How to support newcomers working in Cafe Europe

HAND GUIDE FOR YOUTH WORKERS: Tools for entrepreneurial activities for youth

Cafe Europe

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Learning aims and objectives

Identify the nine components of the business model canvas and define your business model.

Understand what the elements of the Business Model Canvas entail and how to use them in the model. Learn more about societal and cultural trends.

This chapter focuses on the Business Model Canvas and the nine different building blocks: your customer segments, the value proposition, the channels used to each customer, customer relationships, revenue streams, key resources, key activities, key partnerships and finally the cost structure. However, it is not sufficient to only enumerate these nine building blocks. The added value of this model is to combine the building blocks in a map, the model canvas. This tool helps you to map, discuss, design and invent your new business model. On page 14 you will find the template to use when you are ready to structure your business model. At the end of each building block, you are asked a few questions. Please use these to design your own Business Model Canvas. Furthermore, the last part of this chapter gives a brief insight into societal and cultural trends to keep in mind when designing your business model.

Business model canvas

Key partners

The Key Partnerships building block describes the network of suppliers and partners that make your business model work. Organisations create partnerships for different reasons, and partnerships are becoming a cornerstone of many business models. Companies create partnerships, also known as alliances, to optimise their business models, reduce risk, or acquire resources. There are four different types of partnerships which can be identified as follows:

Strategic alliances between non-competitors

Strategic alliance means the arrangement between two companies that have decided to share resources to undertake a mutually beneficial project. For example, a clothing retailer might form a strategic alliance with a single clothing manufacturer to ensure consistent quality and sizing. A strategic alliance is less involved and less permanent than a joint venture.

Joint ventures to develop new businesses

A joint venture is a business arrangement in which two or more parties agree to combine their resources for the purpose of accomplishing a specific task. This task can be a new project or any other business activity. In a joint venture (JV), each of the participants is responsible for profits, losses and costs associated with it.

Co-opetition: strategic partnerships between competitors

Co-opetition is a business strategy based on a combination of cooperation and competition, derived from an understanding that business competitors can benefit when they work together. A good example of restaurant co-opetition is when there is part of a city or town that has a large number of restaurants concentrated in a relatively small area. All these places to eat attract customers who may just go to the area without any specific restaurant in mind.

Buyer-supplier relationships to assure reliable supplies

A buyer-supplier relationship basically describes the relationship between a buyer and a supplier. Both parties are necessary in order for each other´s business model to run. For instance, a computer manufacturer is dependent on buying the raw materials (e.g computer chips) from a computer-chip manufacturer. This is a typical buyer-supplier relationship, as the computer manufacturer buys its pre-manufacturing materials from the computer-chip manufacturer.

Now, ask yourself the following questions:
Who are your key partners/suppliers?

What are the motivations for the partnerships?

Key Activities

This building block of the Business Model Canvas describes the main activities necessary to create the value proposition of an organisation. Key Activities are essential to run the business model of the organisation. It is important to recognise that the Key Activities really refer to the most important and most performed activities in the organisation. When filling out the canvas you can name the Key Activity as you like (Marketing, Manufacturing, Consulting etc).

Production

These activities relate to designing, making, and delivering a product in substantial quantities and/or of superior quality. Production activities dominate the business models of manufacturing firms.

Problem solving

Key Activities of this type relate to coming up with new solutions to individual customer problems. The operations of consultancies, hospitals, and other service organisations are typically dominated by problem solving activities. Their business models call for activities such as knowledge management and continuous training.

Platform/network

Business models designed with a platform as a Key Resource are dominated by platform- or network related Key Activities. Networks, matchmaking platforms, software, and even brands can function as a platform. eBay's business model requires that the company continually develops and maintains its platform: eBay.com. Key Activities in this category relate to platform management, service provisioning, and platform promotion.

Now, ask yourself the following questions:
What key activities does your value proposition require?

What activities are the most important in distribution channels, customer relationships, and revenue stream?

Key Resources

Key Resources are those resources of your company which are essential to the business success. Different business types have different needs for resources. A company who needs to convince their clients by face-to-face communication needs to have a strong sales force. The sales force can be seen as a human resource in this case and thus is of great importance for this kind of business.

