer segment and fulfil customer needs.

The Value Proposition is the reason why customers turn to one company over another. It solves a customer problem or satisfies a customer need. Each Value Proposition consists of a selected bundle of products and/or services that caters to the requirements of a specific Customer Segment. In this sense, the Value Proposition is an aggregation, or bundle, of benefits that a company offers customers. Some Value Propositions may be innovative and represent a new or disruptive offer. Others may be similar to existing market offers, but with added features and attributes.

A Value Proposition creates value for a Customer Segment through a distinct mix of elements catering to that segment’s needs. Values may be quantitative (e.g. price, speed of service) or qualitative (e.g. design, customer experience). Elements from the following non-exhaustive list can contribute to customer value creation.

Tailoring products and services to the specific needs of individual customers or Customer Segments creates value. In recent years, the concepts of mass customization and customer co-creation have gained importance. This approach allows for customized products and services, while still taking advantage of economies of scale.

Main questions: What value do we deliver to the customer? Which one of our customer’s problems are we helping to solve? Which customer needs are we satisfying? What bundles of products and services are we offering to each Customer Segment?

This is a summative Canvas Block, where (first colour pencil) can be written a Value proposition and its components now and Value proposition (second color pencil) that company wants to have in the future.

EXAMPLES OF USE

An exemplary Osterwalder Canvas depicted in Figure 2 shows the tool in action. An intermediary, such as Vilnius Industry and Business Association, can use this tool in order to identify their own Value Proposition and interaction with their clients through outward value based thinking. By outlaying the existing status-quo the intermediary is able to identify what parts of the overall strategy shall be affected and what changes need to be made in order to integrate the proposed tools.

Filling example - intermediary

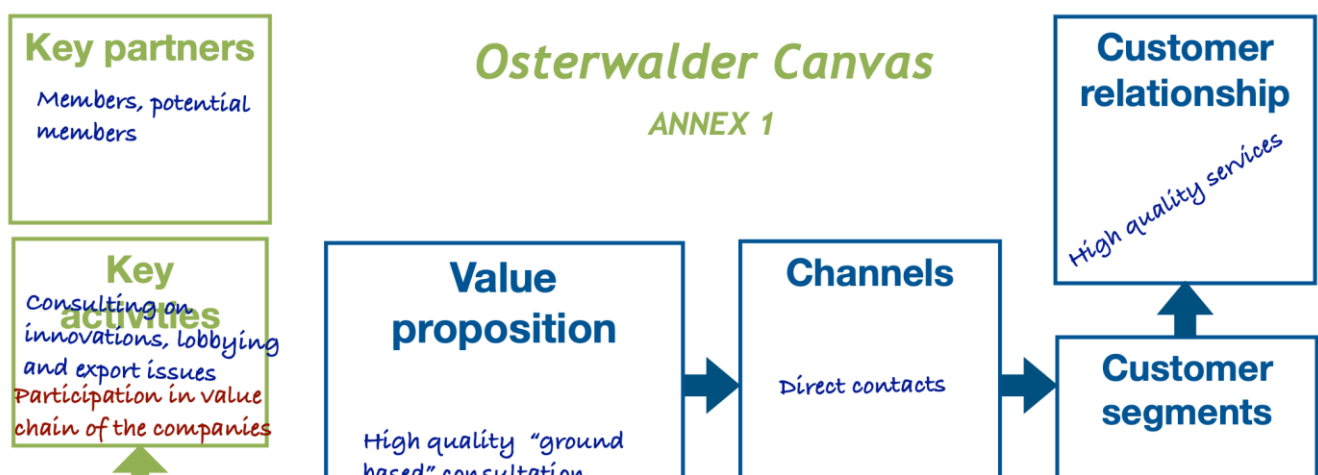


Figure 2: Vilnius Industry and Business Association Value Canvas, Vilnius, 2019

ANNEX NUMBER 1

