BUSINESS MODEL CANVAS (BMC) AMONG HOME INDUSTRIES IN KULON PROGO REGENCY

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ABSTRACT

Business model is a system of resources and activities, which create a value that is useful to the customer and the sale of this value makes money for the company. The purpose of the analysis of business models is to deepen and broaden the knowledge about basic components of a business model. The Business Model Canvas (BMC) is a tool that provides a clear view of what the company needs to achieve and focuses on the strategic elements that matter most and will have the greatest impact to the business. This paper discuss about BMC among home industries in Kulon Progo Regency, based on their products: "pong" tofu, white tofu, traditional snacks, various kind of "peyek", dan various kind of tempeh (soybean, "gembus", and "benguk"). These five home industries compared among the nine building blocks in the BMC: customer segments, customer relationships, distribution channels, value proposition, key resources, key activities, partners, cost structure and revenue streams. BMC helps the home industries in creating their business models based on nine building blocks. Discussion among these home industries in Kulon Progo Regency was being conducted in order to help the entrepreneurs to use these models in the right way, and successfully plan their future business.

Keywords: business model, Business Model Canvas (BMC), home industries, snacks

JEL Classification: D1, M2, M3

INTRODUCTION

Small Medium Enterprises (SMEs) play an important role for economic growth and social inclusion in Indonesia. Based on data from the Ministry of Co-operatives and SMEs, Indonesian SMEs account for nearly 97% of domestic employment and for 56% of total business investment. SMEs generate jobs and contribute to inclusive economic growth and prosperity of households and communities.

The development of SMEs is pretty rapid. New established businesses appear everywhere; either it is home industry scale, small and medium-sized businesses. Moreover, the government supports the appearance of these SMEs and a lot of universities also support entrepreneurship. It is proven by the fact that entrepreneurship has included into curriculum study in the universities and it provides chances for the students to make an innovation in creating a business. As a matter of fact, this particular industry scale can be categorized into 4 categories which are home industry, micro industry, secondary industry, and big industry.

Currently, SMEs (including home industry and micro industry) is one of the economic drivers in Indonesia. It is caused by the changing doer of the economy. Now, the SMEs start to

dominate the Indonesian economy. The SMEs can stand even in a crisis and critical situation due to the facts that the small business: (1) can produce consumptive goods and services which are truly needed by the society, (2) agent utilizes local resources surround the business location, either the human resources, capital, material or production tools, (3) relies its capital from the personal budget.

However, there are many SMEs gone bankrupt because they cannot compete with the competitor. With the particular competition, it will definitely cause a negative impact because the secondary or big industries have various superiorities that the SMEs don't such as brand of the product owned, trained human resources, better and strategic business location, proper tools and big amount of capital. SMEs encounter many obstacles that prohibit their growth and even threaten their survival. The factors attributed to business success have always been varied and complex and increasingly becoming critical is the role of decision making process and ongoing strategy (Hansen & Hamilton, 2011).

Small business owners lack managerial skill and technical skills to operate their businesses effectively. The perceptions of the small business owners are that the managerial skills they possess, and those that they preferably should have, do not correlate (Scheers & Radipere, 2005). Therefore, small business must have a strategy in facing those competitions, either the competition among the Small Businesses or among the secondary and big ones.

Some common problems in SMEs are marketing, production and finance. In fact, some SMEs have not had their own brand in sales. Production is still done manually and lack of manpower. During this time, the number of weekly production, inventory taking, and total sales were never recorded by SMEs. These become problems because SMEs cannot calculate a total capacity of production and the balance between sales schemes and production. Another major problem is that SMEs often faced financial problems both venture capital and financial bookkeeping.

Due to fast changing external factors, there is an increasing urge for SMEs to innovate their business model to sustain a fit with their business environment. The problem formulation is how SMEs can overcome their lack of managerial and technical skills by business model innovation? This study is aimed to evaluate the business strategy implementation and recommend business model innovations for SMEs especially in food and snacks home industry.

LITERATURE REVIEW

So far, people have argued that small business businesses do not need a strategy to improve performance and face competitors, it is important to have sufficient capital and a good business location. But with the increasing number of competitors, it is necessary a strategy that has the ability to improve the performance of this business. The term business model comes from the financial journalist Michael Lewis, who in his articles predicted that future companies will be based on business models connected only with the Internet. Several authors define a business model as a system for making money. In their opinion, business model is an economic concept, which produces revenues and costs. It is a set of activities, which create profit due to

the cooperation of processes and technologies. Definitions of authors, who see the business model as the economic concept, are presented in Tab. 1.

