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# Building a Service Business Model For a Gardening Company

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## PREFACE

While doing a research on business models, I learnt that similar problems seem to be arising in many business fields. Although there are a lot of books and articles on the subject matter, and the area has been researched as long as business has existed, there really is no secure way to do things in order to create a successful business. There are ideas on what not to do and the number one of those is to create a model that does not take into account all sides of the business. For this reason, I chose to select the issues the company owner needs to consider when he/she is building a model for the future company instead of giving a roadmap on what to do.

Working on this subject has taught me a lot about how business works and what obstacles I should expect when I am faced with similar issues in the future.

I want to especially thank the owner of Ohdake Puutarha, Pirkko Järvilehto, for giving me the idea for this Thesis and furthermore for giving me insight on real world issues surrounding small business creation.

I want to also thank my instructors at Metropolia University of Applied Sciences for excellent guidance during the working process on this Thesis.

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## ABSTRACT

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The purpose of this Thesis is to create a business model that is useable by a small sized case-company working in the gardening industry. The goal is to reveal the issues that have to be taken to account when company is being founded or when business model is revised. With these specified issues, the business creator is given a map that has to be put together in a way that the company's specific model of operations is not conflicting in the different areas.

The research is done with a modified action research method where suitable questions are found in the literature and are then grouped and filtered to suit the case company needs. The case company is supposed to answer these questions and the resulting operational model constitutes the basic, initial business model for the company. The subsequent evaluation of results has potential to reveals possible flaws and also features what the customers especially like in the created model. Know-how of this Thesis consists in the idea to suggest the resulting model for the customer evaluation. With the customer comments available, the model can be modified in certain parts.

In this Thesis the results from the customer evaluation indicate that the case company business model is probably viable and there is no need for any extensive modifications at this point. What is revealed is a needed for more effective employee time and project management is formalization of the company processes and operations model.

**Key words:** Business Model, gardening business

## OPINNÄYTETYÖN TIIVISTELMÄ

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<b>Työn ohjaajat:</b> KTT Thomas Rohweder TkT Marjatta Huhta Toimitusjohtaja Pirkko Järvillehto, Ohdake Puutarha Oy	
<p>Tässä työssä luodaan liiketoimintamalli pienikokoiselle Puutarha-alalla toimivalle kohdeyritykselle. Liiketoimintamallinnusteorioista etsitään asioita, joita yritys joutuu ottamaan huomioon yritystä perustettaessa tai silloin kun yhtiön liiketoimintasuunnitelmaa muokataan. Liiketoimintasuunnitelman tekijä saa listan asioista joihin täytyy kiinnittää huomiota ja joihin vastaamalla siten että eri osa-alueet eivät ole ristiriitaisia keskenään muodostuu liiketoiminnan malli.</p> <p>Tutkimus on toteutettu toimintatutkimuksella jossa olennaiset kysymykset on ensin kartoitettu liiketoiminta-alan kirjallisuudesta. Kysymykset on sen jälkeen ryhmitelty ja valittu siten että ne sopivat kohdeyrityksen tarpeisiin. Kohdeyrityksen on tarkoitus vastata näihin kysymyksiin ja nämä vastaukset muodostavat yrityksen perus toimintamallin. Vastausten analysointi voi paljastaa virheitä liiketoimintamallissa sekä ominaisuuksia joista asiakkaat erityisesti pitävät.</p> <p>Kysymysten vastauksista saatu malli on sen jälkeen annettu yrityksen asiakkaille arvioitavaksi niiltä osin kun asiakkaat voisivat havainnoida niitä asiakassuhteessaan. Asiakasarvioinnin tulokset paljastavat mahdolliset ongelmakohdat yrityksen tarpeisiin luodussa mallissa sekä myös kohdat joita yritys voi pitää vahvuuksinaan. Tämän saadun tiedon pohjalta voidaan tarvittaessa muokata yrityksen liiketoimintamallia. Asiakashaastattelun tuloksena saadun tiedon perusteella kohdeyrityksen liiketoimintamallista ei löytynyt huomattavia virheitä, eikä se tarvitse suuria muutoksia ainakaan tässä vaiheessa. Tutkimuksessa todettiin että yritys tarvitsee tehokkaampaa ajan ja projektienhallintaa sekä yrityksen toimintatapojen formalisointia.</p>	
<b>Avainsanat:</b> liiketoimintasuunnitelma, Puutarha-ala	

