

Module 03 : Blueprinting the business model

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Week 03:
Blueprint your
market position



Resource Recovery and Reuse
(RRR) Entrepreneurship

Week 3 module 3: Blueprint your market position

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Now that you have segmented the market, targeted one or more specific customer segments and analysed their activities and pains, it is time to position your RRR business!

So what does positioning mean? Positioning is the art of occupying a distinctive place in your customers’ mind with your business – a place that is unique from your competition because it offers greater value.

Let me give you an example: the Kerewalapitiya Compost Plant from Sri Lanka, processes the organic compounds of the municipal solid waste of the capital Colombo and turns it into compost. Instead of making fertilizer that would fit any agricultural producer, the business designs the fertilizer to have the very specific mix of macro- and micronutrients that the tea plant needs to flourish. By customizing the product to this specific segment, the business increases the value of the fertilizer for the customer and aims to sell more of it to tea plantations than its competitors that only produce regular fertilizer.

So, what you want to create is an offer that creates added value for your customer segments. And when I say offer, I am not just talking about the value proposition – so the product or service, its added value and add-on services. Customers also look at other criteria when making a buying decision. They also look at the price, the sales location, the friendliness of your employees, the payment mode and other factors. These are the key success factors that you have identified as being important for your customers when doing the competitive analysis in module 2. And these should also be reflected in your channels, customer relationships, revenue streams and social and environmental benefits – so the right-hand side of your business model!

Remember that your aim is to attain competitive advantage, so it will be decisive to occupy a distinctive place in your customers’ mind with these elements of your business model – a place that is unique from your competition.

You have already defined and analysed your customer segments, so let us look at the value proposition.

- What are your value propositions to these customer segments?

The value proposition describes your:

- Your product or service: What is your product or service and how can it contribute to covering customer activities? When describing the actual product you can also mention the need and any add-on services.
- Your pain alleviators: How does your product or service alleviate your customers' pains? To make the value proposition unique and easily differentiate it from the competition, mention any special features or aspects and the added value that your customer gets from using your products. This added value is described through a number of attributes that respond to the customers' needs; such as customization, higher performance ("getting the job done"), better brand and reputation, different design, newness, lower price, cost and risk reduction, better accessibility, as well as more convenience.

Let me go back to the example of Mbale Municipal Composting Plant, the Ugandan non-profit selling fertilizer to large-scale orange and mango farmers. MCP has 3 distinct value propositions for each customer segment, because they all have very different problems to solve. Farmers obtain sustainably produced organic fertilizer at affordable prices that restores soil fertility lost through erosion. The recycling companies get easy access to non-degradable recyclable materials and the municipality can improve and reduce the costs of its waste management service and lower its greenhouse gas emissions. In the future trading companies will get access to carbon credits.

- Which revenue streams do you receive from each customer segment?

A revenue stream is the source of income a company receives from its different customer segments for a particular value proposition. It describes how much revenue each value proposition or customer segment generates – so in percentage of total revenues. Because a company can have different revenue streams from different customer segments, the percentage should indicate which customer segment is more profitable. The revenue stream should also indicate how the customers pay, so are they buying the product or service, are they renting, or do they pay you a commission, interest, or subscription fee? In the case of MCP, the revenue streams from farmers and recycling companies are the sale of fertilizer and non-degradable material and in the case of the municipality the revenue stream is in the form of subsidies. In the future they hope to add a major revenue stream from the sale of carbon credits.

At this point you should also decide what the most effective pricing strategy is for you to enter the market. There are various factors to consider when setting your price, like your production costs, what your customers are willing to pay, what the competition charges for an alternative product and so on. Let us look at these factors in detail.

How much does it cost to produce the product?

This seems to be the most obvious determinant of your selling price. The calculation is simple: determine the variable cost per product, add the share of fixed costs per product, add a profit margin and get your selling price. In some cases RRR businesses may benefit from subsidies. In

this case you would have to deduct this from your selling price, which will allow you to offer your product at a price that is not cost-covering.

However simple it might seem, depending on your business model, determining the share of fixed costs per product is not that simple. In the beginning of your operations, when you are not operating at scale yet, your fixed costs will outweigh your overall revenues. You might be producing little, but you have already invested into the equipment and machinery and built your treatment plant. To be able to verify if your selling price can cover your variable and fixed costs in the long-run, you need to plan your finances for the next few years. We will do so in module 5!

