GUIDELINES FOR THE DESIGN AND EVALUATION OF BUSINESS MODELS

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GUIDELINES FOR THE DESIGN OF BUSINESS MODELS

1. Introduction

While supply chain development takes a macro perspective of the 2WT mechanization chain the business model approach focuses on addressing the specific constraints that affect dealer customer relations. The approach so far has addressed all of the main actor’s agendas without identifying which actors are critical in developing the sub-sector. The business model homes in on the key relationships in the supply chain that inhibit the development of the mechanization sub-sector. These may include the relationship between the dealer and the farmer – the customer, the service provider and farmer, the local dealer and the service provider amongst others. Business modeling in this respect is a sub-set of the supply chain analysis.

A business model is the blueprint of how a company does business. As a conceptual framework it contains the elements and relationships that enable companies to express their business logic showing how a business can acquire its customers, service them and make money in doing so (Business model institute). It can also be understood as the way a business organizes itself to generate revenue and sustain itself (Osterwalder A.). The model represents the architecture of the business and its network of partners to create, market and deliver value to generate profitable and sustainable revenue streams. In other words a firm's business model defines how it adds value for all the actors within its value network. It shows which channels a firm provides to connect the actors in the output and input markets and which transactions it supports or enables via these channels. It also identifies the resources and capabilities it needs to support these transactions, and the costs incurred in doing so. It explicitly states the business policies that govern the channels and transactions it supports. Business Models raise questions related to innovation, entrepreneurship, organization, marketing and strategic management and is the framework of rules and incentives within which the business operates.

The intention of business modeling is to flow business thinking from the partners that have more experience in business to public and non-profit support institutions, which have a development mandate but that have the desire and intent to be more business and market oriented but lack the experience. These public and non-profit bodies at the end of the day carry a heavy responsibility for replication and up-scaling.

The stating point in business modelling is the value proposition. The value proposition underpins the success of the business model. It is the reason why customers choose a product or service over another. In addition to the value proposition the business model includes the following components: (1) the business organization, (2) market demand and attractiveness (3) measurements of performance, and (4) measures of sustainability – capacity and competencies, risk mitigation, innovativeness and competitive advantage. The offering is simply the product/service provided by the organization; performance is a measurement of ways to monetize the

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offering and other non-financial benefits. And sustainability reflect the ways to sustain the business model. There are causal relations between these different components. In order to serve a particular customer segment and compete within that segment, the offering must have a favourable quality/price position. In order to achieve this, firms need to offer quality products and services as perceived by the customer. External actors are potential partners or competitors in all aspects of the business: in the bundling of products, in activities and in the configuration of resources. Flexibility and change is an integral part of an effective business model. A poor offering (too high price/quality) may initiate changes that result in new, improved activities and their resource base. Some firms may take stock of their resources and seek new ways to combine them and dispose of activities as a result of resource modifications. This can result in new offerings and improved market positions. So change can occur in either direction, and the depth of change will vary. It is important to realise that whatever the modification, it will affect other components of the model.

There are three major drivers of input/technology business models: 1) producer-driven models - motivated and led by small scale producers based on collective action and farmer participation; 2) supplier driven models that involve importers/dealers who might set up a distribution network and attempt to organize farmers into a source of demand; and 3) intermediary models – commonly led by NGOs but also includes development agencies and the public sector– that could involve the provision of technical assistance and support to identify and improve smallholder linkages. The nature of the business model critically impacts on how value is created, captured or shared by farmers, small enterprises and other chain actors. It is therefore important to establish inclusive, equitable and sustainable business models between mechanization dealers and farmers. Moreover, a strong dealer-service provider relationship is often seen to be the foundation on which commercially viable business models can be developed to provide mechanization services that meet farmers’ requirements in terms of quality, price and support services.

Business models also have to be managed and developed over time as they evolve. Managers and people on the inside and customers and competitors on the outside develop and change. Resources must be acquired, activated, and organised in a way that improves the cost and quality of the offering in relation to customer preferences and competitors. These processes are issues that managers deal with on a regular basis. Finally, there is a growing body of experience showing that “win-win” outcomes are possible through commercially viable business models. Such business models must deliver essential services to farmers to enable them to buy or hire mechanization technologies.

**Key questions**

- How does my organization or business function?
- Is the existing business model viable?
- Does the business model provide the services demanded for smallholder farmers?
- Can changes to my business model improve the inclusion of both male and female smallholders?
- Is farm level upgrading feasible and can the additional costs be absorbed by the producers?
Can the intermediary bear the costs of the services and investments needed to reach smallholders (inclusivity)?

In support of the mechanization supply chain the links with output markets is necessary as a way of adding value and ensuring a regular revenue flow back to the producers. This is often necessary to provide the financial resources needed to cover the costs of mechanization services. This can be illustrated by the figures below.
This situation suggests that producers lie at the terrace of two business models: a) a model that relies on input provision – a combination of mechanization power sources and other durable inputs such as fertilizer, herbicides etc. and b) an output market business model selling to traders, wholesalers and agro-processors surpluses of maize, value added maize products and in some cases higher value cash crops. In this context it is likely that an analysis of one individual business model does not sufficiently represent the linkages with the market. In this context, business models can be conceptualized as linked models. The logic of this method is that, in the mechanization value chain, the customer for 2WT and its accessories is the supplier of final products for buyers. Understanding these linkages is critical for the quality of the trade relationships and is the focus of the business modeling exercise outlined here.

These models can be schematically represented as in the following figure:

**Model 1: Input market model**

**Business Model 1:**
- 2WT based mechanization
- Supplier of marketable produce

**Business Model 2:**
- Input supplies: fertilizer, pesticides etc.

**Business Model 3:**
- Marketable produce: traders, wholesalers, processors

**Service providers:**
- Farmer organizations
- Private hiring mechanization services providers
- Contract farming operations

**Farmer:**
- Customer for mechanization
- Customer for input provision
- Supplier of marketable produce

**Importer/dealer**
- 2WT
- Technologies
- Seeds
- Fertilizers
- etc.
2. Overview of the Approach

The business model approach focuses on facilitating improvements in the business and operational processes of the relationship between mechanizations dealers, service providers and farmers to improve the efficiency of their interlinked business models. The development of the business model starts with informal consultations, undertaken to identify dealers, who are often regarded as the drivers of the chain, and that have a good sense of their markets and are convinced that they could tap a local demand for small mechanization if they can develop the supply chain to reach smallholder farmers. The consultations also serve to identify circumstances in which the dealers might be assisted in generating value adding innovation.

When promising circumstances are identified during the consultations, the next step is to undertake sets of diagnostic and planning exercises that lead to clear identification of the business model and the formulation of “business proposition” that aims at improving the supplier-buyer relationship in such a way that the profitability and sustainability of the linked business models are enhanced. The business models and actions needed to improve or upgrade performance of the models are thus, context, business and farmer group specific.

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2 The general approach presented here has been developed by FAO as part of a series of programmes on Inclusive Business Models. Background papers were presented by B. Vorley et. al (2008) and the concept has been introduced and developed in a series of field programmes designed by D. Baker and S. Kelley through the EU funded “All ACP Agricultural Commodities Programme” as well as other inclusive agribusiness development projects in Tanzania, Kenya and the Caribbean. The concept of inclusive business models has also been discussed and developed at an international workshop organized by FAO in Rome, in October 2013.
Implementation of the approach begins with a business appraisal to understand how importers and dealers are doing business. The analysis looks first at the lead machinery importer/distributor to understand the workings of the business – the structure, resources, capacities, product’s characteristics and logistical processes. Next it focuses on the customer (the service provider or farmer) to understand why they are interested in procuring or hiring machines and implements, their demand, capacity to pay, challenges and risks. The objective of the business model appraisal is to have a better understanding of how dealers and customers do business. The table below provides more details on the contents of a business model description.