**PREFACE**

**ABSTRACT**

**OPINNÄYTETYÖN TIIVISTELMÄ**

**CONTENTS**

<b>1</b>	<b>INTRODUCTION</b>	<b>1</b>
1.1	Case Company Background	1
1.2	Research Objective and Research Question	2
<b>2</b>	<b>RESEARCH METHOD AND MATERIAL</b>	<b>3</b>
2.1	Data Collection	6
2.2	Reliability and Validity	7
<b>3</b>	<b>THEORY OF BUSINESS MODELS</b>	<b>8</b>
3.1	The Mullins and Komisar Model	8
3.2	The Hamell Model	14
3.3	The Osterwalder Model	18
3.4	The Johnson Model	23
3.5	The Frei Model	25
3.6	Synthesis for Business Model Theory	27
3.7	Model Used for the Case Company	39
<b>4</b>	<b>APPLICATION OF THE BUSINESS MODEL TO OHDAKE PUUTARHA</b>	<b>43</b>
4.1	Customer Proposition	44
4.2	Earning Logic	48
4.3	Resourcing	52
4.4	Core Processes	55
4.5	Summary of the Ohdake Puutarha Business Model	64
<b>5</b>	<b>CUSTOMER REACTION TO THE MODEL</b>	<b>67</b>
5.1	Outside Contracting and Personal Skill Level	67
5.2	Vision of their own Gardens	68
5.3	Financials	68
5.4	Service Experience for Completed Projects	69
5.5	Views from Value-Network	69

<b>6</b>	<b>DISCUSSION AND CONCLUSIONS</b>	<b>71</b>
6.1	Managerial Implications	72
6.2	Evaluation	74
<b>7</b>	<b>SUMMARY</b>	<b>75</b>
	<b>REFERENCES</b>	<b>76</b>
	<b>APPENDIX I: MEETING MINUTES WITH THE COMPANY OWNER</b>	
	<b>APPENDIX II: QUESTIONS PRESENTED TO THE CUSTOMERS</b>	
	<b>APPENDIX III: Q&amp;A WITH THE CUSTOMER</b>	

## 1 INTRODUCTION

Many of the in the questions that are presented in this Thesis are familiar to entrepreneurs in different fields of business. Every company faces one question: why does this company exist? Every successful company in the market want an answer to the follow-up question: what is our goal and how do we get there? The first question can have multitude of answers and they are outside the scope of this Thesis. This Thesis focuses on the second question, which is first split into four primary questions that need to be answered. The primary questions are: what is the customer proposition, how does the company make enough money with the proposition, what resources are needed to fulfil the proposition and finally how does the company convert the resources to fulfil the proposition. These primary questions are answered when the company finds answers to the more detailed questions presented in this Thesis and combines them in a coherent way. It is very important for a company know these answers in order to succeed in the market. Overlooking them often lead to poor performance and makes the company unable to steer its course towards the strategic goals it has set.

### 1.1 Case Company Background

In this Thesis Ohdake Puutarha was chosen as a case company for model building. Ohdake Puutarha operates in gardening industry and is located in the capital city area. Company provides design, maintenance and building services for gardens to customers that want to enjoy their garden, but lack the knowledge of how to care for the vegetation in the garden or are unable to work in it themselves. The company aim to develop ecologically feasible alternatives to garden building and maintenance without overlooking its aesthetic side. The company provides a wide range of services in plant choosing, plant disease prevention and recovery from and various pest control issues. Additionally, the company services include storm damage control and trimming of trees and bushes. Besides the services Ohdake Puutarha sells garden related items and decorations via the Internet.