Table 1. Economic Business Model

Author	Definition
Allan Afuah	"Business model is a framework for making money. It is the set of activities which a firm performs, how it performs them and when it performs them so as to offer its customers benefits they want and to earn a profit." (Afuah, 2003)
Henry Chesbrough	"The business model is a useful framework to link ideas and technologies to economic outcomes." (Chesbrough, 2006)
Don Debelak	"A business model is the instrument by which a business intends to generate revenue and profits. It is a summary of how a company means to serve its employees and customers and involves both strategy as well as an implementation." (Debelak, 2006)
Alfonso Ganbardella, Anita McGahan	"Business model is a mechanism for transformation ideas to revenues through the acceptable costs." (Fuller & Morgan, 2010)
Thomas Wheelen, David Hunger	"Business model is a method for making money in the concrete business environment. It is consisted of key structural and operational characteristics of company – how company earn and create profit." (Wheelen & Hunger, 2008)

Purely economic view of the business model does not represent a complex view on the company. The business model should (except of production revenues and costs) capture also the other side of the business and it is creating value. The definitions in Tab. 2 present opinions, which see business model as a combination of economic and value view.

Table 2. Economic and Value Business Model

Autor	Definition
David Watson	"A business model describes operations of company, including all of its components, functions and processes, which result in costs for itself and value for customer." (Watson, 2005)
David J. Teece	"Business model defines how a company provide value to customer and transfer payments to profit." (Teece, 2010)
Joan Magretta	"Business models are, at heart, stories that explain how enterprises work. Like a good story, a robust business model contains precisely delineated characters, plausible motivations and a plot that turns on an insight about value. It answers certain questions: Who is the customer? How do we make money? What underlying economic logic explains how we can deliver value to customers at an appropriate cost?" (Magretta, 2010)
Alexander Osterwalder,	"A business model describes the logic of how an organization creates,

Yves Pigneur	delivers and control value and how money are earned in a company." (Osterwalder & Pigneur, 2009)
Štefan Slávik	"The business model is a machine for making money, but money is important not only to produce but also to appropriate. Business model visualizes company as a place of decisions and consequences, it is a group of resources and activities in the varying degrees of detail and operational view, which result and serve to offer value to customer." (Slávik, 2011)

Business model is a system of resources and activities, which create a value that is useful to the customer and the sale of this value makes money for the company. The purpose of the analysis of business models is to deepen and broaden the knowledge about basic components of a business model. We see the importance of this aim in improving the functionality and economy of the business models, and in discovering and developing competitive advantage, which can be detected by the companies themselves (Slávik, 2011).

Concept of authors Osterwalder and Yves, called Canvas (2009), defines business model using nine components: customer segments, customer relationships, distribution channels, value proposition, key resources, key activities, partners, cost structure and revenue streams. Canvas is a powerful visualization tool and clearly shows all the components and their interconnections.

BMC (Business Model Canvas) consists of nine basic components of a business model. Instead of simply having them in a row, they are put on a canvas so the visualization of the different issues' relation is improved. That helps the user to map, discuss, design and invent new business models. The whole thing can basically be divided in the product on the left side and the market on the right, while the value proposition is obviously divided in half (Maurya, 2010). On the very right we have the 'Customer Segments', all the people or organizations for which you are creating value, including simple users as well as paying customers. For each of the segments we have a specific 'Value Proposition', all the bundles of products and services which create value for your customers. The 'Channels' describes through which touch points you are interacting with your customers and delivering value, while the 'Customer Relationships' outlines the type of relationship you are establishing with your customer.

Closing the right part of the canvas, the 'Revenue Streams' makes clear how and through which pricing mechanisms your business model is capturing value. Indispensable assets of your business are shown in the 'Key Resources' on the left directly under the 'Key Activities', the things you need to perform well. 'Key Partners' are all those who help you leveraging your business model, since you will not own all key resources nor perform all key activities yourself. And with understanding your business' infrastructure, you will get an idea of its 'Cost Structure'.

For one, the simple visual structure of the BMC and the few number of descriptions (9 in total) make the BMC visually appealing. Also, the BMC's usefulness in mapping and innovating on business systems make it valuable. Consequently, the BMC is being rapidly adopted (King, 2010).