### Business model description

<table>
<thead>
<tr>
<th>Item</th>
<th>Main points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural users</td>
<td>Who are the users? Farmers/ rural entrepreneurs: men or women? What is their farming system? What is their average age? Where are they located? Where do they grow their crops? Size of the land to grow crops? Is land owned or rented?</td>
</tr>
<tr>
<td>Importers/ dealers</td>
<td>Who sells the machinery/ machinery services: importers, dealers, service providers? What accessories are provided? What numbers have been sold to what category of farmers? How are the machineries/ implements used? Why are they interested in developing this supply chain?</td>
</tr>
<tr>
<td>Logistics mechanisms</td>
<td>How are the machinery products transported to buyers? Where are they stored? What are the types of support services offered?</td>
</tr>
<tr>
<td>Suppliers/partners</td>
<td>Description of partners and suppliers of inputs/seeds, financial services; and respective constraints faced when trying to procure and deliver the machineries and technologies (price; quality, transport; volume, access to finance).</td>
</tr>
<tr>
<td>Service providers</td>
<td>How are service providers organized: farmer organization, individual entrepreneurs, machinery rings etc.? What prices are set for the different operations? Are mechanization services part of a broader set of services provided? How is the system operationalised? Is it effective?</td>
</tr>
<tr>
<td>Costs and revenue</td>
<td>Business model costs and revenue: cost of production, price settling mechanism and profits. Payment mechanisms</td>
</tr>
<tr>
<td>Challenges</td>
<td>What are the challenges of the current business model? What is not working correctly or what are the areas that need to be improved? What are the actors’ expectations? For instance, do they want to: increase market share; enter into a new market, consolidate an existing market; diversify into a related supply chain?</td>
</tr>
</tbody>
</table>

*Source: FAO, The inclusive business model approach: Improving linkages between producer groups and buyers (2012)*
i) Identification of existing business models

The underlying logic of the methodology is to develop existing business models that can be identified in the project districts and the surrounding area. Given the limited time frame of the project it makes operational sense to develop and upgrade those models that already exist rather than develop models from scratch. It is proposed that models could be identified through a series of key informant interviews meeting with district experts for mechanization, extension workers, dealers and service providers – from the supply end – to inform the business modelers of interesting partnerships that could be further explored. The supply side identification process should be supported by focus group interviews with farmers to get a demand side perspective. Business models could take a number of different forms:

<table>
<thead>
<tr>
<th>Business models</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Farmer led:</strong></td>
</tr>
<tr>
<td>• Contract farming – farmers providing services to small scale producers;</td>
</tr>
<tr>
<td>• Machinery rings – mechanization services to all farmers listed</td>
</tr>
<tr>
<td>• Farmer cooperatives / associations providing services to members (Ethiopia)</td>
</tr>
<tr>
<td>• Agribusiness service centres providing services to farmers (ABC Sierra Leone)</td>
</tr>
<tr>
<td><strong>Business led:</strong></td>
</tr>
<tr>
<td>• Private sector agro-processor contract farming schemes (Zimbabwe)</td>
</tr>
<tr>
<td>• Social enterprise supporting agro-dealers to provide inputs to smallholders and buying back raw product materials for export (Tanzania).</td>
</tr>
<tr>
<td>• Importer/dealers with vertically integrated sub-dealer networks and support services to farmers, training manufacturers and operators.</td>
</tr>
<tr>
<td><strong>Private service provider led:</strong></td>
</tr>
<tr>
<td>• Private business development service providers</td>
</tr>
<tr>
<td>• Agro-dealers providing goods and support services to farmers (agrodealer networks, certifying agro-dealers)</td>
</tr>
<tr>
<td><strong>Intermediary not for profit led:</strong></td>
</tr>
<tr>
<td>• NGO intermediary – service centre hub – one stop shops (Kenya)</td>
</tr>
<tr>
<td>• Market oriented NGO facilitating links with service providers and farmers</td>
</tr>
</tbody>
</table>

Initiative to organize, the number of partnerships; scope of services (business + finance); single or linked BMs
ii) Analysis of the current business model.

This stage of the approach calls for an appraisal of the way actors are currently doing business. The individual business model can be characterized through a range of attributes that refer to the overall business wheel segments – the offering, performance and sustainability.

This characterization covers the following:

- **Business organization, flow of products/services and distribution: product flow and distribution**: the process for distributing products to buyers. The organization of the business and the process for distributing products to buyers. Channels refer to how the business reaches and interfaces with its customers. In the case of agricultural products, the sales channel often is equivalent to the logistics supply chain, which transfers the product between the producer and the final customer.

- **Resources and activities**: the key activities required for business (e.g. planting, production, harvesting, sale, marketing) Resources required to produce and add value (land, processing machinery, storage facilities, skills, knowledge) and the activities and processes key for the organizations’ operations. An organization’s key activities are crucial for the business to successfully function. Like key resources, they are required to create and sustain a Value Proposition, reach markets, maintain customer relationships, and earn revenue.

- **Business strategy**: expectations of stakeholders; what strategies do they have to increase profits and market share; enter into a new market, consolidate an existing market, etc.

- **Products**: Refers to the kind of products sold. Anything that differentiates the products from the rest of the market (e.g. low price, good quality) and actions that are proposed for future product development. The product covers all aspects of what the business offers its customers i.e. not only the company's bundles of products and services but the manner in which it differentiates itself from its competitors.

- **Market attractiveness and demand**: This involves selling a product/service to the right combination of market, niche and customer. Understanding the current and future demand for the product and service.

- **Customers and market segmentation**: types of clients (small farmers, SMEs, farmer organizations), numbers, and why they buy or hire 2WT based mechanization. Customers are at the core of the business model because, without them, no business can survive. It is important to understand the needs of the customers or customer segments to determine how to best satisfy those needs. Types of clients (small farmers, SMEs, farmer organizations), numbers, and whether they buy or hire small mechanization.
• **Mechanization products**: the products sold, anything that differentiates the products from the rest of the market (e.g. low price, good quality), any actions on future product development

• **Key partners and collaboration**: the types of relationships that the organization has with its buyers, suppliers, service providers; what are the motivations and disincentives for collaborating or not

• **Value proposition**: The value proposition underpins the success of the business model. The value proposition is the reason why customers choose a product or service over another. The value proposition should offer a combination of economic, social and environmental value to both downstream (whom you sell to) and upstream (whom you buy from) actors.

• **Prices, costs and revenue**: rough estimates of the prices, businesses costs and revenues generated

• **Profitability and finance**: Characterized by the overall profitability of the business and the gross margin of the different services or products offered. A business model that sells more of the high margin items is significantly better than a business model that sells only low margin items. Profitability can be maximized by minimizing the sales of the lowest margin items while maximizing sales of the highest margin items.

• **Marketing performance**: For the business model to succeed there is a need to create a marketing/ sales system that turns what customers want into cash inflows.

• **Customer benefits**: The benefits that the business model generates for its customers - machinery hiring enterprises and farmers. Includes the quality of services offered, the impact of the services and the level of satisfaction that customers have with the product/ service

• **Capacities and competences**: resources required to produce and add value (land, processing machinery, storage facilities, skills, knowledge) and the activities and processes key for the organizations’ operations

• **Risk mitigation**: Business risks imply uncertainty in profits or danger of loss and the events that could cause the business to fail. Business risks reflect the possibility of lower profits and even losses due to uncertainties. e.g., changes in tastes, preferences of customers, increased competition, change in government policy, climate variations, obsolescence of machinery etc.

• **Innovativeness**: Innovation strengthens the business model and its ability to compete. Forms of innovation: (i) changing the target market, the marketing model, what is sold and for how much, (ii) changing the products sold or their mix (iii) improving the sales model or delivery system (iv) innovating to reduce risks.
• **Competitiveness:** Competitive advantage is what keeps the business model strong over time and competitors at a distance. Competitive advantage is the sum of all the aspects of the business model (core competencies and culture) that competitors would like to copy.

The business model analysis could also include for each segment an appraisal of the strengths, weaknesses and opportunities. Initially, the process should commence with an analysis of Strengths and Weaknesses for each of the major attributes. This would be followed by an assessment of opportunities that are expected to build on strengths and reduce weaknesses. For each segment of the business wheel a canvas could be produced and structured in the following way:

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Opportunities</strong></td>
</tr>
</tbody>
</table>

The opportunities provide the basis for the upgrading plan. The opportunities are also defined as Critical Success Factors.