Physical

Within this category, physical assets such as buildings, manufacturing facilities, vehicles, machines, systems, point-of-sales systems, and distribution networks can be named. Retailers such as bol.com and Amazon rely heavily on physical resources, which are often capital-intensive.

Intellectual

Intellectual resources such as brands, exclusive knowledge, patents and copyrights, partnerships, and customer databases are increasingly important components of a strong business model. Intellectual resources are difficult to develop but when successfully created may offer substantial value. Consumer goods companies such as Nike and Sony rely heavily on 'branding' as a Key Resource.

Human

Every enterprise requires human resources, but people are particularly prominent in certain business models. For example, human resources are crucial in knowledge-intensive and creative industries. A pharmaceutical company such as Novartis, for example, relies heavily on human resources. Its business model is based on an army of experienced scientists and a large and skilled sales force. Therefore, companies that rely heavily on human capital (good employees) will focus on all human capital related issues.

Financial

Some business models call for financial resources and/or financial guarantees, such as cash, credit, or a stock option pool for hiring key employees. Ericsson, the telecom manufacturer, provides an example of financial resource leverage within a business model. Ericsson may opt to borrow funds from banks and capital markets, then use a portion of the proceeds to provide vendor financing to equipment customers, thus ensuring that orders are placed with Ericsson rather than competitors.

Now, ask yourself the following question:
What key resources are required to develop your product or service?

Customer Relationships

This component is about the several types of Customer Relationships a company establishes with its specific customer segments. Customer Relationships are driven by different motivations, namely customer acquisition, customer maintenance and boosting sales. Maintaining Customer Relationships is a crucial aspect for companies in fields of the retention of customers. Nevertheless, companies still make mistakes in customer retention.

In general, there are six types of Customer Relationships. It is possible to combine them. But what are the most common motivations for maintaining any form of Customer Relationships?

Customer Acquisition

Acquisition is a tough word for recruiting customers through a company. There are two types of acquisition: cold acquisition and warm acquisition. When there has not been previous contact between customer and company, we speak of the cold form of recruiting customers. In most situations consumers consider this type of acquisition as unwanted. A more effective type of acquisition is warm acquisition. In this case a company addresses the existing customers. A company brings specific offers to customers, for example based on the buying history of a customer. Customers really get something out of this type of acquisition. In general, warm acquisition is more sustainable and more effective than cold acquisition.

Customer Maintenance/Retention

Earlier companies often chose for the option to recruit new customers as much as possible and placed the acquisition above customer retention. Customer retention is another word for maintaining Customer Relationships. Nowadays there is a lot of competitiveness in the most economical sectors. In case a company has lots of sustainable Customer Relationships, that company will be known as trustful. By promoting a good image through customers, a company gets a bigger share of the market.

Boosting sales (up selling)

If you want to buy a sandwich in a shop, an employee may ask if you want something to drink with the sandwich. This tempts customers to buy more than a customer actually wanted and is called up selling.

Now, ask yourself the following questions:
What relationship does the target customer expect you to establish?

How can you integrate that into your business in terms of cost and format?

Channels

The concept of Channels does not only contain the logistics of a product from location A to location B. The Channels building block describes how a company communicates with and reaches its Customer Segments to deliver a Value Proposition.

Reaching the target group is possible in different ways. Before the developments with regard to the internet, target groups had to be reached by phone calls, advertising in papers, or by attending an entrepreneur fair. Nowadays companies try to get awareness via online channels and mainly through social media. Means of communication like Instagram, Twitter, and the use of influencers are a must-have for entrepreneurs. However, it is essential to have a clear view on how you want to reach your customers. Companies can sell their products through direct Channels or indirect Channels. What does this mean?

Direct Channels

Direct selling can be considered as selling the product directly to the customer, so through own stores or through a web shop. Almost every start up begins with selling in a direct way, for example out of your living room or a self- made web shop.

Indirect Channels

A product is also sellable via an indirect channel. This means that there are extra selling Channels between manufacturer and buyer. Think about:

-Retailing; retail companies purchase their products at a certain manufacturer and afterwards the retailing company resells these products. Well-known examples of retail stores are Ikea and supermarkets.