What are competitors charging for similar products?

Setting your price relative to your competitors is the safest bet. Make sure that you compare yourself to your most direct competitors that are not only satisfying the same customer need, but also selling a very similar product and possibly the same add-on services. So write down what your competitors charge and what they are exactly charging for. You may use the table provided in the worksheet below. Then compare your own product, add-on services and determine a selling price.

If you are entering a market with strong competition, charging less than your competitors is recommended. Beware though that some competing products like chemical fertilizers can be subsidized and it will be impossible for you to undercut their selling prices. This is the case for ECOSAN, an organic fertilizer producer in Burkina Faso. Approximately 17% of all fertilizer consumed in Burkina Faso are subsidised through a government fertilizer support programme. While the availability of chemical fertilizers has been enhanced, these measures will have an undesirable impact on new organic fertilizer businesses that have to compete with the subsidized prices of chemical fertilizers.

What is the perceived value of the product in the eye of the customer and how sensitive are they to price?

Another important factor in setting your price, is your customers' willingness to pay. Remember that different customer segments have a different willingness to pay. It is thus important to understand what value your customers see in your product and then charge them accordingly. And again, you have to think customer perspective! Or as Peter Drucker, a US management guru, put it "Quality...is not what the supplier puts in. It is what the customer gets out and is willing to pay for"¹. For example, COOCEN, the briquettes business from Rwanda, is selling to prisons and individual households. Let us imagine that for the prisons the added value of buying COOCEN briquettes is the ability to comply with new public health regulations setting standards for the air quality in public buildings. Being able to comply with the regulation (and avoiding sanctions!) is worth so much to the prisons that they are willing to pay a premium price for the briquettes and invest into new stoves. The households however are not concerned by the regulations and thus also do not see

¹ Business book, p. 323

the direct benefit of smoke-free briquettes – at least in the beginning. COOCEN thus has to sell to this customer segment at a discounted price to convince them to switch from using free firewood to buying briquettes. Once households have used and seen the benefits of the smoke-free and energy-efficient briquettes, COOCEN might be able to slightly raise the prices.

Is the price coherent with your business model and overall strategy?

Finally your price has to fit into your overall business model and strategy. Are you following a cost-driven or a value-driven business model and is the price coherent with this? In a value driven model you are positioning yourself as a business that offers high-quality products, personalized services, for a premium price. In a cost-driven model your aim is to undercut prices of the competition by offering a product without frills, of lower (perceived) quality and price.

Although offering a high-quality product, personalized services at a low price is an important strategy for RRR businesses to penetrate the market and win market share, in the long run this is not necessarily a financially viable strategy. You either need to adapt your business model (for example by downgrading advisory services to farmers or adding new revenue streams from donors, carbon credit trading companies etc.), or find subsidies or partners that perform some of the time-consuming activities like waste collection & sorting, awareness raising or after-sales services for you at a lower cost.

In the case of Mbale Municipal Composting Plant, the non-profit charges less for its organic fertilizer than the competition, which is charging 1 USD per kg of chemical fertilizer. This price has allowed the business to penetrate the market and convince large-scale farmers of the enhanced soil fertility from the product over chemical fertilizers. However the selling price does not allow MCP to break even, so they have added an additional revenue stream from the sale of nondegradable recyclables and are planning to sell carbon credit certificates in the future which will contribute significantly to overall revenues.

- Through which channels do you interact with your customers?

The channels determine where you interact with your customers. Keep in mind though that you are not only interacting with your customer for the actual sale of the product. Consider all the phases where the customer experiences your business:

- Awareness: Where do you raise awareness about your product or service?
- Sale: Where do customers purchase your product or service?
- Delivery: Where do you deliver the product or service to your customers?
- After sales: Where do you provide after-sales support to your customers?
- Evaluation: Where can customers evaluate your business?

For each phase decide on a channel through which you will interact with your customers. Direct channels allow you to interact personally with your customer and thus dedicate them your full attention and get direct feedback. Unfortunately direct channels are also more expensive. Examples of direct channels are your store, your door-to-door sales force or delivery, or your online shop. Indirect channels are run by an intermediary like a retail shop, wholesaler or other sales and distribution partners. The costs are lower and there is a possibility of reaching more customers but selling margins are also lower and you have less control over the customer experience.