The business model analysis also provides a benchmark record for measuring progress over time. The results of the business model appraisal are also useful for communicating and sharing ideas about the organization and its future plans with customers, partners, suppliers, donors and finance institutions.

iii) **Identification of critical success factors (CSFs).**

This information may already be found in existing market studies, but it can be analyzed and supplemented to ensure that dealers, service provider and farmers agree on the main challenges and priority needs that need to be addressed. If a study does not exist the information can be gathered in round-tables that bring together representatives of dealers, farmers, and buyers to rank and provide more insights on the main success factors to ensure successful business partnerships.

The CSFs are what customers particularly value when buying or hiring mechanization. Critical Success Factors (CSF) are the most important factors affecting buyer decisions and satisfaction with chain products and services. CSFs often include reliability in delivery and the provision of spare parts, quality of machines and implements, multiple use of the machines, brand/origin preference, environmental or social features, e.g. conservation agriculture and reduced drudgery. CSFs may vary according to the different market segments the business supplies. Importers/ dealers would be expected to contact their customers in order to identify the CSFs and to discuss performance of the business with
respect to them. The agribusiness partners also would identify their CSFs vis-à-vis their customers (the small farmers or SMEs) and discuss them with their customers.

The information on the business models (first step) and the critical success factors (from the perspective of the dealer, service provider and customer) is discussed at a roundtable involving the business customers, suppliers and service providers to identify and rank the critical success factors, and consider potential upgrading strategies to improve supplier-buyer relations and their joint performance in meeting the success factors. The table below describes the format and methodology for organizing a round-table.

**Critical Success factors Round-table Format**

<table>
<thead>
<tr>
<th>Critical Success Factors (CSF) Round-table Format</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Overview of the importer/dealers current business model.</td>
</tr>
<tr>
<td>• Overview of the market structure; numbers of buyers and sellers; sales and demand; different market segments/customer groups; competitors; ease of entry and exit to market.</td>
</tr>
<tr>
<td>• Results of surveys and appraisals to identify customers’ critical success factors, which may include timeliness in delivery, quality and reliability of the machineries, compliance with safety standards, brand/origin preference.</td>
</tr>
<tr>
<td>• Environmental/social features, eg. conservation agriculture features.</td>
</tr>
<tr>
<td>• Participants to the round table validate and prioritize the identified Critical Success Factors.</td>
</tr>
</tbody>
</table>

**iv) Design an upgraded business plan and action plan**

Based on an understanding of the current business model and an analysis of the critical success factors, the dealers and service providers should have a clearer idea of where they need to innovate and add value in order to respond to customer’s requirements. This forms the basis for the preparation of an upgraded business plan. This upgraded model should promote innovation and place importance on activities that address the challenges prioritized. The model can be put in practice through the implementation of activities that target the critical success factors and foster stronger linkages between the dealer, the customer and the product market.

The upgraded business model should include a new “business proposition” that identifies:

- new and improved ways of operating and the potential benefits and sources of revenue for each party
- activities that will improve the competitive advantage for the dealers and service providers and increase the number of tractors and accessories bought from dealers.
- an assessment of the incentives and profitability of the upgraded model for all stakeholders; and.
- an analysis of the risks involved and the development of a risk mitigation strategy

The table below describes a set of possible activities and tools that, depending on the local context and prioritization of needs, can be implemented to enhance smallholder based business models.
1. Business to business coordination
- Addressing sources of uncertainty; for example related to the delivery of machines, the quality of service support and spare parts
- Implementing contractual arrangements (formal and informal) between dealers and farmers, or dealers and contractors, or contractors and farmers etc.
- Promoting trust, transparency and collaboration between the dealer and the farmer or the contractor and farmer.
- Facilitate business meetings to identify bottlenecks and better understand the role of each actor.
- Strategic and operational management planning to enhance the supply of the technology to customers.

2. Responding to customer needs
Ensuring that machinery or machinery services provided respond to customer needs
- Ensuring that support services respond to customers’ needs
- Synchronizing tractor or service delivery and logistics to suit customer demand
- Market appraisal and surveys to understand consumer needs and demands.
- Improving information flow on customer requirements
- Improving operational, business and entrepreneurial skills
- Training in business and financial management and marketing for dealers, service providers and farmers.
- Training in machinery operations and other related activities.

3. Adding value by improving management
- Identifying and improving delivery and hiring service constraints
- Appraising business to business processes to identify inefficiencies
- Developing organizational innovations that simplify logistics and improve delivery and service times
- Protecting the environment from harmful production and processing practices
- Identifying potential sources of credit and support loan applications.

Source: Adapted from FAO
1. Business to business coordination

Coordinating the importers, dealers, service provider and farmer relationships responsible for the delivery and timely use of 2WT mechanization and accessories and can help meet customers’ requirements in terms of affordability, delivery time and after sales services. From the dealer to the customer there are a number of decisions to be made about the flow of machinery products, information and money. However most of these decision take place independent of one another which results in inefficiency and ultimately a higher cost of the machinery and technologies to the customer (service provider/ farmer). The more successful the dealer-customer relationship the more successful the dealer will be in expanding customer demand. Possible areas of intervention in developing business to business coordination are:-

- Addressing sources of uncertainty; for example related to the delivery of machines, the quality of service support and spare parts
- Implementing contractual arrangements (formal and informal) between dealers and farmers, or dealers and contractors, or contractors and farmers etc.
- Promoting trust, transparency and collaboration between the dealer and the farmer or the contractor and the farmer.
- Facilitate roundtable meetings to identify bottlenecks and better understand of the role of each actor.
- Strategic and operational management/ planning to enhance the delivery of machineries to farmers.

2. Response to customer needs

Delivery of 2WT based mechanization needs to be responsive to customer needs. This is vital to ensure that processes and products respond to customers’ needs. One way that this can be done is to ensure that dealers provide after sales services, financing, training in operating and repairing machinery whilst ensuring that products are of high quality and safety. The CSF roundtable is likely to identify the most critical factors as seen from the customer perspective. Interventions could focus on improving information on customer requirements, developing a new market segment for sales or more basically synchronizing product delivery and logistics to speed up the delivery time.

Possible interventions to help strengthen this component include:

- Ensuring that machinery or machinery services provided respond to customer needs
- Synchronizing tractor or service delivery and logistics to suit customer demand
- Market appraisal and surveys to understand consumer needs and demands.
- Improving information flow on customer requirements
- Improving the technical skills of operators through training and mentoring
- Research and development to upgrade technology design to match customer requirements
- Identify potential sources of finance to support loan applications.
3. Adding value by improving management and business skills

Management can be divided into two categories; business management which refers to marketing, finance, production and processing activities; and logistical management, that is responsible for getting the machinery and spare parts from the manufacturer, importer and dealer to the user. Logistics, for instance, are often simply regarded as a cost component, but if managed properly can significantly improve a business’s response to its customer and therefore can be considered a value adding activity. Ensuring that these processes are planned and managed efficiently can translate into added value, lower transaction costs, and increased competitiveness for dealers, farmer organizations and smallholders.

Possible interventions to help strengthen this component are:

- Identifying and improving delivery and hiring service constraints
- Appraising business to business processes to identify inefficiencies
- Developing organizational innovations that simplify logistics and improve delivery and service times
- Training in business and financial management and marketing for dealers, service providers and farmers.

