BUSINESS MODEL GENERATION: THE COMPONENTS OF BUSINESS PROCESS

E. Kravchenko
Donetsk National University of Economy and Trade,
31, Shchorsa Str., Donetsk 83050 Ukraine
krav07@meta.ua

Abstract: Business strategy in Ukraine is coming in for lots of critics for being enabled to respond to the world tendencies in economics. The article will canvas the key aspects of business model formulations and shed some light on the pertinent usage of business models in business in Ukraine.

Keywords: business model, customers, offer, value.

Introduction
Throughout the twentieth century, business models, as a part of business strategy, played a vital part in business in general. Now, in the early millennium, we are about to see further changes in the way we should run the business successfully. According to the fact, that business planning has been considered as a marginal one in Ukraine for a quite long period of time, the problem of old-fashioned manners of business is pressing and relevant.

The aim of the article is to expand the notion of business model and to clarify the problems of business strategy in Ukraine.

Presentation of the main material
Basically, the definition of ‘Business model’ is understood to be “the plan implemented by a company to generate revenue and make a profit from operations. The model includes the components and functions of the business, as well as the revenues it generates and the expenses it incurs.” (Abrams, R. et al., 2003, p. 111). It is needless to say that over the years business models have become much more sophisticated. But, nevertheless, all models are based on mostly the same concept and recently this concept sow the light of day and have become pervasive. This concept is so-called “The 9 Building Blocks”. This concept was introduced by Osterwalder and Pigneur (2009) and allows entrepreneurs to describe and think through the business model of organization, competitors, or any other enterprise. This concept has been applied and tested around the world and is already used in organizations such as IBM, Ericsson, Deloitte, the Public Works and Government Services of Canada, and many more. This concept can become a shared language that allows everybody to easily describe and manipulate business models to create new strategic alternatives. Without such a shared language it is difficult to systematically challenge assumptions about one’s business model and innovate successfully. The authors maintain the view that a business model can best be described through nine basic building blocks that show the logic of how a company intends to make money. The nine blocks cover the four main areas of a business: customers, offer, infrastructure, and financial viability (Osterwalder and Pigneur, 2009, p. 15). Despite the fact that nowadays this question is relevant and enlightened by lots of European and American scientists: Thomas Dufresne, James Martin, Lambertus Johannes Hommes, Manuel Laguna, Johan Marklund in Ukraine literature it still remains mostly constrained and concise. Taking into account the process of globalization and enlargement of business all over the world, I assume that this question needs closest scrutiny and analysis.

So, these blocks can be summarized as follow:

- Customer segments. The Customer Segments Building Block defines the different groups of people or organizations an enterprise aims to reach and serve.
- Value propositions. The Value Propositions Building Block describes the bundle of products and services that create value for a specific Customer Segment.
- Channels. The Channels Building Block describes how a company communicates with and reaches its Customer Segments to deliver a Value Proposition.
• **Customer relationships.** The Customer Relationships Building Block describes the types of relationships a company establishes with specific Customer Segments.

• **Revenue streams.** The Revenue Streams Building Block represents the cash a company generates from each Customer Segment (costs must be subtracted from revenues to create earnings).

• **Key Resources.** The Key Resources Building Block describes the most important assets required to make a business model work.

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

• **Key Partnerships.** The Key Partnerships Building Block describes the network of suppliers and partners that make the business model work.

• **Cost Structure.** The Cost Structure describes all costs incurred to operate a business model (Osterwalder and Pigneur, 2009, p. 15-16). Coming to grips with the fact, that one of the accurate problems of Ukrainian companies is the low quality of products and services that create value, it would be beneficial to lighten the question of Value propositions.

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

• **Newness.** Some Value Propositions satisfy an entirely new set of needs that customers previously didn’t perceive because there was no similar offering. This is often, but not always, technology related. Cell phones, for instance, created a whole new industry around mobile telecommunication. On the other hand, products such as ethical investment funds have little to do with new technology.

• **Performance.** Improving product or service performance has traditionally been a common way to create value. The PC sector has traditionally relied on this factor by bringing more powerful machines to market. But improved performance has its limits. In recent years, for example, faster PCs, more disk storage space, and better graphics have failed to produce corresponding growth in customer demand.

• **Customization.** Tailoring products and services to the specific needs of individual customers or Customer Segments creates value. In recent years, the concepts of mass customization and customer co-creation have gained importance.

This approach allows for customized products and services, while still taking advantage of economies of scale.

• **“Getting the job done”** Value can be created simply by helping a customer get certain jobs done. For instance, Rolls-Royce airline customers rely entirely on Rolls-Royce to manufacture and service their jet engines. This arrangement allows customers to focus on running their airlines. In return, the airlines pay Rolls-Royce a fee for every hour an engine runs.

• **Design.** Design is an important but difficult element to measure. A product may stand out because of superior design. In the fashion and consumer electronics industries, design can be a particularly important part of the Value Proposition.

• **Brand/status.** Customers may find value in the simple act of using and displaying a specific brand. Wearing a Rolex watch signifies wealth, for example. On the other end of the spectrum, skateboarders may wear the latest “underground” brands to show that they are “in”.

• **Price.** Offering similar value at a lower price is a common way to satisfy the needs of price-sensitive Customer Segments. But low-price Value Propositions have important implications for the rest of a business model. No frills airlines, such as Southwest, easy Jet, and Ryanair have designed entire business models specifically to enable low cost air travel. Another example of a price-based Value Proposition can be seen in the Nano, a new car designed and manufactured by the Indian conglomerate Tata. Its surprisingly low price makes the automobile affordable to a whole new segment of the Indian population. Increasingly, free offers are starting to permeate various industries.

