Applying the Business Model Canvas to Bio-renewable Firms

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Session Goal

- Increase your understanding of business model canvas (BMC)
- Provide bio-renewable example for the BMC
- Identify BMC resources

Business Model Canvas

1. Customer Segments
- Unique group that demonstrates need for your products and services
  - Can be individuals, business, institutional, etc.
- Defined by many parameters
  - Geography
  - Demographics
  - Income
  - *Some may not be obvious
- Quantify usage by segment
  - Typical customer, usage & price point, over time
- Provides revenue estimates
- Multiple segments are likely
  - Some will cost more to service
1-A: segmentation factors

- **Consumer**
  - Demographics
    - Age, ethnicity, SES, geography, education, etc.
  - Psychographics
    - Personality traits, beliefs, world views, values, etc.
  - Usage patterns
    - Frequency, behavioral precursors/ies.
  - Lifestyle Factors
    - Interests, hobbies, occupations, family structure, affiliations

- **Business**
  - Industry type
  - Locations
  - Organization sizes
  - Pressing Issues
  - Stages & Agents in the sell process (sales cycle)
2. Value Proposition

- Answer the following questions about each product/service you offer:
  - Define customer segment
  - What compelling benefits does your product/service have?
  - Price? (consider channel margins)
  - Demonstrate VP superiority to competitors?
    - (even alstal alternatives)
  - Evidence of demand and financial returns
  - Is it Clear & Simple? -Think focused, brief and sharp
  - How do you deliver the value proposition?
  - Quantify where possible
  - Is this your best VP or could you make it better?

Source: Lanning & Michaels (1988)
McKinsey Staff Paper

2. BFG Value Proposition for Pro Lumber Dealers

- Pro Lumber Dealer
  - Offer a line of affordable pellets for customers – bulk buy for winter needs
  - Low merchandising & service
    - (truckload and pre-buy options only)
  - Cost ($240/Ton), low service are drivers here
  - Overall volumes are lower versus big box

- Contrast vs. Big Box Retail
  - Cost ($220/ton) Volume buy multiple stores, etc.

3. Channels

- Means to deliver your product/service to customer segments
- Examples
  - Direct: you sell to consumers
    - Farmer’s market, retail store, online sales, restaurant sales, etc.
  - Intermediaries – additional steps to reach consumer
    - wholesalers, brokers, retail, etc.
- Channel choices differ by:
  - Costs
  - Service needs
  - Time to market
  - Volume and customer reach
- Your channel strategy can change
  - Growth, product/service popularity, etc.
    - (Hint-build in margin to add intermediaries)
3. BFG LLC Potential Channels

- Direct to consumer
  - Online
  - Physical location
- Pro Lumber Dealer
- Big Box Retailer
- Specialty Heating Retailer
- Broker wholesaler
- Stocking wholesaler
- Exporter

3.A BFG LLC Channel Integrity

1. Direct
   - Producer
     - Cost: $155
   - Consumer
     - Price: $270

2. Retail
   - Producer
     - Cost: $155
   - Big Box Retailer
     - Cost: $220
   - Consumer
     - Price: $270

3. Distributor
   - Producer
     - Cost: $155
   - Wholesaler
     - Cost: $1.70
   - Retailer #1
     - Cost: $240
   - Consumer
     - Price: $270
   - Retailer #2
     - Cost: $240
   - Retailer #3
     - Cost: $235

3.B BFG LLC Channel Partner Demands

- Exclusive market distribution
- Payment terms and credit limit
- Pricing structure based on their customers and reach to consumer
- Early preview to market announcements/price changes
- Volume & growth rebates
- Slotting fees, marketing funds, co-op program & channel programs
- Display allowances, samples & literature
- Conversion allowance
- Start-up cost assistance - opening discounts, dating, consignment & cost guarantee
- Buy back, guaranteed sale, slow moving items trade out, etc.
- Initial stocking inventory - matching velocity
- Lead times, minimum order, freight arrangements FOB vs. prepaid
- Sales and merchandising support & product samples
- Defective product procedures and safety considerations
- EDI capabilities
- Specialist and sales support
- Guaranteed time period to distribute
4. Customer Relationships