<table>
<thead>
<tr>
<th>Generalised list of possible upgrading interventions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Design of an effective demonstration strategy to reach targeted smallholder farmers</td>
</tr>
<tr>
<td>• Generate a demand for 4WT through the preparation of promotional materials</td>
</tr>
<tr>
<td>• Extend the dealer brand to create a demand for implements/equipment</td>
</tr>
<tr>
<td>• Training of machinery operators in maintenance and repairs.</td>
</tr>
<tr>
<td>• Identification of a cadre of mechanics, spare parts manufacturers etc. at local level</td>
</tr>
<tr>
<td>• Training of entrepreneurs in mechanics/spare parts manufacturing to provide a reliable range of parts.</td>
</tr>
<tr>
<td>• Train producer groups in machinery hire service management.</td>
</tr>
<tr>
<td>• Set up a farmer association to provide mechanization services for their members</td>
</tr>
<tr>
<td>• Influence policy makers to address enabling environment bottlenecks (subsidies and crowding out the private sector, changes in the tariff structure, the need for infrastructure to support mechanization etc.</td>
</tr>
<tr>
<td>• Develop database of resource people capable of providing technical training to farmers</td>
</tr>
<tr>
<td>• Support machinery supply companies to develop a local network of distributors and stockists to expand the volume of machines sold</td>
</tr>
<tr>
<td>• Training of distributors/stockists (in conjunction with input supply firms) in technical aspects of the technologies they sell.</td>
</tr>
<tr>
<td>• Develop the capacity of importers/dealers to offer training to distributors and stockists.</td>
</tr>
<tr>
<td>• Ensure interlocking linkages with market and processing outlets</td>
</tr>
<tr>
<td>• Design financial products to provide working capital/loans for farmers and service providers</td>
</tr>
</tbody>
</table>
• Train clients in financial management
• Promote supplier credit through financial institutions
• Establish a cadre of local service providers to develop demand
• Information dissemination to farmers on how they can seek redress from fraudulent stockists

According to available funding and investments, the interventions identified under the upgraded business plan might need to be prioritized and ranked. This prioritization should be mentioned in the report.

Constant revision and, if needed upgrading, of the business model is crucial to have sustainable business partnerships between dealers and customers. To do this dealers or business model facilitators need to understand the agribusiness trends and customer requirements. Also, farmers may need to organize themselves in order to receive mechanization services if they cannot afford to purchase tractors and implements outright.

According to available funding and investments, the activities identified under the upgraded business plan might need to be prioritized and ranked.

**Summary of business model design process**

1. **Identification of existing business models**

2. **Mapping the model**

3. **Appraisal of the Business Model**

   3.1 **Analysis of actors of the model**
   - dealer (appraisal of the business model) (use BM canvass or checklist above).
   - services providers
   - farmers - demand for services

   3.2 **Multi-stakeholder roundtable**
   (Identification of critical success factors (CSFs))
   Involving the business customers, suppliers, service providers etc. in order to identify and rank the critical success factors, and consider potential upgrading strategies to improve supplier-buyer relations and their joint performance in meeting the success factors of their downstream consumers. Organize the roundtable – dealer, service provider, farmers
   - identify critical success factor [Annex 4]
   - identify ways of overcoming them – action planning [4.3.4 designing interventions]
   - Rank action areas

4. **Preparation of the business proposition + business plan**
[4.3.5 designing business models]
5. Financial instrument design

6. Multi-stakeholder roundtables
   — validate financial incentives
   — secure agreement on an action plan for the design of a new business model or the upgrading of an existing one
   — identify risks and define risk mitigation (sharing) strategies, actions and responsibilities

v) Monitoring and evaluating business models

Project design calls for performance evaluations of the various actors with a focus on financial analyses. The intention is to report on the way the incentives structures work in small mechanization business. It is proposed here that the exercise is broadened to include a performance evaluation of the different business models as seen from an organizational perspective. The Modified Business Wheel methodology provides a methodology for performance evaluation that covers the effectiveness of partnerships, the satisfaction of customers and the effectiveness and efficiency of the provision of goods and services. This evaluation is scheduled for the final year of the project but could be conducted annually and used as information in the quarterly monitoring roundtables.
ANNEXES

Annex 1  
**Business model mapping**

The identification of interventions provides the context for the development of appropriate business models. The main objective of the business modeling exercise is to identify different ways of how service provision can work. The business model can be shown in diagrams detailing how the various market players operate together in satisfying the supply and demand for a given service, with (as in the example below) different arrows representing either the flow of products or services that are provided, or the money flows between different actors.

<table>
<thead>
<tr>
<th><strong>Consider:</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>- Who are the market actors that need to be involved in this intervention?</td>
<td></td>
</tr>
<tr>
<td>- How do they relate to each other – what is traded between them?</td>
<td></td>
</tr>
<tr>
<td>- What is the deal that you can make with the change agent to make the service work?</td>
<td></td>
</tr>
</tbody>
</table>

The existing market players in the sector will have a huge influence on how the business model will function. Therefore it is important to identify wider market actors which have an influence on the operation of the core supply and demand relationships in the business model(s) outlined.

<table>
<thead>
<tr>
<th><strong>Methodological step</strong></th>
<th><strong>Purpose</strong></th>
<th><strong>Key issues</strong></th>
<th><strong>Output</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Create an overview of current market players</td>
<td>To establish who are the stakeholders in the business model are</td>
<td>Inclusion of all partners</td>
<td>List of all the market players</td>
</tr>
<tr>
<td>2. Establish the flow of products / services</td>
<td>To ensure the product / service reaches the poor / farmer producer</td>
<td>Inclusion of all partners</td>
<td>Overview of the products / services that will be provided</td>
</tr>
<tr>
<td>3. Establish the flow of value</td>
<td>To ensure each market player has an incentive to be part of the business model</td>
<td>Ensure incentives for market players</td>
<td>Overview of the flow of money in the business model</td>
</tr>
<tr>
<td>4. Draw the business model</td>
<td>To show how the market players work together to ensure service delivery</td>
<td>Showing the different products, information and money flows between actors</td>
<td>A graphical representation of the intervention strategy</td>
</tr>
<tr>
<td>5. Determine possible scale up strategies</td>
<td>To ensure scale can be reached</td>
<td>The number of farmers reached</td>
<td>Suggestions for scale up strategy after a successful pilot</td>
</tr>
</tbody>
</table>
Example business model diagramme

Importers/dealers

Spare part manufacturers

Rural producers

Mechanization service providers:

Market facilitator

Project facilitator

Goods

$
Annex 2: Appraisal of the business model

Objective: Assess how the key business in the value chain functions Develop a shared language to describe and assess the business model. Create a baseline for the development of innovations in the business model

Key questions: How does my organization or business function? Is the existing business model viable? Does the business model provide the services needed for inclusive development? Can changes to my business model improve the inclusion of smallholder farmers? Is farm level procurement feasible and can the additional costs be absorbed by the dealers? Can the intermediary bear the costs of the services and investments needed for inclusivity?

What it can do. Provide a rapid picture of an organization’s business model for analysis Highlight bottlenecks and (financial) imbalances Identify areas for innovation or improvement Help enhance business thinking at the farm level

Model 1: Includes the dealer, the farmer and existing service providers. Need to develop links with finance and manufacturing of spare parts.

Model 2: Includes the dealer and customers only with a need to develop service providers and manufacturers

Model 3: Dealer sells to service providers – the latter provide hiring services to farmers. Need to upgrade by developing mechanics, spare parts manufacturing and links to new financial products.

All successful business models have an outstanding offer, the ability to monetize the offer, and the ability to sustain it. The offering is the good or service provided. But there is a need to have more than just a product or service that people want, there has to be a price charged that generate a significant margin and is able to be sold. However, these are not enough. Profitability needs to be sustained over time. Factors such as maintaining/ growing competitive advantage, the ability to innovate and avoiding pitfalls affect the sustainability of the business model. Thus business models should bridge the gap in ensuring more effective operations and management by answering the questions:

- Which services shall be offered to which customers?
- How and within which structure shall these services be offered?
- How can I get new customers and keep them?
Offering

Business organization

The organization of the business and the process for distributing products to buyers. This includes the channels that the business reaches and interfaces with its suppliers and customers and the types of relationships with its customers, suppliers and service providers. Types of clients (small farmers, SMEs, farmer organizations), numbers, and whether they buy or hire small mechanization. This also refers to the kind of products sold. The product covers all aspects of what the business offers its customers. This comprises the company's bundles of products and services. The business organization also comprises the organization’s resources and activities. The resources are required to produce and add value (land, processing machinery, storage facilities, skills, knowledge) and an organization’s key activities are crucial for the business to successfully function. Like key resources, they are required to create and sustain a Value Proposition, reach markets, maintain customer relationships, and earn revenue. Finally, business organization also covers the strategies that the business devises to increase profits and market share; enter into a new market, consolidate an existing market, etc. The business model must also describe the type of relationship it wants to establish with each customer segment in order to deliver the product. Relationships can range from personal to mass media.