-Wholesalers; this selling process exists of one or more extra Channels compared with retailing. These companies are called wholesalers.

Now, ask yourself the following questions:

Through which channels will you reach your customers?

Which channels work best?

How much do they cost?

How can they be integrated into your and your customers' routines?

Customer Segments

Segmentation of customers simply means identifying meaningfully different groups of customers. Customer groups represent separate segments if:

- They require a different offer from the company than another group of customers
- They are reached through different distribution channels
- They require different types of relationships
- They differ greatly in profitability
- They are willing to pay for different aspects of the offer

Your customers can be segmented in a wide variety of aspects, for example age, gender, income, marital status, occupation, children etc. These characteristics of people can help divide them into segments that your company can choose to focus on. There are 4 major criteria by which a market can be segmented:

1.Demographical: based on religion, gender, lifestyle, age, generation, education, etc.

2.Psychological: personality, motivation, interests, etc.

3.Geographic: the continent where you live, heavy or low populated areas, cities or the countryside, etc.

4.Benefit: grouping individuals on the basis of the benefits they are seeking in your product or service. For example, if trying to build memberships for a gym, you might group individuals into groups for those seeking to lose weight and for those wanting to gain muscle.

As a company you can decide to serve different segments or just one segment. It is useful to identify the three most served segments in general.

Mass markets

Some businesses do not focus on a specific segment of customers; they are focused on the so-called mass market. This can be seen in the consumer electronics sector, which focuses on one very large group of customers with broadly the same needs and wishes. Supermarkets and fast-food chains employ this kind of strategy. The advantage of this kind of customer strategy is that you do not need to spend much money on marketing since you are promoting the same product to all potential customers in the same way.

Segmented markets

There are many businesses that offer different products or services to a variety of customers. They try to offer different products or services to service as many customers as possible. The banking industry is a good example of a business that focuses on segmented markets. They offer products specifically designed for children, people who have a mortgage, people who are very wealthy and want to invest or to people who want to save and collect interest.

Niche markets
There are also companies that focus specifically on a small part of the market, a so- called niche market. Businesses that focus on a niche market are addressing a need for a product or service that is not being addressed by the mass producers. You can think of a niche market as a narrowly defined group of potential customers. Examples are manufactures of low- fat yoghurt or producers of a certain brand of car part.

Now, ask yourself the following questions:
Which classes are you creating values for?

Who is your most important customer?

Value Propositions

Value Proposition is an unique combination of product, price, service, customer relations and image. A company offers this unique combination to its target group to meet customer needs in a better or another way as competitors do. This makes the Value Propositions a key factor in determining the strategy for a company. After all, it is important to give customers the feeling they get more value for their money at your organisation than somewhere else.

In case a company focuses on customers with high incomes, the choice to produce luxury, more expensive products, would be reasonable. A company, which focuses on a price conscious customer segment, will pay less attention to the quality of the product but will care more about the price (for example airline companies like Easyjet and RyanAir). It is relevant to supply just that extra piece of service for the customer in the effort to convince a customer of your products. Once the customer is convinced, you can try to capture a greater share of the market by offering a distinguished value and to maintain a good customer relationship.

Now, ask yourself the following questions:
What core value do you deliver to the customer?

Which customer needs are you satisfying?

Cost Structure

The Cost Structure 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. These costs can be calculated relatively easily after defining Key Resources, Key Activities, and Key Partnerships. Some business models, though, are more cost-driven than others.

Value-driven

Some companies are less concerned with the cost implications of a particular business model design, and instead focus on value creation. Premium Value Propositions and a high degree of personalised service usually characterise value-driven business models. Luxury hotels, with their lavish facilities and exclusive services, fall into this category.

Cost-driven

Cost-driven business models focus on minimising costs wherever possible. This approach aims at creating and maintaining the leanest possible Cost Structure, using low price Value Propositions, maximum automation, and extensive outsourcing. No- frills airlines, such as Southwest, EasyJet, and Ryanair typify cost-driven business models.

Besides the value- or cost-driven business models there are two different types of costs.