Customer segments are defined by five types of market: mass, segmented, niche, diversified and multi-sided. Mass market represents a large group of customers with similar needs and prob- lems. Segmented type divides customers into groups based on the same characteristics. There are the products and services tailored to the customer in niche markets. Diversified markets are located in two or more industries with different needs and problems.

Multi-sided type uses interdependent segments and connects them (provider of credit cards VISA creates a relationship between three groups - banks, cardholders and merchants).

The ground of the business is creation of a primary value, which is defined in the mission of the company and describes the core product or service that the firm sells to the customer. The company adds to primary value also "extra value" (or group of extra values) called value added, which increases a sense of the product or service for a customer.

Companies, which are deciding about **distribution channels**, can choose between selling through its own sales network (direct sales: store, salesman, website, application in smartphones) or outsource the sale (indirect: intermediator).

Standard **relationship with customers** is personal assistance, which is based on human interaction. Customer communicates directly with the salesman during the whole sale process. Modification of this type is dedicated personal assistance, when client has got the only agent, who takes care of him. In self-service type, the company has no contact with the customer, and just provides the service or product. Automated services connect sophisticated customer service with automated processes (internet) and use CRM system that recognizes client and can recommend him the suitable product or service. Enterprises are increasingly using communities to improve connections with customers. This type of relationship provides free quality database of observations directly from the customer. The modern type of relationship is co-creation, which makes relationship beyond the standard and client becomes co-creator of product or service.

A component **revenue stream** describes cash flows. Among the most used, authors include the sale of goods and services. Rental and leasing generate income from the providing exclusive rights to use certain assets. Licensing generates money from giving customers permission to use protected intellectual property in exchange for licensing fees. Brokers earn from each deal. Advertising generates revenue from providing medial areas.

Key resources include tangible resources (production facilities, buildings, vehicles, and equipment) and intellectual resources (brand, knowledge, patents, copyrights, partnerships, customer databases and human resources - staff and managers). **Key activities** describe the most important activities involved in value creating. It can be production, delivery of product, designing, marketing, selling.

A component **key partner** describes the most important companies, authority or people cooperating with the company. Optimization and economies of scale lead to partnerships that serve for cost reducing. Sharing of know-how, finance or technology motivates companies to join the activities in a partnership. An example is the Blue-ray technology, which was developed by a group of the world's leading manufacturers of electronic, and after research and development they started to sell their Blue-ray products individually. Acquisition of resources and activities also encourages companies to search for partners, because companies do not own all the necessary resources or do not execute all the necessary activities for their business. For example, insurance companies have brokers who sale products and insurance company can deal with the core business. **Costs** represent a monetary award of production.
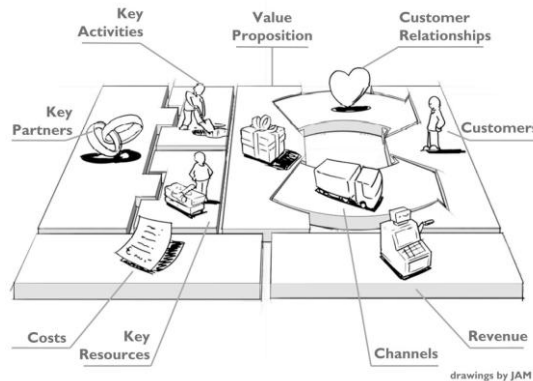
Figure 1. Business Model Canvas – The Basic Model
Source: http://www.zebramc.com/tag/business-model-canvas/

METHOD, DATA, AND ANALYSIS

This research using case study in various kind of food and snack home industries. This method provides an opportunity to see more sides of home industries as small and medium enterprises (SMEs), so there will be many strategies that can be used to improve performance so that business can grow. This data collection uses three methods, namely interview, observation and literature study.

The data used were collected through in-depth interviews on several types of home industries. Interviews were made to business owners, as they are aware of the business being run. In these home industries, business owners are also conducted as employees who held day-to-day operational activities. Table 3 describes the type of home industries interviewed.

Table 3. Respondents based on Type of Business Commodities

Organization	Type Business
1	"pong" tofu
2	white tofu
3	traditional snacks
4	various kind of "peyek"
5	various kind of tempeh (soybean, "gembus", and "benguk")

After completion of the data collection process, the results of the interview will be analyzed, if in this analysis additional clarification is required, additional interviews will be redone. The results of the analysis will then be adjusted to the review literature. The results of the overall analysis will be included in the business model canvas.