- Description of the business (products/ service, key partners, key suppliers, channels of delivery, channels of communication, customer segments, customer relations, business strategy)
- Products and services bought by what category of customer
- Human resource base of the business model (managers, technical staff etc.)
- Description of intermediaries in the chain
- Gaps in the chain
- Key activities/ resources in the business model
- Source of key resources (existing business or partners)
- Most important costs in the business model
- Most expensive key resources; cost
- Most expensive activities; cost
- Sources of finance; terms and conditions; financial products
- Most effective channels of delivery
- Functions of key partners (activities)
- Bundles of products/ services offered to each customer segment
- Business provides the service demanded by customers
- Importance of partner support
- Bottlenecks in the flow of products/ services
Value proposition

The value proposition and cost management structures underpin the success of any business model. The value proposition is the reason why customers choose your product or service over another. This refers to anything that differentiates the products from the rest of the market (e.g. low price, good quality). To identify the value proposition for each customer or customer segment, consider the problem or need that your product or service satisfies. The value proposition should offer a solid combination of economic, social and environmental value to both downstream (whom you sell to) and upstream (whom you buy from) actors.

- Uniqueness of the product/service
- Customer differentiation of product/service from competitors
- Value of the product/service delivered to customers (downstream links)
- Value of the product/service delivered to suppliers (upstream links)
- Value of additional support services
- Social and environmental value
- Importance of the end benefit of using the product/service
- Strategy (and the underlying logic) to continue to deliver value to customers
- Opportunities to add value to the business model
- Upgrading interventions to increase profits and market share
- Activities and resources needed to sustain the value proposition
- What key resources are needed to sustain the value proposition?
- Cost of maintaining value proposition

Market attractiveness

Market attractiveness is typically the most important component of the business model. This involves selling a product/service to the right combination of market, niche and customer. Understanding the current and future demand for the product and service. Customers are at the core of the business model because, without them, no business can survive. It is important to understand the needs of the customers or customer segments to determine how to best satisfy those needs.

- Unserved or underserved market
- Competitiveness of the market niche
- Existing market demand for 2WT
- Future market demand for 2WT
- Growth in the market
- No. of incumbents in the industry
- Size of the customer segment. Potential.
- Strength of incumbents and location
- Size of market share
• Barriers of entry
• Volatility of the market
• Efforts to expand demand
• Existence and effectiveness of promotional strategy. What is it? Can it be improved?
• Other ways of identifying customer demands
• Response to customer needs
• Fairness of prices (how are prices set; break-even points;
• Similarity of other offerings available
• Existence and value of branding
• Bottlenecks in market demand

Performance

Profit model

*Prices:* The prices and margins set in the creation and delivery of a value proposition and in generating income

*Cost structure:* The business model’s cost structure describes the costs incurred for the creation and delivery of a value proposition, maintaining customer relationships and generating income.

*Revenue streams:* A company’s revenue stream is made up of the following elements: a value proposition that reaches a customer (segment) through a certain channel supported by a distinct type of relationship

*Profitability model:* While the design of business models tends to focus on the profitability the gross margin must be balanced with the overhead expenses. Many business models have several service or product offerings. Some of these offerings have low gross margin, some have high gross margins. A business model that can successfully sell more of the high margin items is significantly better than a business model that sells only low margin items. To maximize profitability, minimize sales of the lowest margin items while maximizing sales of the highest margin items

• Financial profitability of the business
• Profitability of the different small mechanization product lines
• Knowledge of break-even points (is it high or low)
• Prices of products sold
• Way of setting prices
• Level of competitiveness of prices set
• Stability of prices over time
• Existence of pricing strategy (are products priced correctly?)
• Affordability of prices for customers
• Revenue streams; stability of revenue stream
• Contribution in revenue/ profit of each product line
• Distribution of revenues over the year
• Is the revenue model an incentive to continue the business
• Volume of profits selling the product/ service
• Stability of profits over the last 5 years; increase in profits; annual growth rate of profits.
• Forms of payment for products (credit, cash etc.)
• Future actions/ opportunities to increase revenues/ profits (add value). What are your plans?
• Barriers to achieving good business performance (also finance).

Sales performance

The business model needs to account for turning potential revenues into actual revenues

• Volume of sales; dynamics of sales (for each product/ to each customer segment)
• Management of customer relations
• Resources and activities to sustain customer relations
• Customer feedback and its use to improve products and marketing
• Ways of responding to customer needs
• Ways of finding new customers
• Predictor of future sales
• Most popular products and why.
• Stability of sales over time
• Improvement of sales over time
• Barriers to achieving good sales performance.
• Ease of marketability and sales of product
• Ease of convincing customers to buy from you and not competitors
• Ability to build relationships with customers/ suppliers.

Customer benefit and satisfaction

The benefits that the business model generates for its customers- machinery hiring enterprises and farmers. This includes the quality of services offered, the impact of the services and the level of satisfaction that customers with the product/ service. Measuring customer benefits and satisfaction is an important element in providing better, more effective and efficient services. Customer satisfaction could be addressed through a simple method – 1) the level of importance of the services provided and 2) service providers importance in giving services. An index on satisfaction (from very satisfied, satisfied, dissatisfied and very dissatisfied) could be developed.

• Benefits received from goods/ services for customers
• Benefits received from goods/ services for suppliers
• Benefits for women
• Effectiveness of the scope and quality of services received
• Efficiency of the cost and quality of services received
• Customer satisfaction with goods/ services. If not, why?
• Supplier satisfaction with goods/ services. If not, why?
• Business partner satisfaction with goods/ services. If not, why?
• Constraints on the goods/ services provided
Sustainability

Capacity and competency

The capacity, competencies and skills needed for each of the partner organizations and businesses to innovate, respond to changes and risks and ensure that the business model is able to sustain itself.

- Competency and capacity of management and staff
- Available skill, people, facilities and resources to deliver services that consumers want
- Availability of financial resources to sustain the value proposition, distribution channel, revenue streams etc.
- Availability of other resources to sustain the value proposition, distribution channel, revenue streams etc.
- Allocation/distribution of key resources
- Existence of financial management skills among leaders
- % of annual expenditure is used for staff training
- Constraints on capacity and competency of management, staff and partners.

Risk Mitigation

The possibility of inadequate profits or even losses due to uncertainties e.g., changes in tastes, preferences of consumers, increased competition, change in government policy, obsolescence etc. Every business organization contains various risk elements while doing the business. Business risks implies uncertainty in profits or danger of loss and the events that could pose a risk due to some unforeseen events in future, which causes business to fail.

- Business risks – policy level, local level, competitors
- Future threats (changing demographics, consumer behavior, policy changes etc.)
- Is a large competitor entering the market a possibility?
- Ways to mitigate risks

Innovation

The best method to continue to grow the strength of the business model is through innovation. Innovation in any and all areas will strengthen the business model and you’re ability to compete. Innovation can take many forms. The model can be strengthened by changing the target market, the marketing model, what you sell and for how much, the products you sell or their mix, improving the sales model or delivery system or innovating away a pitfall (risk). One of the most important practices to promote innovation is to budget for R&D.
• Importance of innovation for the future of the business
• Capacity to innovate in line with needs
• Importance of innovation to retain/increase customer pool
• Types of innovations introduced; before and in the future
• Success of past innovations
• Existence and size of R&D budget for the company
• Other forms of innovation

**Competitive advantage**

Competitive advantage is a complex and far reaching concept. Competitive advantage is what keeps the business model strong and competitors at bay. In order to have a solid and durable business model you must always work on having some form of meaningful competitive advantage. Without it, your business doesn’t have long-term staying power. Competitive advantage is the sum of all the aspects of the business model (core competencies and culture) that your competitors wish they could copy, but can’t. These are some of the ways competitive advantage can be maintained: a) leveraging intellectual property b) establishing a financial advantage – flexible financial structure, corporate culture, economies of scale.