Fixed costs

Fixed costs are costs that remain the same despite the volume of goods or services produced. Examples include salaries, rents, and physical manufacturing facilities. Some businesses, such as manufacturing companies, are characterised by a high proportion of fixed costs.

Variable costs

Costs that vary proportionally with the volume of goods or services produced are called variable costs. A high proportion of variable costs characterise some businesses, such as music festivals.

There are also cost advantages that a business enjoys as its output expands called Economies of Scale. Larger companies, for instance, benefit from lower bulk purchase rates. This and other factors cause average cost per unit to decrease as output rises.

Now, ask yourself the following questions:
What are the biggest costs in your business?

Which key resources or activities are most expensive?

Revenue Streams

The Revenue Streams represent the cash a company generates from each Customer Segment. If customers comprise the heart of a business model, Revenue Streams are its arteries. A company must ask itself, for what value is each Customer Segment truly willing to pay?

Asset sale

The most common Revenue Stream comes from selling ownership rights to a physical product. eBay sells books, clothes, consumer electronics, and more online. BMW sells automobiles, which buyers are free to drive, resell, or even destroy.

Usage fee

In this case, money is paid for the use of a particular service. The more a service is used, the more the customer pays. For example, a hotel charges customers for the number of nights rooms are used.

Subscription fees

Selling continuous access to a service generates this Revenue Stream. A gym provides access to its exercise facilities by selling its members monthly or yearly subscriptions.

Lending/Renting/Leasing

This Revenue Stream is created by temporarily granting someone the exclusive right to use a particular asset for a fixed period in return for a fee. For the lender this provides the advantage of recurring revenues. Renters or lessees, on the other hand, enjoy the benefits of incurring expenses for only a limited time rather than bearing the full costs of ownership.

Licensing

Giving customers permission to use protected intellectual property in exchange for licensing fees generates this Revenue Stream. Licensing allows rights-holders to generate revenues from their property without having to manufacture a product or commercialise a service.

Brokerage fees

This Revenue Stream derives from intermediation services performed on behalf of two or more parties. Credit card providers, for example, earn revenues by taking a percentage of the value of each sale transaction executed between credit card merchants and customers.

Advertising

This Revenue Stream results from fees for advertising a particular product, service, or brand. Traditionally, the media industry and event organisers relied heavily on revenues from advertising.

Now, ask yourself the following questions:
For what value are your customers willing to pay?

How much does every revenue stream contribute to the overall revenues?

Trends to keep in mind

To help you complete the Business Model Canvas and thus write a business plan, it is useful to know what the current trends are. Societal and cultural trends are considered especially more important these days. This way you can respond to these trends at an early stage of your development process. Of course, a trend is by definition something that comes and goes, but there are also developments that are more structural in nature and are not seen as a one-day fly. It is wise to keep such things in mind when you write your business plan and it prepares you for critical questions from investors, for example.

Change in family structures - Marriage rates are expected to go down and divorce rates up with an increasing number of children growing up in sole-parent or reconstituted families.

Causes & consequences - Environmental changes, mass migrations and integration challenges, political extremism and other factors will all contribute to instability and potentially cause social unrest that will have a negative impact on the economy.

Bio products & healthier lifestyle - Younger generations are expected to adopt a "green" lifestyle which will cause an increase in the bio-based sector and a general rise of sustainability.

Environmental activism - As global environmental issues (global warming, ocean pollution, etc.) rise, the younger generations are expected to take a stronger and more determined stance on the issue and the way governments respond, which will in turn have an impact on the sustainable economy and increase demand in the bio-based sector.

Gender equality - Gender equality has been improving as women become more present in both the public and private sector on a global level. By narrowing the gender gap in employment, the global income per person will increase by at least 20% by 2030.