The company strategy on providing services is to avoid direct competition with larger companies in the market. The target sites are smaller gardens, yards and small problem areas that are overlooked as too small by larger

operators. There is believed to be demand for a small operator in this area. Moreover, the strategy is to focus on quality instead of quantity. Partnership with other companies is needed in some areas, for example stonework, but a preferable way for the company at present is to create a design and recommend a suitable company from the network of partners to the customer rather than subcontracting the task directly.

At present the company employs only one person, but as soon as there is more demand for services, there are plans to expand but nevertheless keep the company small. The plans of expansion, to greater extent, contain networking with other companies as well as hiring small amount of outside staff, and acquiring new business partners.

The billing of services is hourly based, but there is a definite need for creation of larger services and maintenance contracts that are priced on fixed fees. Additionally in some special cases the company services can be offered to customers at a fixed price.

## **1.2 Research Objective and Research Question**

The objective of this Thesis is to find out what are the key issues that need to be considered in order to succeed as a new business in the gardening industry. The issues that are found to be important have to be addressed by the example of the case company, and solutions to possible problem areas are analysed and need to be implemented. Starting a new business in the gardening industry requires a fresh business model that is different than what the majority of the market has to offer today in order to survive in the heavily competed field. To reduce the risk of failure and wrong investments, it is also important to seek out what the customers think about the created model in advance.



## 2 RESEARCH METHOD AND MATERIAL

The research method chosen for this Thesis is action research. As described by Coghlan and Brannick (Coghlan et al. 2004), action research is a cyclical iterative process that does not differentiate action and research parts of the research process. In many ways it resembles agile software development cycle where there is cyclical planning, implementation, evaluation and reflection phases present as well as the preceding step where the issue that is being researched or developed is identified. The result of a complete cycle is a working model that is ready for next iterative cycle.

Figure 1 illustrates the action research cycle



Figure 1. Action research diagram (NSW Department of Education and Training 2007).

In the initial planning step of action research, the problem which is to be solved, is identified and diagnosed and solved, together with choosing research material and drafting the first version of the key suggestions. If the cycle has successfully gone through the first round, there is a body of information created as for the previous resolutions, analyzed information on how well the previous version works and information on what new improvements are needed. These can be used in the planning of the next cycle of actions. After the key suggestions are created it is time to move to the second step where the suggestions are implemented into actual actions. In the second step the initial key suggestions produced in the first step are gathered together and actions are taken according to them in order to change the model. After the actions are taken it is time to see the effects they create in the operation. This is done in the observation step, where the user experience data is collected with interviews and other qualitative or quantitative methods in order for it to be analysed. The last step of the action research cycle is reflection. This step utilizes the analysis from the observation step to evaluate how well the current model is working with the proposed changes and what further improvements are needed in the system.

In this Thesis, the action research cycle is modified to suit the purpose of the business model building. Figure 2 displays the stages of the reshaped process flow procedure that are used in this Thesis.