• List of competitors; increase or decrease in the numbers of competitors
• Existence of competitive advantage in terms of cost, differentiation or access to resource
• Significance of competitive advantage
• Numbers of competitors increasing/decreasing
• Threat of new entrants entering the market
• Barriers of entry to the designated market
• Bargaining power of suppliers/customers (increasing/decreasing)
• Effectiveness in convincing a customer to buy from you and not your competitor
• Opportunity to increase competitive advantage in the future
Annex 3: Multi-stakeholder roundtables:

The roundtable discussions can take three forms: 1) as part of the analysis and planning exercise to identify the problems and critical factors of market system performance 2) to secure agreement on the action plan for the design of a new business model or the upgrading of an existing business model 3) to evaluate and take stock of business model performance and upgrading. This Annex will at this stage will only refer to form 1 - the Critical Success Factors.

This roundtable could be preceded by focus group interviews of the main supply chain stakeholders where greater in depth analysis may be required. Following these interviews that stakeholders involved could be brought together at a multi-stakeholder roundtable where the critical success factors are discussed in a transparent and open format. The Critical Success factors would be identified by each of the stakeholder groups – dealers, service providers, farmers and ranked according to perceived preference. The multi-stakeholder round table could culminate in the preparation of an upgrading strategy that enhances their joint performance.

What are Critical Success Factors? They are the areas of the business that are absolutely essential for the business to succeed. They are the most important factors affecting farmer decisions to procure or use 2WTs and their implements. The critical success factors ensure that the business model is well-focused and avoids wasting effort and resources on less important areas. Finally, it helps to keep the business on track towards common aims and goals. CSFs may vary according to the different market segments of the business. These segments could differentiate between smallholder farmers, medium size farmers, larger/ commercial farmers and rural entrepreneurs. It should be noted that some CSFs might influence other CSFs or factors such as markets, technologies, etc. Such CSFs could be rephrased into “key influence factors”.

The steps below could be followed in the process:

Step 1: Establish your business's mission and strategic goals
Step 2: For each strategic goal, ask "what area of business is essential to achieve this goal?" The answers to the question are your candidate CSFs.
Step 3: Evaluate the list of possible CSFs to find the absolute essential elements for achieving success - these are the CSFs. Rank them.
Step 4: Identify how you will monitor and measure each of the CSFs.
Step 5: Communicate the CSFs along with the other important elements of the business strategy.
Step 6: Use the CSFs to monitor and reevaluate performance.

Examples of CSFs related to mechanizations are:

- Cost/ price of tractors and equipment
- Reliability and timeliness in delivery
- Timeliness of operations (hire service)
• Availability of spare parts
• Customer satisfaction
• Training
• Management commitment
• Staff orientation

This should be looked at not only from the perspective of the dealers, manufacturers and operators but also the farmers.

Three or more groups of stakeholders should be brought together to get a perspective from each angle: what the dealer’s think, what the service providers think and what the customers think?

The process could follow the guidelines below:

a) Breakdown into groups and brainstorm the CSF’s as perceived by the group members.
b) Each group presents their results with a justification
c) This should be followed by a discussion.
d) The discussion could continue on gaining consensus on the ranking of CSFs in order of importance (1 to 5, with 5 being most important). This could be done through a system of pairwise ranking.

e) Breakdown into mixed groups – dealers, service providers and farmers to identify interventions
f) Each group should present this to the plenary for discussion.
g) On the basis of the interventions identified prepare an upgrading plan. This is unlikely to be completed during the roundtable meeting but would require follow up by the Agribusiness Development Officers.

Tip

A “good” CSF begins with an action verb and clearly and concisely conveys what is important and what should be attended to. Verbs that characterize actions include: attract, perform, expand, monitor, manage, deploy, etc. (“poor CSFs” start with: enhance, correct, up-grade.)

Examples: “monitor customer needs and future trends”

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3 Pairwise ranking is a structured method for ranking a small list of items in priority order. It can help you to prioritize a small list and make decisions in a consensus-oriented way. It can be done by constructing a pairwise matrix with each box representing the intersection (or pairing) of two items. Each pair should be ranked. For each pair, have the group (using a consensus-oriented discussion) determine which of the two ideas is preferred. Then, for each pair, write the number of the preferable idea in the appropriate box. Repeat this process until the matrix is filled. Then count the number of times each alternative appears in the matrix. Then rank the alternatives by the total number of times they appear in the matrix. To break a tie (where two ideas appear the same number of times), look at the box in which those two ideas are compared. The idea appearing in that box receives the higher ranking.
**Example Critical Success Factors Checklist and Format**

**CRITICAL SUCCESS FACTORS:** Most important factors affecting farmer decisions and satisfaction with the mechanization products and services

<table>
<thead>
<tr>
<th>Factor</th>
<th>Score (1 to 5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of product</td>
<td></td>
</tr>
<tr>
<td>Quality of machinery/</td>
<td></td>
</tr>
<tr>
<td>implements</td>
<td></td>
</tr>
<tr>
<td>Delivery</td>
<td></td>
</tr>
<tr>
<td>Availability of spare parts</td>
<td></td>
</tr>
<tr>
<td>Training</td>
<td></td>
</tr>
<tr>
<td>Availability of finance</td>
<td></td>
</tr>
<tr>
<td>Timeliness of operations</td>
<td></td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td></td>
</tr>
<tr>
<td>Support services</td>
<td></td>
</tr>
</tbody>
</table>

a) How do you think the factors shown in the box to the right influence your decision to buy the product and your satisfaction with the products and services? Score on a scale of 1 to 5 where 1 stands for the lowest influence and 5 stands for the highest influence.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Score (1 to 5)</th>
</tr>
</thead>
<tbody>
<tr>
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<tr>
<td>Customer satisfaction</td>
<td></td>
</tr>
<tr>
<td>Support services</td>
<td></td>
</tr>
</tbody>
</table>

b) How do you think the factors shown in the box to the right influence your decision to supply the product and your satisfaction with your services? Score on a scale of 1 to 5 where 1 stands for the lowest influence and 5 stands for the highest influence.

Example of a Critical Success Factor analysis:

Sources: Adapted from the FAO experience in inclusive business modeling
Comparing Views of Buyers and Producers

- Quantity
- Flexibility
- Price
- Design
- Delivery Time

Producer’s Perception vs. Buyer’s Perception
Annex 4  Design an upgraded business plan and action plan

Designing and upgraded business model calls for the formulation of a unique value proposition.

Based on results of the roundtable discussions, the partners (producers, buyers) or facilitating organization would design a “business proposition” on how to upgrade their business model.

The proposition would identify:
● the innovations that represent a departure from the existing model and supplier-buyer relationship, as well as the potential benefits and sources of revenue for each party;
● upgrading activities that will improve the competitive advantage for the suppliers and buyers and increase the volumes of produce procured from the small farmers and/or processors;
● a financial plan that costs each of the activities to be supported under the upgrading strategy and could be used as basis for mobilization of financial resources.

All the differences of the offer versus the competitors equate to a unique value proposition. Value is what the product does for customers that they’re prepared to pay for. Does the product benefit the customer and is the customer ready to pay for them? Differentiation comes services, access), branding, quality, durability (longer lasting), one-stop-shop, physical location, pricing (affordability), product attributes, scale, speed of delivery, support services.