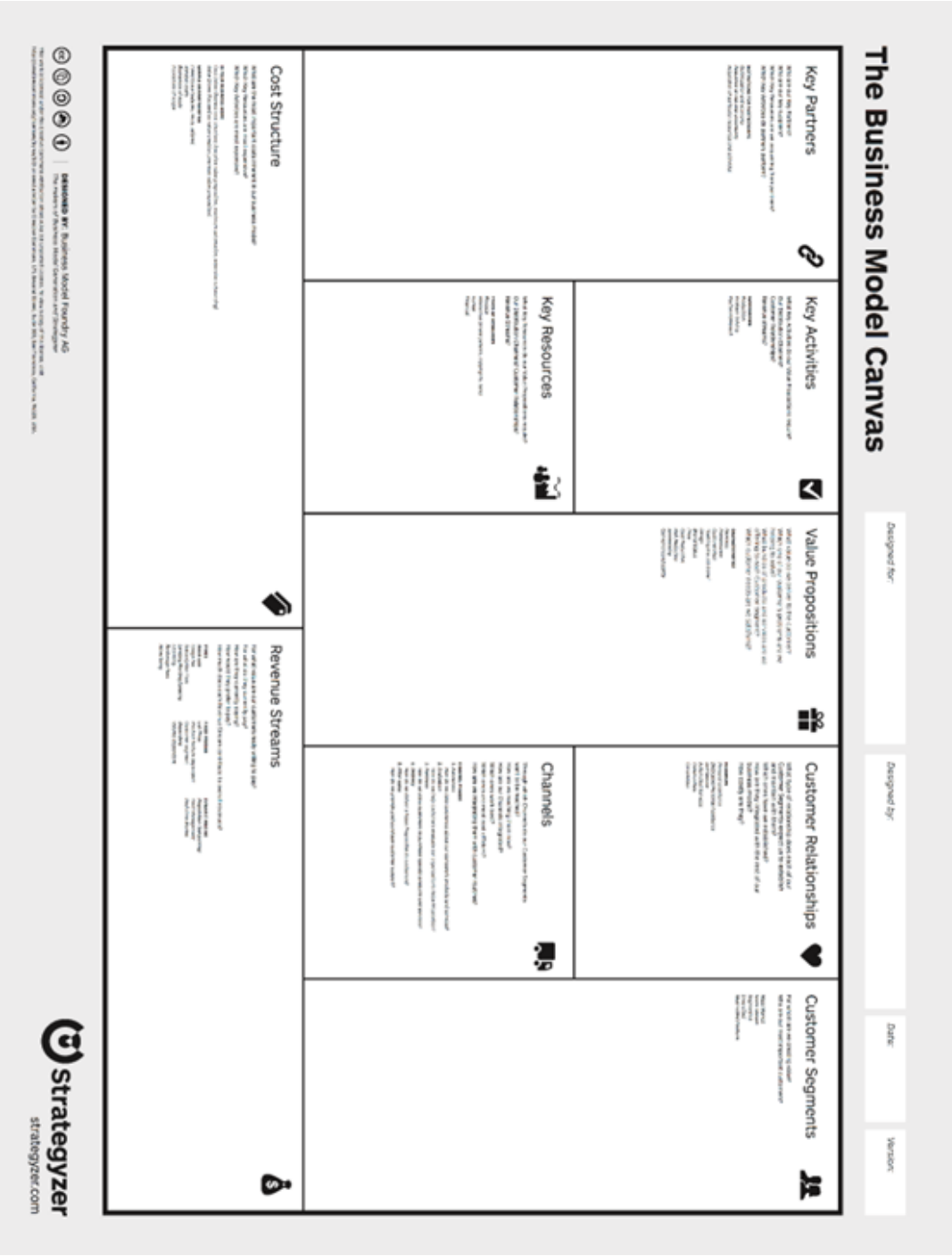
Mental health issues increase - As healthier lifestyle choices and bio-based products might increase physical health, remote work and wider implementation of Industry 4.0 might increase mental health issues. Continuously working through a virtual world is likely to lead to alienation and a sense of loss of control.

Demands for government & corporate transparency - Increased awareness around the collection of citizens' personal data and the role of social media, big corporates and governments will prompt citizens to demand control of their personal data and complete transparency of its use and manipulation.

Migration & integration issues - Migrations are expected to occur both due to the labour market demand and climate changes, which might help meet labour demand but might as well cause integration issues.

Greater work-life balance - Along with general rise in activism (environmental, human rights, etc.) younger generations are expected to demand greater work-life balance and healthier lifestyles.

Template



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