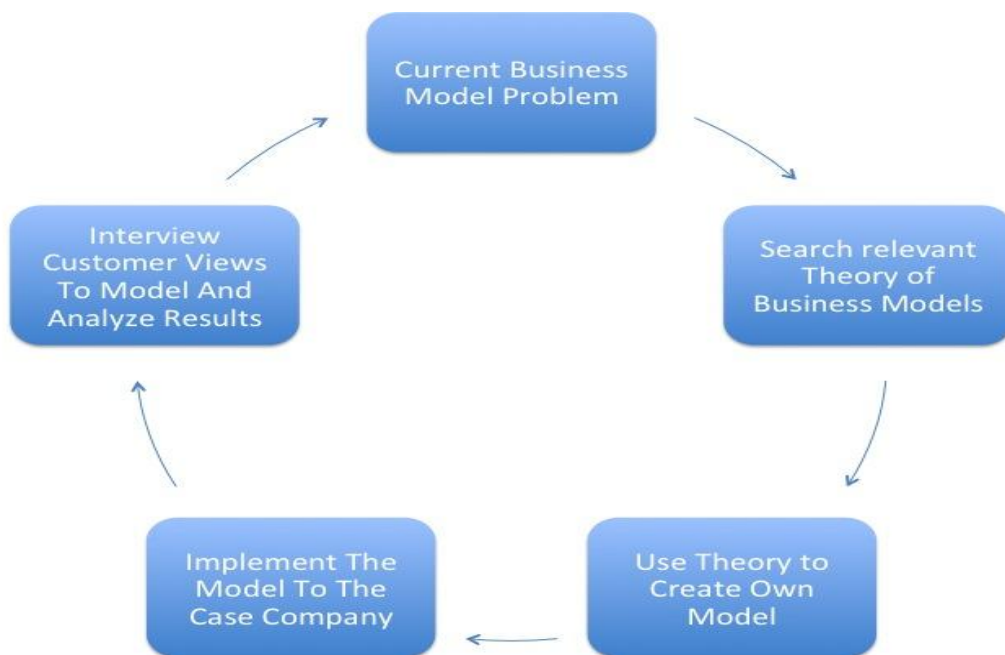


Figure 2. Action Research Cycle diagram used in this Thesis.

In figure 2, at the beginning of the cycle, the Current Business Model Problem explains the need for model to be created. The original unformed business model idea the company had used in the start is used as a basis for this step and improvements as well as new parts that were missing from the original model need to be identified and added to the model.

In the second step five sources of information concerning business model building are used and they are then subsequently combined into a prototype model. This prototype model is illustrated in step 3 that can be used by any company that is starting in the service business. This model is then detailed to suit the specific needs of gardening industry and the case company.

In fourth step the model is implemented into practice. The company implements the model by answering the questions created in the previous step in a non-conflicting way and the result is a model that is usable by the company. As a result the company in its business practices can use the model created in the fourth step, during the second half of its first year of operations.

The last step is the customer interviews that seek to find out how the customers have reacted to the implemented business model. The resulting analysis of these interviews is used to find issues that need improvement or modification in the next cycle of the action research.

## 2.1 Data Collection

For this research there are five literary sources reviewed in the background research. Literary sources that are used contain several existing reliable models and theories. These models are split apart and a new model is built by combining the parts into a single model. The sources are illustrated in Figure 3.

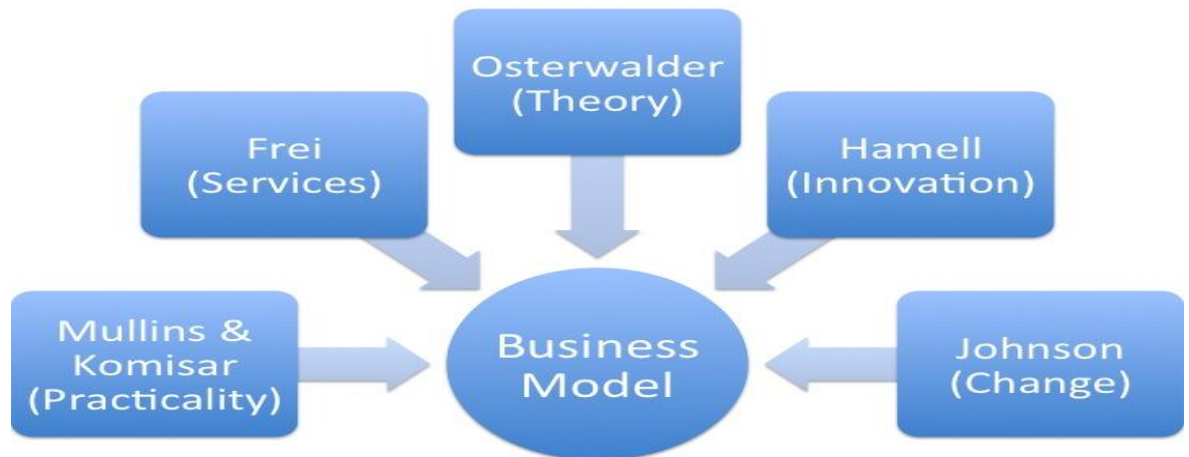


Figure 3. The literary sources used in this Thesis.

Mullins and Komisar (Mullins et al. 2009) provide practical view of business model building and tools that help company to evaluate whether the model is working. Frei (Frei 2008) contributes the important service factors needed in service business building. Hamell (Hamell G 2000) illuminates the importance of radical innovation in business model creation. Osterwalder (Osterwalder 2004) brings a systematic view of model building and finally Johnson (Johnson et al. 2008) adds the views on radical change and how to identify potential targets for change in current business model.