• **Cost reduction.** Helping customers reduce costs is an important way to create value. Salesforce.com, for example, sells a hosted Customer Relationship management (CRM) application. This relieves buyers from the expense and trouble of having to buy, install, and manage CRM software themselves.

• **Risk reduction.** Customers value reducing the risks they incur when purchasing products or services. For a used car buyer, a one-year service guarantee reduces the risk of post-purchase breakdowns and repairs.
A service-level guarantee partially reduces the risk undertaken by a purchaser of outsourced IT services.

- **Accessibility.** Making products and services available to customers who previously lacked access to them is another way to create value. This can result from business model innovation, new technologies, or a combination of both. NetJets, for instance, popularized the concept of fractional private jet ownership. Using an innovative business model, NetJets offers individuals and corporations access to private jets, a service previously unaffordable to most customers. Mutual funds provide another example of value creation through increased accessibility. This innovative financial product made it possible even for those with modest wealth to build diversified investment portfolios.

- **Convenience/usability.** Making things more convenient or easier to use can create substantial value.

  With iPod and iTunes, Apple offered customers unprecedented convenience searching, buying, downloading, and listening to digital music. It now dominates the market (Osterwalder and Pigneur, 2009, p. 23-25).

  With the growth of the market demands, it would be crucial to highlight the fact, that nowadays the term 'Value' is not limited to products and services, the term 'Value recipient' is not limited to customers and the "Value proposition" is not always tied to the source of revenues.

  Providing something new, something unique, and something more convenient or accessible, customized, with higher performance or to a lower price are all common value propositions towards traditional customers. But value can also be to enable risk- or cost reduction for a supplier, provide access to databases or research tools for early-stage university research, provide user data to "upstream" application developers, out-license manufacturing or quality assurance processes to other companies, cross-license technology & IP, bring passengers to remote airports, provide jobs and environmental responsibility for a region, pay tax to a government, or take active involvement in a community. When realizing that existing assets and capabilities can have a value for someone else, new interesting business models often emerge.

  Potential value recipients can be customers, suppliers, partners, competitors, industry trade groups, professional associations, actors in other industries, universities, research institutes, non-profit organizations, local or national communities, government, society, etc. Also, internal employees are target for value propositions such as good wages, job security, and interesting place to work, recognition, stock options, free food, social events etc.

  Even though the business model spells-out how a company makes money, and the value propositions are what the company offers, not all value propositions have the purpose to generate direct revenues. Reasons can be to, increase the value of existing intellectual assets and capabilities, get access to new assets and capabilities, create momentum for a new technology, lower cost of development, reduce risks, build new markets, attract the best people, etc. (Ewing Marion Kauffman Foundation, 2013).

  On the other hand, the striking difference between Ukrainian and foreign companies is an attitude towards customers, so-called “Customer relationships”. Apparently, it is one of the key aspects and Ukrainian companies should not be unfazed and turn the blind eye towards the fact that companies are often disengaged about customer loyalty.

  The Customer Relationships Building Block describes the types of relationships a company establishes with specific Customer Segments. A company should clarify the type of relationship it wants to establish with each Customer Segment. Relationships can range from personal to automated. Customer relationships may be driven by the following motivations:

  - Customer acquisition;
  - Customer retention;
  - Boosting sales (upselling).

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

  Basically, it is possible to distinguish between several categories of Customer Relationships, which may co-exist in a company’s relationship with a particular Customer Segment:

  - **Personal assistance.**

    This relationship is based on human interaction. The customer can communicate with a real customer representative to get help during the sales process or after the purchase is complete. This may happen onsite at the point of sale, through call centers, by e-mail or through other means.

  - **Dedicated personal assistance.**
This relationship involves dedicating a customer representative specifically to an individual client. It represents the deepest and most intimate type of relationship and normally develops over a long period of time. In private banking services, for example, dedicated bankers serve high net worth individuals. Similar relationships can be found in other businesses in the form of key account managers who maintain personal relationships with important customers.

- **Self-service.**
  In this type of relationship, a company maintains no direct relationship with customers. It provides all the necessary means for customers to help themselves.

- **Automated services.**
  This type of relationship mixes a more sophisticated form of customer self-service with automated processes. For example, personal online profiles give customers access to customized services. Automated services can recognize individual customers and their characteristics, and offer information related to orders or transactions. At their best, automated services can simulate a personal relationship (e.g. offering book or movie recommendations).

- **Communities.**
  Increasingly, companies are utilizing user communities to become more involved with customers/prospects and to facilitate connections between community members. Many companies maintain online communities that allow users to exchange knowledge and solve each other’s problems. Communities can also help companies better understand their customers.

- **Co-creation.**
  More companies are going beyond the traditional customer-vendor relationship to co-create value with customers. Amazon.com invites customers to write reviews and thus create value for other book lovers. Some companies engage customers to assist with the design of new and innovative products. Others, such as YouTube.com, solicit customers to create content for public consumption (Osterwalder and Pigneur, 2009, pp.28-29).

**Conclusions**
Ultimately, the proper implementing of business model is one of the major key to come on top. Presumably, Ukraine is on the verge of changes in the ways of running business and it is pivotal to capitalize on the experiences of foreign countries in such volatile situation.

**References:**