- Voice of the customer
- Customer courtship process
  - Do business with the right people
  - Obtain references & utilize your network
  - Clear expectations early
  - Know every detail & implications in agreements
  - Saying no at times can be the best decision
    - Especially early on
  - Know what you bring to the table
    - Also what you don’t
- Transactional vs. relational
- Cost of acquiring customer and relationship service
  - Degree of rebuy

4. BFG LLC Customer Relationships

1. Big Box
   1. High service
   2. Rigorous program parameters, analytics and expectations
   3. Volume and price competitive
2. Broker (non-stocking)
   1. Transactional, price driven, low service

5. Revenue Streams

- Inflows of sales building the Top line of your business
- Revenue streams can be separated by channel, customer and product/service
- Think about key levers you can employ to grow revenues – consider the costs of servicing each stream
5. BFG LLC Revenue Streams

- **Assumptions**
  - Plant produces 200,000 tons annually
  - One product line – Palletized 40lb bags
  - Revenue mix
    - 73% Big Box Retail @ $220/ton
    - 18% Pro Lumber @ $240/ton
    - 5% Specialty Heating Store @ $240/ton
    - 4% online @ $265/ton

6. Key Resources

- **Consider the essential resources to successfully operate your business**
  - People
  - Capital & Equipment
  - Financing
  - Acreage & Facilities
  - Know how

- **Growth will require an infusion of resources**
  - Especially cash – Don’t get caught short during the drive to grow
6. BFG LLC Key Resources

- State of the art facilities and equipment
- Production knowledge and experience
- Cash working capital
- Industry connections
- Established channel position
- Brand awareness

7. Key Activities

- Consider the actions and routines that are essential to operate your business
- What decisions are you making?
- Rank your activities that create the most value
- Opportunity activities grow revenues (top line) and Problem mitigation activities grow your profit (bottom line).
- Rank your company routines by value and by efficiency

7A. Key Activities - Resources & Decisions

- Decision Focus
- Opportunity
- Top Line
- Success ΔR
  - No Change
  - ΔR0
  - Failure ΔR
- Problem
- Bottom Line
- Learning
- Routine
- Creation
- Modification
- Termination
- No Change
- Competitive Viability
7. BFG LLC Key Activities

- Daily production
- Material sourcing
- Sales & marketing
- Financial accounting (invoices, accounts, etc.)
- Shipping logistics
- Plant safety

8. Key Partners

- List the key partners that help facilitate the success of your business
  - Financial/Banking
  - Professionals
    - Legal, insurance, etc.
  - Suppliers
  - Customers
  - Channel members
    - Distributors
    - Brokers
8. BFG LLC Key Partners

- Employees
  - Experienced Plant Manager
  - Dedicated team of 10 employees
- Loggers
  - Hout’s Logging inc.
- Professional Services
  - Merchandising company for big box
  - MEDIA TECH, IT support/design firm
  - Lawyer, Insurance, Accountant
  - Environmental consulting and engineering
- Customers
- PA Bank & Trust

9. Cost Structure

- Consider major cost drivers
- Examine costs of maintaining routines
- Be on the lookout for **hidden costs**
- Are their value drains that you can terminate or avoid?
- Seek ways to leverage resources and preserve cash

BFG LLC Business Model Canvas

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<tr>
<th>Key Partners</th>
<th>Customer Relationship</th>
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<table>
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<th>Key Resources</th>
<th>Key Activities</th>
<th>Value Proposition</th>
<th>Channels</th>
<th>Customer Segments</th>
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<td>7</td>
<td>2</td>
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9. BFG LLC Cost Structure

- **Major Cost Drivers**
  - Wood Fiber ($70/ton dry)
  - Production Costs ($23/ton)
  - Maintenance ($5/ton)
  - Labor ($7/ton)
- **Sales and Marketing**
  - Merchandising
  - Broker fees
  - Retail program costs
Thank you

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Pellet data sources: Lu and Rice, 2011; Qian and McDow, 2013