In order to formulate the model the company owner was interviewed twice with 3-hour interviews and during the process as well as several shorter commenting sessions lasting from 15 minutes to an hour. In order to evaluate and find improvements to the created model in practice five one hour-long interviews were conducted. The interviewees were people that have been experiencing company operations either as customers or potential customers. Additionally interviews with one value network participant and one customer with finished project was conducted by email exchange. The email

interview is located in Appendix III. The questions asked from the interviews are listed in Appendix II. In addition to the literary sources and interviews Thesis authors personal observations of the company activities is used to analyze the model.

Because Ohdake Puutarha is a service business the customer views of the company operation affect the reputation of the company and therefor its ability to create return and reference business. Ultimately, negative reputation reflects to the profitability potential of the company.

## **2.2 Reliability and Validity**

Interviews of potential customer are based on their views when they have been presented the model in the way it would be visible to them as customers. Interviews from customers that have completed projects have had their projects implemented in summer of 2010 or the projects have started design phase in winter 2010-2011. We have to stress that in this Thesis, there was only one full cycle implemented as the company operates mostly during summer time. The results obtained from customer interview will therefor be updated in the summer of 2011.

### 3 THEORY OF BUSINESS MODELS

There are many different models that can be used to create a working business model. For this research the models and guidelines from 5 different researchers or business professionals are studied in order to find out issues needed to create a suitable business model. First is the comprehensive business creation guide by Mullins & Komisar (Mullins et al. 2009), both authors having long history in business development and in the book they give good practical view of how to build a business. The key lesson in this book is that the first business plan is rarely the successful. The second author used is Hamell (Hamell 2000); his work describes the ways to look for changes in the established business in order to gain competitive advantage. Osterwalder (Osterwalder 2004) looks in to ways to create a generic tool that can manage business models in the complex environment. Next there is Johnson (Johnson et al. 2008) who describes how to change the business model in order to create a revolutionary one. Last author is Frei (Frei 2008); her work dives into service business and its distinctive differences to product businesses. These five authors give a well rounded look at the different views of business modelling and point out things that have to be considered when first creating or later modifying a business plan for the case company.

#### 3.1 The Mullins and Komisar Model

Mullins & Komisar describe in their book "Getting to plan B" (Mullins et al. 2009) the building blocks of a successful business model. They point out that the first plan rarely is a successful one and entrepreneur must not be afraid to make even radical changes to the plan if the measurement tools indicate that the current model is not working correctly. The authors suggest procedures and tools to monitor and measure the viability of the business (Mullins et al. 2009: 5-10). First one is that company should find analogs and antilogs that support its business plan.

Analogs are examples of the issues company has, that other entrepreneurs have probably faced before. With similar challenges than the company is facing, others have solved them in different ways and company has the advantage to see the results of the different solutions and pick the ones that work. From the many analogs company can borrow example solutions to help it better understand the various features and effects of the chosen busi-

ness model. Antilogs are similar to the analogs but in these cases company is explicitly choosing to do things differently than others, most likely as the previous solutions to problems company selected as antilog were not successful. Another reason is that this is an issue where company wants to differentiate itself from the others. There is a lot of information to draw analogs and antilogs from, as the data needed is already lying around in various publicly accessible data sources such as the Internet, libraries, company reports etc. just waiting for someone to access it.

Once company has the analogs and antilogs that are suitable for its business needs, it knows with some realistic data how the things are currently and how they have been in the past. To see what could happen in the future you need some "leaps of faith". These are beliefs on "what will happen" without any actual evidence to support it. The only way to see whether a certain leap of faith really works is to take it. To minimise the damage these leaps of faith could do, the company has to identify them early and figure out ways to test the hypothesis that will prove or refute them on a smaller scale.

The final tool introduced in the book is dash boarding (Mullins et al. 2009: 38-40). In this technique company experiments in structured, disciplined and systematic way and creates metrics that are tangible and measurable and by highlighting the key indicators of company's progress. The gathered data can tell whether the leaps of faith that have been taken are succeeding or not.