Key questions:
● What bundles of products and services are we offering to each customer segment?
● How can the product be improved and better address customer needs?
● Are there any gaps in the distribution network that needs to be filled?
● What training content is needed to upgrade the business model?
● How can the distribution process be improved?
● Is there a need to develop additional partnership links?
● What is needed to ensure win-win situations?
● What financial products/services are needed to upgrade the model?
● Is the upgraded model financially profitable?
● Will the upgraded model face competition? What ways can be introduced to reduce competition?
● What risks will the upgraded model face? What is proposed to mitigate risks?
● Do all the elements of the business model reinforce one another?
## Value proposition analysis:

- For what market is the value proposition being created?
- What does the market value the most – the value experience or the customer experience?
- What products are being offered?
- What benefits will the customer derive from the products?
- What alternative options exist?
- What evidence substantiates the value proposition?

### Developing a financial model

#### Key questions:

- Is finance a noticeable constraint on the improved business model?
- What financial products/options are available?
- What is the proposed financial plan?

### Developing a risk mitigation strategy

Risk or pitfalls are potential glitches in the business model. The business environment is fluid and business models erode over time. Ideally, your business model can avoid pitfalls such as governmental interference, overreliance on a few customers, location handicaps, excessive legal concerns and others. These risks don’t make the business model nonviable, but they do make it less attractive. Whether the model is modestly unattractive or significantly unattractive pitfalls should be considered as potential risks to the model.

#### Key questions

- What are the risks to maintaining the business model?
- Are there any potential future threats from changing demographics, consumer behaviour changes and other trends?
- Is the business prone to potential government or regulatory policy changes?
- Is the business location a strategic handicap?
- Do you have contingencies in place to protect intellectual property?
- Is a large competitor entering the market a possibility?
- Can you mitigate any risks to the business?
- What ways have been developed to mitigate these risks?
Annex 5: Detailed Business Model Analysis Framework and Scoring

Offering (Product/service) - 30

1. Business organization – 10 points

i) Business organization (2)

<table>
<thead>
<tr>
<th>The organization of the business and the process for distributing products to buyers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• How does the business operate?</td>
</tr>
<tr>
<td>• What is the organizational structure of the business model?</td>
</tr>
<tr>
<td>• What is the human resource base of the business? (managers, technical staff, other staff etc.)</td>
</tr>
</tbody>
</table>

ii) Key partners and collaboration: (2)

<table>
<thead>
<tr>
<th>The types of relationships that the organization has with its buyers, suppliers, service providers; what are the motivations and disincentives for collaborating or not?</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Who are the key partners?</td>
</tr>
<tr>
<td>• Who are the key suppliers?</td>
</tr>
<tr>
<td>• Which key resources are acquired from partners?</td>
</tr>
<tr>
<td>• Which key activities are performed by partners?</td>
</tr>
<tr>
<td>• Are the partners satisfied with the goods or services provided?</td>
</tr>
<tr>
<td>• How dependent is the business on partner’s support?</td>
</tr>
</tbody>
</table>

iii) Flow of products/services and distribution (2)

<table>
<thead>
<tr>
<th>Channels refer to how the business reaches and interfaces with its customers. In the case of agricultural products, the sales channel often is equivalent to the logistics supply chain, which transfers the product between the producer and the final customer.</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Are there intermediaries in the supply chain?</td>
</tr>
<tr>
<td>• Through which channels is the product or service delivered?</td>
</tr>
<tr>
<td>• Which channels work best?</td>
</tr>
<tr>
<td>• Which channel is more efficient and effective?</td>
</tr>
<tr>
<td>• Through which channels is the value of the product/service communicated?</td>
</tr>
<tr>
<td>• Can the intermediary bear the costs of the services and investments needed to reach smallholders?</td>
</tr>
<tr>
<td>• Are there any bottlenecks in the flow of products/services? If so, what are they?</td>
</tr>
</tbody>
</table>
iv) Resources and activities (2)

Resources required to produce and add value (land, processing machinery, storage facilities, skills, knowledge) and the activities and processes key for the organizations’ operations

- What key resources are needed to sustain the value proposition?
- What key resources are needed to sustain the company’s distribution channels?
- What key resources are needed to sustain the company’s customer relationships?
- What key resources are needed to sustain the revenue streams?
- How are the key resources available to all actors in the chain?
- How are these resources allocated and distributed?

An organization’s key activities are crucial for the business to successfully function. Like key resources, they are required to create and sustain a Value Proposition, reach markets, maintain customer relationships, and earn revenue.

- What key activities are needed to sustain the value proposition of the business?
- In what part of the chain are the key activities carried out?
- Who is responsible for these activities? What are the risks and incentives involved?
- What key activities are needed to sustain our distribution channels?
- What key activities are needed to sustain our customer relationships?
- What key activities are needed to sustain our revenue streams?

v) Business strategy (2)

What strategies do the business model drivers/ partners have to increase profits and market share; enter into a new market, consolidate an existing market, etc. In order for the business model to succeed you need to create a system to finalise the marketing process that turns customer needs into cash in your pocket. To have a strong business model, the cost of sales versus the margin generated must be reasonable.

- Are there opportunities to add value to the business model?
- What upgrading strategies do you have to increase profits and market share?
- What is your strategy (and the underlying logic) to continue to deliver value to your customers?
- What are your upgrading interventions?
2. Market demand – 10 points

i) Products (3)

This refers to the kind of products sold, anything that differentiates the products from the rest of the market (e.g. low price, good quality) and actions that are proposed for future product development. The product covers all aspects of what the business offers its customers. This comprises not only the company's bundles of products and services but the manner in which it differentiates itself from its competitors.

- What are the products/services that you’re selling/providing?
- What makes your product/service unique and different?
- How can you differentiate your product/service?
- What actions are proposed for future product development?

ii) Clients, market segmentation (2)

Customers are at the core of the business model because, without them, no business can survive. It is important to understand the needs of the customers or customer segments to determine how to best satisfy those needs. Types of clients (small farmers, SMEs, farmer organizations), numbers, and whether they buy or hire small mechanization.

- Who are your target customers?
- What products/services are bought/hired by what category of customer?
- Which customer need is this satisfying?
- How much is sold?
- What does the customer value?
- Does the company have a way of identifying customers’ needs?
- How does the business respond to customer needs?
- Does the business provide the services demanded by customers?
- Does the business provide the services demanded by smallholder farmers?
- What is the way the business tries to find new customers?
- Do you think that the company could attract more customers by promoting the good?
- Do you have a promotional strategy?
- What is it?
- Can it be improved?

iii) Market demand (5)

Market demand is typically the most important component of the business model. This involves selling a product/service to the right combination of market, niche and customer. Understanding the current and future demand for the product and service.
• How attractive is the mechanization industry?
• How attractive is the 2WT niche?
• What is the size and prospects of the current market?
• Is the market expected to grow over the next 3 to 5 years?
• Are there any barriers of entry?
• What efforts are being taken to expand demand?
• How many incumbents are in the industry and how strong are they?
• How attractive is the customer segment?
• Is it big enough to provide a good opportunity to enter the market and sell enough products or services, at a price that will allow the creation of a viable business?
• Does the offering tap an unserved or underserved market?
• How competitive is the market niche?

3. **Unique value proposition** – **10 points**

The value proposition and cost management structures underpin the success of any business model. The value proposition is the reason why customers choose your product or service over another. To identify the value proposition for each customer or customer segment, consider the problem or need that your product or service satisfies. The value proposition should offer a solid combination of economic, social and environmental value to both downstream (whom you sell to) and upstream (whom you buy from) actors.

• What value does your product/service deliver?
• For what market is the value proposition being created?
• How powerful and differentiated is your value proposition?
• Can your customers clearly differentiate your product/service from your competitors?
• Is your brand meaningful in the customer’s value/quality perception?
• How volatile is your market share?
• Does the product solve a compelling need that the customer can’t fill elsewhere?
• Which of the customer’s problems is the business helping to solve?
• Are similar offerings available?
• How important is the end benefit of using the product/service?
• What value is offered to upstream links e.g. foreign manufacturer/importer?
• What social and environmental value do the products/services offer?
• Does the company deliver additional value to smallholder farmers?
• Is the product/service easily marketable?
• How effectively can you convince a customer to buy from you and not your competitor?
• How is your ability to build relationships with your customers, suppliers and employees?
Performance - 30

4. **Profit model** – 10 points

i) **Prices, costs, revenues (5)**

| Prices: The prices and margins set in the creation and delivery of a value proposition and in generating income |
| Cost structure: The business model’s cost structure describes the costs incurred for the creation and delivery of a value proposition, maintaining customer relationships and generating income. |
| Revenue streams: A company’s **revenue stream** is made up of the following elements: a **value proposition** that reaches a **customer (segment)** through a certain **channel** supported by a distinct type of **relationship** |

**Prices:**
- What are the prices of the products sold?
- How are the prices set?
- Are they competitive?
- Have these prices been stable over time?
- Are the prices affordable for your customers?
- Do you think that your products/services are priced correctly?
- Do you have a pricing strategy and what are the prospects for the future?