RESULT AND DISCUSSION

Business model canvas is an excellent way to review business management strategy and reveal the visual ideas describing a home industry's value proposition, customers, infrastructure and finances.

1. Customer Segment:

Customer segment is a dividing a company's customers into groups relevant to a particular business. Without client or customers, consulting companies could not survive any longer. Food and snacks home industries in Kulon Progo serve for wide customers.

Home Industry	Commodities	Customer Segment
1	"pong" tofu	a. Restaurant b. Street vendor ("angkringan") c. Meat ball seller
2	white tofu	all segments
3	traditional snacks	a. Students b. Household members
4	various kind of "peyek"	a. Food stalls b. Factory and office labors c. Tourists
5	various kind of tempeh	a. Mobile vegetable sellers b. Fried food sellers c. Housewives

2. Value Proposition:

Products offered by food and snacks home industries in Kulon Progo have not brought the value out yet. Only white tofu home industry owner has creating the value of their product as pure white tofu made by soybeans.

Home Industry	Commodities	Value Proposition
1	"pong" tofu	"pong" tofu
2	white tofu	pure white tofu from soybeans
3	traditional snacks	Various of traditional snacks: "molen", donuts, "dadar gulung", "arem-arem", "onde-onde"
4	various kind of "peyek"	Various kind of crunchy delicious tasteful "peyek"
5	various kind of tempeh	Various kind of tempeh: soybean, "gembus", and "benguk"

All of the home industries only have expertise on experience, not yet on knowledge and technology that will benefit their clients need.

3. Channels

Channels will describe on how company will communicate or reach client to deliver value proposition using the most effective channel. Food and snacks home industries in Kulon Progo only used offline, not yet online channels to marketing their products. Offline marketing through direct selling and key partnership cost lower and a lot easier for them.

Home Industry	Commodities	Channels
1	"pong" tofu	Direct sales
2	white tofu	Traditional market
3	traditional snacks	Direct sales
4	various kind of "peyek"	a. Direct sales b. Store at grocery store and food stalls
5	various kind of tempeh	a. Direct sales b. Product storage through siblings

4. Customer Relationship

A company should clarify type of customer relationships if they want to establish with each customer segment and it can be from personal to automated relationship. Food and snacks home industries in Kulon Progo provide personal relationship and services required by customers. For maintaining a long term relationship and trust, they usually giving free products and price for minimum order.

Home Industry	Commodities	Customer Relationship
1	"pong" tofu	Free tofu with minimum order
2	white tofu	a. Hospitality b. Good quality c. Good packaging d. Bonus for minimum order
3	traditional snacks	a. Free 1 snacks for min. 10 orders b. Special price for wholesale
4	various kind of "peyek"	a. Delivered by owner b. On time delivery c. Discount for minimum order d. Free ¼ kgs crushed "peyek" per 5 kgs order
5	various kind of tempeh (soybean, "gembus", and "benguk")	Bonus for minimum order

5. Revenue Stream

Revenue stream can indicate cash a company can get from clients and can be either transaction revenue (one-time payments) or recurring revenue (ongoing payments). Food and snacks home industries in Kulon Progo revenue comes from selling main products, and some of waste for livestocks.

Home Industry	Commodities	Revenue Stream
1	"pong" tofu	"pong" tofu sales
2	white tofu	a. White tofu sales b. Solid waste sales
3	traditional snacks	a. Sales at food stalls b. Sales at home
4	various kind of "peyek"	a. Sales at home b. Sales at traditional market c. Sales at stalls d. Sales at store
5	various kind of tempeh	a. Sales of soybean tempeh b. Sales of "gembus" tempeh c. Sales of "benguk" tempeh

6. Key Resources:

Key Resources describes the most important assets needed to make a business model works to generate Value Propositions and Revenues. Food and snacks home industries in Kulon Progo usually using family member as workers, not yet hire professional labor. They feel, not having a strong financial structure yet to allow them to employ good workers who are able to serve under the company.

Home Industry	Commodities	Key Resources
1	"pong" tofu	Vehicles
2	white tofu	Owned vehicles
3	traditional snacks	a. Labors b. Processing equipment
4	various kind of "peyek"	a. Labors b. Processing equipment c. Storage d. Strategic location (near traditional market)
5	various kind of tempeh	Siblings (careful and accurate)

7. Key Activities:

Key activities are the key business activities that a company is going to provide value proposition to the client. Key activities of food and snacks home industries in Kulon Progo are focus on processing and selling.