Dashboard forces strategic thinking about the issues company has listed that could possibly indicate that the chosen plan does not work. It also forces companies to examine their leaps of faith and find quantitative data to support the suggested hypotheses. The dashboard can indicate by the evidence company gathers that one or more of the leaps of faith are in error, this would mean that the original plan company has, has to be revised. Dash boarding is a powerful tool also when company needs to convince other, current or future, stakeholders, that the idea company has really works. Dash boarding gives evidence based data that tests the hypotheses systematically and proves or refutes leaps of faith taken. With the information company can tell the other parties what the actual data tells instead of having to make guesses.

The book ties the process and content of business plan together by introducing the business model grid (table).

<b>Business Model element</b>	<b>Relevant analogs and the numbers they give you</b>	<b>Relevant anti-analogs</b>	<b>Leaps of faith around which you will build your current dashboard</b>	<b>Hypotheses that will prove or refute your leaps of faith</b>
Revenue Model				
Gross Margin Model				
Operating Model				
Working Capital Model				
Investment Model				

*Table 1. The Business Model Grid.*

The rows of the table are the different aspects of company business model, each column contain the needed information for that particular model. Entrepreneurs task is to cover each of the cells in the business model table with preferably quantitative evidence, and if all goes well it will give the data that validates the idea. The filling and modification task is complex and usually creating the table where all parts fit together seamlessly require many iterations and practical testing of the hypotheses.

The book gives good examples of the different elements of the business model and how they are tied-in and relate to each other. We will go through the recommendations in the next sections.

### *Revenue model*

First model covered in the book is the revenue model (Mullins et al. 2009: 65-87). Customers are not willing to give money to a company unless they have some issues that it can solve for them. The more pressing, urgent and severe their need is the better are the chances of making a working revenue model. Most likely reason for a venture to fail is that entrepreneur does not have enough customers that give money, often enough, soon enough and in large enough amounts.



Every revenue model is based upon six questions that need answering: who will buy, what will they buy, for which need, how much will they buy, how much and with what terms are they willing to pay and what are your costs and effort needed to make a sale (new or repeating). By answers these questions with evidence based data, a company can build a revenue model that can survive with the money coming from the customers like all businesses should.

#### *Gross margin model*

Gross margin is one step above from revenue (Mullins et al. 2009: 88-112). Generating high gross margin from revenue, ensures that a business has enough income to cover all costs that are not directly tied to production of products and services For example investments to growth, product development and well being of employees. The issues in this area answer to questions regarding driving down the production costs, different pricing of the sold goods and services and finally figuring out how to make the gross margin model itself give unique advantage to the company.

#### *Operating model*

The authors define operating costs as "all the other day-to-day costs that must be incurred in addition to the cost of goods sold" (Mullins et al. 2009: 113). According to the authors, most companies give these issues less attention than necessary but if they are not kept in check, problems in this area can bankrupt the company fast. Operating model is based on the chart of accounts that defines the operating expense categories that fit in the industry. The costs generated by the company are divided to these categories. Careful examination of these numbers can reveal unnecessary costs that can and should be eliminated. The accounts also reveal parts of the model where spending should be increased to gain maximum value for invested money.

The analysis of where the money is spent will be helpful in strengthening of the company strategy. If company strategy is to offer luxury service the spending chart will look very different than a company focusing on cost savings. Both strategies have possibility to work but the company must go all the way in order to achieve the goal and attract the right kind of customers.

### *Working capital model*

Working capital is the cash company needs to have in short term in order to keep the business running (Mullins et al. 2009: 133-156). Salary and supplier payments need to be made as well as rent and other costs. Even if company has lots of customers and excellent products, without short term financing it cannot run its business. The key knowledge about working capital model is the timing when the money comes in and when it goes out. Current liabilities or how much money company owes subtracted from its current assets, which is how much money company has currently or is owed to it in short notice, is the company's working capital. Working capital is measured in days, "How many days of inventory you have?" or "How many days of sales do you have in your accounts receivable?" (Mullins et al. 2009: 137)

As working capital costs to upkeep the authors suggest that working capitals cash portion should be kept as small as possible or even negative (Mullins et al. 2009: 136). The benefits of negative working capital are apparent. Company can free the cash to cover the fixed assets, it has spare cash to invest elsewhere and with minimal capital invested in the operations company can generate impressive return of investment numbers with less net cash flow. The key is to have customers pay as soon as possible, suppliers to wait for their money as long as possible and at the same time keeping the inventory of already paid items as small as possible.