**Revenue**
- What are the revenue streams of your business?
- How much does each stream contribute to overall revenues?
- Is revenue incurred at one time of the year or is it spread equally throughout the year?
- Does the revenue model provide the necessary incentives to continue?
- How are customers currently paying for goods and services?
- How would they prefer to pay?
- What future actions are you considering to enhance revenues?

**Costs:**
- What is your level of operational and fixed costs to maintain your business model?
- What are the most important cost items of your business model?
- Which assets/resources are most expensive?
- How much do they cost?
- Which key activities are most expensive?
- How much do they cost?
- Do you feel that you have a cost advantage?
ii) Profitability and finance (5)

While the design of business models tends to focus on the gross margin generated, the gross margin must be balanced with the overhead expenses. It’s possible to have outstanding margins and still have a poor business model. Many business models have several service or product offerings. Some of these offerings have low gross margin, some have high gross margins. A business model that can successfully sell more of the high margin items is significantly better than a business model that sells only low margin items. To maximize profitability, minimize sales of the lowest margin items while maximizing sales of the highest margin items.

Profitability:

- How much profit can you make selling the product/service?
- Is the business financially profitable?
- What is your gross margin for each of the product lines?
- What is the overall annual profit of the business?
- Is this a satisfactory return to management?
- Do you know your break-even point? Is it low or high?
- Has the gross margins and profit been stable over the last 5 years? Are they increasing? By what annual growth rate?
- Does the interplay among the different products/services affect profitability? How?
- Are there opportunities to increase profits by adding value? What are your plans?

Finance:

- Are there financial barriers hindering the business?
- Are you able to borrow or mobilize funds?
- Is it for working capital or investment capital?
- What are your sources of finance?
- What terms and conditions do you receive for finance?
- What financial products/options are available?

5. Marketing performance – 10 points

i) Customer relations: (2)

The business model must also describe the type of relationship it wants to establish with each customer segment in order to deliver the product. Relationships can range from personal to mass media. Consider the following aspects:

- The channel of communication
- The consistency of the communication
- The cost of maintaining the communication
• What type of relationship does each of the company’s customer segments expect to be established and maintained?
• Which ones have been established?
• How are customer relations managed?
• How much money is spent on customer relations?
• Could the business invest in more profitable customers?

ii) Market performance (3)

The business model needs to account for turning potential revenues into actual revenues

• Which channels enjoy the most secure prospects for growth?
• How attractive is the customer segment?
• Is the product marketed or sold?
• How well is the product/service marketed?
• How does your business’s sales performance compare to competitors in your market?
• Do you have a sales pipeline model that can accurately predict future sales?
• Can you correctly forecast sales?
• Can you attract more customers by promoting the good?
• Is the overall market expected to grow/shrink?

iii) Sales (3)

• What is the annual level of sales of your products?
• Which products are selling better and why?
• Have the level of sales over time improved or remained stable?
• Have you forecasted sales?
• What are your forecasts for the future?
• How much is being made each year?
• Is this sustainable?

iv) Brand considerations (2)

• Do you have a compelling price/value combination? This will only strengthen the brand.
• What is your current market share? Great brands have a large market share.
• Do you have the power to raise pricing?
6) **Customer benefits and satisfaction** – 10 points

The benefits that the business model generates for its customers- machinery hiring enterprises and farmers. This includes the quality of services offered, the impact of the services and the level of satisfaction that customers with the product/service. Measuring customer benefits and satisfaction is an important element in providing better, more effective and efficient services. Customer satisfaction could be addressed through a simple method – 1) the level of importance of the services provided and 2) service providers importance in giving services. An index on satisfaction (from very satisfied, satisfied, dissatisfied and very dissatisfied) could be developed.

i) **Customer benefits (5)**
   - As a result of the services received what benefits did they provide?
   - What has been the positive effect on women?
   - Is the scope and quality of services that you received effective and efficient?
   - Do you feel you got what you expected from the service?
   - What more do you wish you could get from the service?

ii) **Customer satisfaction (5)**
   - Are you satisfied with the scope and quality of the services you received?
   - If not why not?
   - What are the constraints on the services provided?
Sustainability - 40

7. Capacity and competencies – 10 points

The capacity, competencies and skills needed for each of the partner organizations and businesses to innovate, respond to changes and risks and ensure that the business model is able to sustain itself.

- What is the competency and capacity of management and staff?
- What are the supplier’s strengths and weaknesses?
- Does the supplier have the necessary skills, people and facilities to deliver services that consumers want?
- What percent of annual expenditure is used for staff training?
- Does the supplier have good business management skills?
- Does the supplier have sufficient financial resources and good financial management skills?
- Does the supplier understand consumer demand?
- Does the supplier regularly gather customer feedback and use it to improve products and marketing?
- How do these strengths and weaknesses position the supplier relative to consumer demand?

8. Risk mitigation - (10 points)

The possibility of inadequate profits or even losses due to uncertainties e.g., changes in tastes, preferences of consumers, increased competition, change in government policy, obsolescence etc. Every business organization contains various risk elements while doing the business. **Business risks** implies uncertainty in profits or danger of loss and the events that could pose a risk due to some unforeseen events in future, which causes business to fail.

- What are the risks that the business has to face?
- Are there any potential future threats from changing demographics, consumer behaviour changes and other trends?
- Is the business prone to potential government or regulatory policy changes?
- Is the business location a strategic handicap?
- Do you have contingencies in place to protect intellectual property?
- Is a large competitor entering the market a possibility?
- What ways have been developed to mitigate these risks?
- Can you mitigate any risks to the business?
9. **Innovation** - (10 points)

The best method to continue to grow the strength of the business model is through innovation. Innovation in any and all areas will strengthen the business model and you’re ability to compete. Innovation can take many forms. The model can be strengthened by changing the target market, the marketing model, what you sell and for how much, the products you sell or their mix, improving the sales model or delivery system or innovating away a pitfall (risk). One of the most important practices to promote innovation is to budget for R&D.

- How important is innovation for the future of the business?
- How much do you need to innovate to keep pace with competition?
- Is your business capable of innovating in line with needs?
- How important is your product/service innovation to retaining or increasing your customer pool?
- Have you been successful when innovating your business model in the past?
- If you fail to innovate fast enough, how severe are the consequences?
- What mechanisms for innovation have been incorporated in the model?

10. **Competitive advantage** - (10 points)

Competitive advantage is a complex and far reaching concept. Competitive advantage is what keeps the business model strong and competitors at bay. In order to have a solid and durable business model you must always work on having some form of meaningful competitive advantage. Without it, your business doesn’t have long-term staying power. Competitive advantage is the sum of all the aspects of the business model (core competencies and culture) that your competitors wish they could copy, but can’t. These are some of the ways competitive advantage can be maintained: a) leveraging intellectual property b) establishing a financial advantage – flexible financial structure, corporate culture, economies of scale.

- With whom are you competing?
- Does the model possess a competitive advantage in terms of costs, differentiation, or access to resources?
- How significant is your competitive advantage?
- Will you be able to maintain or grow your competitive advantage in the near future?
- Is there a significant threat of new entrants entering the market?
- Are the numbers of your competitors increasing or decreasing?
- Is the bargaining power of your suppliers increasing or decreasing?
- Is the bargaining power of customers increasing or decreasing?
- What are the barriers of entry to your designated market?