

Covid lock down which started in March 2020 induced changes in the way we lived our lives and hence in every aspect of our life including purchasing decisions and the way we made our purchases. Companies had to evolve and change the way they operated to meet the changed scenario. Some of the changes which came about were process related and in other cases business model related. It also brought about opportunity for several companies to address unmet consumer needs by building business models to cater to these requirements. In our lifetime we have also seen how some companies have built great business models around existing products and taken the concerned products and services to a different level of success.

One immediate example which come to mind is the restaurant industry. The ingredients of a great and successful restaurant in addition to great food was the ambience, the settings, the great personalized service and so on. But with lockdown and people not being able to visit restaurants most of the key ingredients in the restaurant business model went off the list and hence each of them had to remodel their existing business models.

The second biggest sector which comes to mind is the education sector. Students from schools to all types of colleges haven't been to their institutions for the last 18 months. During this time classes have happened, exams have been written and kids have also been promoted to the next grade. We have had campus selections which have happened during this period without the most basic part of the earlier model ..the visit to the institution being done at all..

But why is it so difficult to build new business models which are a success

The first is a proper lack of definition

The second and biggest stumbling block is that very few companies understand their existing business model well enough. The key factors behind its development, its natural interdependencies, its strength, and its limitations. Because of this companies are not clear as to when they can leverage their core business and when success requires a new business model.

So what is a business model

A business model consists of five interlocking elements which taken together create and deliver value. The five interlocking elements are as below.

- 1.. Company vision
- 2.. Customer Value Proposition
- 3.. Profit Formula
- 4.. Key processes
- 5.. Key resources

Company Vision

All organizations or divisions within organizations when they are set up are set up with a primary objective of achieving something. I was part of the team which set up the retail division of one of India's biggest business houses. The vision of the division was to become the market leader in the segment with minimum number of outlets.

Customer Value Proposition

A successful business model finds a way to create value for customers that is they find a way to get an important job done for their customers. Some of the factors which are to be kept in mind while deciding on the customer value proposition are

- 1.. The more important the job is to the customer the more valuable it will be for him. Please refer my article dated 19th Sept 2020 for more detailed understanding on Jobs to be done.
- 2.. The level of customer satisfaction with existing products or services which are available in the market. The lower the level of customer satisfaction the more the customer is looking for an alternate option.
- 3.. How better is your customer value proposition compared to the existing offerings in the market
- 4.. The lower the prize the better the changes of adoption

Coming back to my example of the setting up of the retail division of the company whom we will call as Company I. Since this company was in the petroleum retail space and to meet its vision of achieving market leadership with minimum number of outlets, the key segment that was identified to focus on was the diesel segment. Now to grow volume in the diesel segment you would have to focus on attracting the long-distance truckers who are the biggest diesel guzzlers. To attract the long-distance truckers, you had to make a value proposition which addressed two people

- 1.. The truck driver
- 2.. The truck owners

To develop the customer value proposition for the truck owners we had to identify their biggest pain point and the job to be done. Since the long-distance trucks used to commute and reach back to its original destination at times even after a month and since this was the time before digital payments and GPS tracking and even mobile connectivity being a fraction of what it was today the owner had a lot of difficulty to ensuring enough cash was available with the driver for fueling and other needs. The second concern was whether the fuel bills etc. being provided by the truck drivers were correct ..Company A developed a customer value proposition addressing both these jobs to be done by the truck owners

To develop the customer value proposition for the drivers we had to understand the driving pattern of the drivers and what was their fueling pattern so that outlets could be located at locations where the truckers prefer to stop for refueling, having food and resting. So to enable resting and for having food and parking the company provided these services also to the truckers. So we have seen how customer value proposition was developed for the two key stake holders.

b. Profit Formula

Profit formula defines how the company will make profit while creating value for its customers. It usually consists of the following

- 1.. revenue model to be adopted. This will also include the price at which each product had to be sold and what is the volume that needs to be sold by the company to ensure profit for the organization
- 2.. Cost structure. These include direct costs, indirect costs, and economies of scale. Cost structures will be predominantly driven by the cost of the key resources that are required to ensure customer value proposition is provided.

3.. The Margins ..Once the cost structure and the volume has been decided, the margin required per transaction or product is derived considering the above

4.. Resource Velocity. This basically captures how well we need to utilize the resources that are available with the company to achieve the expected volumes and profits. It also means aircraft turn around and utilization for airline companies, speed of inventory turn over for product companies, network optimization and efficiency for mobile companies and so on..

Coming back to my earlier example of the retail company A the company already had one of worlds biggest single location refinery which could process all kinds of crude oil even ones which were normally difficult to process. The next step would involve building the entire logistics stream which would involve moving the product through ships to select identified ports, build up tanking and fueling and refueling facilities at these ports and build infrastructure to fuel and transport the fuel through road containers to the various fuel outlets which was being set up. The entire cost and logistics model would have to be worked out keeping in mind the profit involved and the margins and resource velocity for the same. While the outlets were built in the locations were the truckers would prefer to fuel the organization would also have to take necessary steps to ensure the required volumes are reached in each outlet to ensure that the planned revenue model was being met.

C.. Key Resources

Every company will have all the key resources like people, technology, products, facilities, equipment's, brand, distribution channels etc which are essential to provide the required customer value proposition which the organization has set out to do. But each company will have certain elements from this which individually and by the way they are designed to interact with the other elements which help the company create the customer value proposition which has been defined by it..

Coming back to company A while the fuel was the same the company provided high octane fuel at almost the same price which resulted in better mileage. Not only were the outlets located in the key catchment areas as identified by the driver driving patterns they also provided all the resources as required by the truckers. Further to target the needs of the truck owners there were offices created in truck owners' areas where truck owners could deposit money into the cards that they had provided to their drivers. The drivers could then use these cards to fuel at the various outlets details of which would also be instantly made available to the owners. Further all the outlets were automated and hence all information would be available in real time. So while there were many resources that were available to ensure daily operations the above were the key resources which helped the company to maintain its desired customer value proposition..

D. Key processes

Companies while creating the decided customer value propositions and profit formula devise various operational and managerial processes which enable them to not only help them to achieve the desired objectives but also to repeat the desired results again and again and also to build them in scale..

All the five elements form the building models of any business model. While customer value proposition and profit formula define value for the customer and the company the third and fourth blocks of key resources and processes decide how the value will be delivered to both the customer and the company..

As you would have realized by now a successful business model is created not by thinking about a new business model as such but by thinking about the opportunity to satisfy a customer need who has a particular job to be done. Once the same is identified the next step is to construct a blue print of how the company will fulfill the same at a profit ..The next step is to compare the new model with the existing model and what all changes needs to be made to capture the opportunity...Once the above is done

organizations will be able to decide if they can use the existing model or use totally different model or even a separate unit to address this need..

Like I said in the beginning identifying when a new business model is required is the most difficult part ..How that can be done will be covered in a coming article. Watch this space for more..