MCP uses a combination of channels: word-of-mouth to attract attention from farmers, and indirect sales through the National Agricultural Advisory Services (NAADS). With the municipality and carbon credit trading companies they interact with in face-to-face meetings at the municipality's or World Bank offices and via phone and email.

The trick is finding a good combination of channels to create a great customer experience while keeping costs down. The perfect combination is the one that:

- is adapted to your customers' daily routines
- is more convenient than the channels of your competitors
- shortens distances between your treatment plant and the distribution process
- benefits from existing distribution channels of your partners
- benefits from storage facilities of your partners.

Since RRR products are novel in many markets, it is pivotal to focus your efforts into convincing your customers of the added value and uniqueness of your product. When launching your RRR product you should thus rely on direct channels for building trust in the quality and safety of your product.

In the case of MCP, the farmers preferably communicate with each other to get new ideas on how to increase their productivity, so pushing word-of-mouth and relying on ambassadors – so farmers that have used and are convinced of MCP's fertilizer – is a very effective and cost-efficient channel for MCP. Farmers also already receive services from the NAADS and do not have to go out of their way to purchase MCP fertilizer. For MCP relying on a partner's distribution channel keeps its costs in check.

- What type of relationships do your customer segments expect you to establish and maintain with them?

Customer relationships define how closely you interact with your customers and how much you respond to their individual needs by coming up with customized solutions. The relationships you establish with your customers will deeply impact the customer experience and will have an influence on their trust and willingness to switch to your product and become a loyal customer to your business.

So for example, you can interact in person to help your customer in the sales process or after the purchase is complete (via a direct channel like your store, telephone or at their door). Needless to say that personalized and customised customer relationships are also very costly. Again, you should look at the key success factors in your market and the profitability of the concerned customer segment to decide whether personal and dedicated assistance is necessary and worthwhile. Reserve your limited time and resources to your priority customer segments – yes, the ones ensuring your financial survival!

To save on costs, you may also decide to run a self-service or automated services where you have no personal interaction with the customer. Digitization and the Internet of Things are pushing more and more businesses to adopt automated/ machine-based customer interfaces. You may also partner up with an organisation that promotes your product for you. These are typically development partners that run awareness raising campaigns on the benefits of RRR products for better health and environmental protection. For example, you could engage the government or an NGO to raise the awareness of households to pay for waste collection for increased health. Or you could partner with a rural advisory services agency to highlight the benefits of treated irrigation water for increased soil fertility and reduced health risks.

While MCP only produces one standard fertiliser for all farmers and has a non-personal relationship with them, MCP's large customers like the municipality expect a personal interaction and customized solution. MCP customizes the waste management solution to the individual needs of the municipality. The standardized non-degradable materials are sold through MCP's workers which also interact personally with the recycling companies.

Creating a brand that transports your message on quality and safety standards and customer orientation is an important strategy for building trust and establishing a loyal customer base. Check out the bonus video on branding below to get some tips and tricks on creating a brand for your RRR business!

- What social and environmental benefits does your business generate?

Social and environmental benefits are the external benefits that the business produces for society and the environment. These can be health and environmental benefits; in MCP's case it is the reduction of human exposure to untreated waste, the reduction of the emission of greenhouse gases and subsequent global warming as well as the proper management of municipal solid waste, which results in a clean environment and reduces land and air pollution. Economic benefits are also to be considered; in MCP's case it is the creation of jobs.

Careful consideration of these benefits is important to position yourself as a business with a positive social and environmental impact can create an avenue for justifying financial support from governments or donors.

Now that I have walked you through the various elements of positioning your business and given you the example of MCP, it is your turn! You have already defined your customer segments and their needs last week. Now it is time to design the value propositions, revenue streams, channels, customer relationships and social and environmental impacts that correspond to your customers' needs and at the same time allow you to cover your costs. Make sure that the various elements are coherent and that they occupy a unique position in the market, so different from your competitors.

As mentioned in week 1, it is best to draw a big canvas on a flipchart size paper, and use different coloured post-its and black markers. And as done for the business model example of MCP, use different colours for different customer segments.

After that I will see you in week 4 to look at the left-hand side of your business model, the operational aspects.”

List of Reference:

Graph sources:

- Unless otherwise noted, all graphics and case studies from OTOO, M. (Editor), DRECHSEL, P. (Editor) (2018): *Resource Recovery from Waste. Business Models for Energy, Nutrient and Water Reuse in Low- and Middle-Income Countries*. International Water Management Institute (IWMI). Routledge

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