

Business success depends on the right “business model”

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The obvious! It is obvious that conversion of innovation into new products requires access to the right technology. Conversion of new products into business growth depends on management resources, talent and quality – and the choice of the right “business model”. Exploitation of growth opportunities may also depend on adequate funding. Attracting funding requires that the business concept is based on the right “business model”.

The “business model” challenge. Real life business situations represent such a variety of challenges that a “one size fit all” approach to the choice of “business models” does not work. The choice of the right “business model” for a new business, the launch of a new product or the introduction of a new technology is often as important as any technology related choices. However, when transferring R & D results to “business” more emphasis is often put on technology choices than on the choice of the right “business model”.

For many, the issue of “business models” is a mystery. It is seldom dealt with at technical high schools and universities. Even trained economists fail to understand the practical implications of different business models. Making the choice of a successful “business model” is not a straight forward process. It requires understanding of not only market mechanism, but also of social, psychological and organizational behavior.

A “business model” defines the manner by which the business enterprise delivers value to customers, entices customers to pay for the value, and converts those payments to profit.

Below are illustrated 4 different business models, all derived from the same technology.

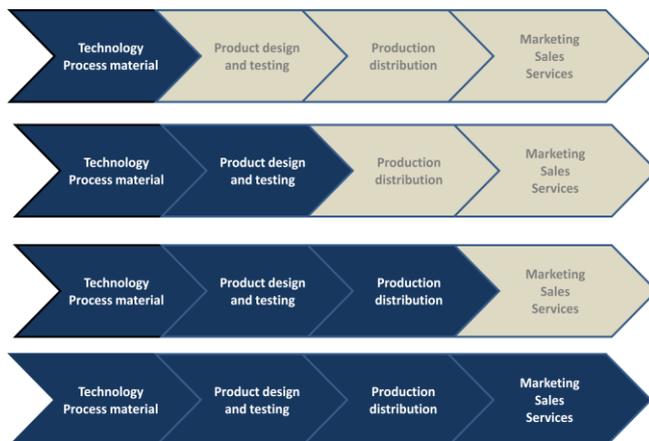
- **Biochemical treatment of organic waste from a Food processing Plant – same technical solution but 4 different business models:**
 - **Model 1:**
 - Deliver all components for the waste treatment unit to the Plant. Let the staff of the Plant assemble the unit. The Plant secure required financing. Sell filter consumables.
 - = “Ikea model”
 - **Model 2**
 - Install the waste treatment unit at the Plant and secure its operational functionality. The Plant secure required financing. Sell filter consumables..
 - = “Turn key supplier”
 - **Model 3**
 - Install the waste treatment unit and operate it on behalf of the Plant. Supply of filter consumables is part of operation fee. Option: Also provide required financing.
 - = “Build & Operate”
 - **Model 4**
 - Set up and operate the waste treatment unit in connection to the Plant. Sell same services to other plants. Treat organic waste for a fixed feed.
 - = “Organic waste treatment company”

The challenge when assessing relevant business models and their potential success equals finding a common ground between:

- what customers want and how they want it delivered
- how an enterprise can organize to best meet those needs and get paid
- and make a profit.

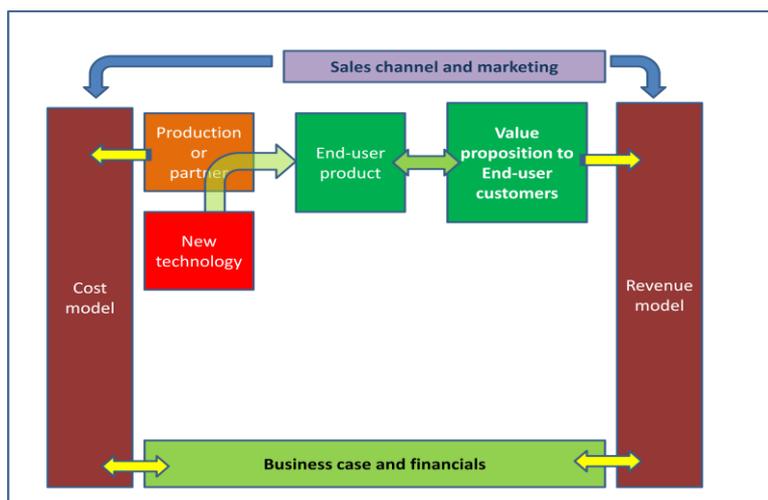
Each of the four exemplified business models might work, but each requires very different technical design (in particular model 1), different organizational resources and competences, different sales channels and financial resources. In order to make the “business model” choices it is also important to define where in the value chain the new technology/solution fits in. The “simple case” is when a new technology is turned into a new product and the business concept covers all parts of the “value chain”.

Figure 1 Value chain



New technology = New product. In order to develop a successful “business model” you need to know how the potential customers make purchase decisions – and how your competitor operate in the market.

Figure 2 Elements in defining the relevant business model (new technology = new product)



It is essential to assess who are the “end users” and “why will they buy” = which value is created for the end-users in order to make them buy the new product. In many cases the first analysis will lead to the revision of product functionality, price assumptions and overall business strategy. Next step is to review how the product is brought to the market and which sales channels are relevant. This analysis may also imply revision of the business strategy or the “business model” applied. It should now be possible to outline the financial part of the equation and to assess if the organization is tailored to implement the plans and if adequate and qualified staff is available. When all the elements are put together in a budget the financial requirements can be assessed. The next step is then conversion of

all elements into a business plan and assessing financing possibilities.

The new technology has to be “imbedded” in a third party product. A more complicated situation is facing the entrepreneur, when the new technology needs to be imbedded in a third party product/application before it comes to use. As an example let us assume to replace chemical raw materials with bio-chemical products raw materials converted in existing processing unit to a (end-)user product already delivered to the market. The challenge is to identify the decision maker(s) for the (end-)user product and the manufacturing unit and convince them of the conversion to the biobased raw materials = “imbedded technology”.

Not unless you fully understand the value proposition the modified unit provides to its end-users/customers and how the producer of the modified unit can capture part of this increased value for his own business will it be possible to secure a deal.

In addition to all the other challenges the provider of an imbedded technology has little control of when and how the modified product using the imbedded technology is being introduced into the market. He will also have no direct end-customer contact, therefore it is difficult fully to assess how the changed value proposition is captured, and if he gets his fair share of the “better deal”. This lack of control might also scare investors away!

In real life it is not always obvious if the exploitation of a new technology is best served by developing new end-user products, by pursuing the “imbedded technology” path or a licensing strategy.

Many different “business models” have been successfully applied. However, the choice of a “business model” is not “what do I like best”. It requires full understanding of the market characteristics and customer behavior and preferences, and some of the most relevant “business models” might be out of reach for financial, liability or legal reasons. It is therefore difficult to identify the special conditions which have made a “business model” successful, and to assess how easy it is to adapt already existing solutions to the needs of the projects from within the BIOCHEM sector.

The BIOCHEM project is specifically targeted at developing tools to support the biochemistry focused entrepreneur considering how to build a successful business and part of the services is specific coaching in relation to “business models”.