Home Industry	Commodities	Key Activities
1	"pong" tofu	a. purchasing of raw materials b. producing "pong" tofu c. packaging d. selling
2	white tofu	a. preparing the raw materials b. processing: 4 hours of submersion, cleaning, grinding, boiling, filtering c. forming
3	traditional snacks	Made by whole family: a. Purchasing by Mother b. Processing by Mother and Father c. Delivery by Father
4	various kind of "peyek"	a. purchasing of raw materials (peanut, flour, oil, ingredients) and plastic bags b. Preparing processing equipment (stove, gas, frying pan) c. Packaging d. Selling e. Calculating sales report
5	various kind of tempeh	a. purchasing of raw materials (soybean, "benguk", tofu waste) b. processing: submersion, boiling, chilling, yeast pouring c. packaging

8. Key Partners

Key partnerships are usually formed to reduce costs as company unable to neither own all resources nor perform every activity by themselves. Food and snacks home industries in Kulon Progo partnership with raw material and packaging sellers, and the marketing channels. These key partners indicate that all of food and snack and home industries' strategy have no difference.

Home Industry	Commodities	Key Partners
1	"pong" tofu	a. soybean seller b. plastic bag seller
2	white tofu	a. soybean trader b. raw material seller c. plastic bag seller d. fuel seller
3	traditional snacks	a. food stall owner b. factory labors
4	various kind of "peyek"	a. raw materials seller b. family c. store owner d. food stall owner e. plastic bags seller f. factory labors
5	various kind of tempeh	a. soybean seller b. tofu waste seller c. "benguk" seller

9. Cost Structure:

Most companies, including home industry, expect lower cost structure. Therefore cost can be distinguished between cost-driven (focus on minimizing costs wherever possible) and value-driven (focus on value creation).

Food and snacks home industries in Kulon Progo applying low costing strategy in short term. They still focus on minimizing costs wherever possible than focus on value creation.

Home Industry	Commodities	Cost Strucure
1	"pong" tofu	a. raw materials b. palm oil c. plastic bags d. fuel e. wages
2	white tofu	a. raw materials b. wages
3	traditional snacks	raw materials (butter, flour, oil, sugar, egg, plastics)
4	various kind of "peyek"	a. raw materials (peanut, flour, coconut, oil, egg) b. delivery (fuel) c. packaging (plastic bags, baskets, jar)
5	various kind of tempeh (soybean, "gembus", and "benguk")	a. raw materials b. yeast c. plastic bags

CONCLUSION

From the description and analysis, the food and snacks home industry in Kulon Progo cases in some ways can fit into the business model canvas. However, still not able to make as neat picture for the companies as recommended by Osterwalders. This may be due to a complex daily business and complex relation to partners and customers at the companies. A conclusion would somewhat say that the BMC, with food and snacks case-studies, is suitable for mapping purposes of current activities, but not suitable as a "paradigm" or framework to follow when outlining strategies for the future.

Each of the nine building blocks can be a starting point. Entrepreneurs should define the most important criteria to reduce the number of ideas that has been expanded earlier. The criteria should be prioritized according to the context of the business including revenue potential, possible customer resistance, and impact on competitive advantage. After the most important criteria are defined, the team should be able to "prototype" few potential business model innovations. This process can be done by using BMC to sketch out and discuss each business model.

The Business Model Canvas (BMCs) has a lot of advantages compared to the classic thick business plan that takes a lot of time to be prepared. The BMC is like a tool to guide entrepreneurs thinking in a more systematic through each of the nine building blocks for devising a business strategy that matter most and have the greatest impact on driving business growth. The BMC created are depends on type of the enterprises' business models.

IMPLICATION/LIMITATION AND SUGGESTIONS

The SMEs, including home industries play a significant role in the social and economic development especially in developing countries. Realizing the urgency of business model innovation help SMEs sustain and be competitive. The key point of the business model innovation is to gain competitive advantage in industry. An innovative business model can either create a new market or allow a company to create and exploit new opportunities in existing markets. Business Model Canvas tool makes strategy more focused and measurable, because of its comprehensive yet simple map. Home industries need formulating a new value proposition to their customers i.e. brand and design to innovate the business model. Home industries should clarify their business model by understanding and implementing its strengths.

This study limited the scope of business only to food and snacks in Kulon Progo Regency. So that for future research study on SMEs in other home industries and SMEs is interesting to be conducted.

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