Costco is an example of how negative working capital is achieved (Mullins et al. 2009: 145-150). First customers had to buy a membership to shop at Costco stores and on return the customers got very low prices on the items. Costco insisted on customers paying with cash, check or debit card and it did not accept credit card thus lowering their accounts receivable to 3 days. They had high inventory turnover, as the prices were lower than on their competitors because low working capital allowed them to get only small profit margins on the products and still they got good return of investment numbers. On suppliers side they negotiated better pricing and payment terms because they ordered with high quantities and large packages enabling vendors to bring their wholesale prices down even further. The Costco stores sell only products that would be sold fast off the shelves. For target customer group Costco selected more upscale families with income over \$75000 on average. These consumers are happy to pay for more upscale

items that excite them and which they don't have to pay the full price. On the other hand they use simple non-brand items for common household items. Only 25% of Costco's products came from other than basic household items, but it was the factor that kept pulling people back to the stores every 17 days. Otherwise the customers would miss the bargains. All these small things made it possible for Costco to have working capital of -11 days in 2006. This allowed \$3.6 million dollars free customer cash from each store to be invested in growth, and that is why Costco was able to grow at such rapid pace without need for outside funding.

#### *Investment model*

Investment models (Mullins et al. 2009: 157-178) are condensed into two things first is the amount of cash needed to start the business this includes the costs of equipment, facilities, pre-launch development activities and business model tests that are needed.

After launch investment model helps take the company through problematic times before it has reached break-even cash flow and its business can finance itself without outside help. Problems in this stage concern the gross margin, operations costs, funding and proving of the survivability of the company. Goal in this stage is to minimize the amount of money needed to get into break-even status and minimal funding in the beginning will help to reach this goal faster.

#### *Tying the models together*

Usually only one successful part of the business model is not enough to make a business successful. Usually there is a need to combine two or more models together to make them viable and difficult to imitate (Mullins et al. 2009: 179-204). Authors give good example of this in case Zara. Zara is fashion retailer that has tied its gross margin model, revenue model and working capital model in a tightly working combination that is difficult to copy. Their revenue model is based on customers that wanted latest fashion and Zara answered with small batches of clothes that are here today but probably gone next week when something new is again here. They are able to react to fashion changes more rapidly than their competition since they produce the clothes in Europe instead in the Far East like their competition. This reflects their gross margin model also. They produce in Europe so their

production costs are higher than their competition has, but on the other hand the batches are so small they do not have to mark down their goods as the products are mostly sold at normal price unlike the competing products. The local production boosted also their working capital model as the inventory turnover is very fast and they have tied their suppliers with long-term delivery contracts. All and all the Zara's model works.

### 3.2 The Hamell Model

Incremental innovation is usually less profitable than radical business innovation in the nonlinear world we live in. How to make radical innovation work for your business is the topic in G. Hamell's book "Leading the Revolution: How to Thrive in Turbulent Times by Making Innovation a Way of Life" (Hamell 2000). Although we are looking at a new business that is just about to start the areas of change author point out need special attention in building the model.

Radical innovation has the power to change industry economics and change the basis of competition, the competitive advantages and customer perspectives (Hamell 2000: 69). If an new idea changes customers perspective but is not defendable competitive advantage it is not considered radical by the author, as the competitive advantages are difficult to duplicate and unique. Only few product line enhancements qualify as radical innovations and thus they do not generate as much money to the company. Another limitation usually is that the innovation is confined to the product itself and not in the whole business concept where the product is only a small part. This limitation leads to blind spots and missed opportunities that can be exploited by the competition. Widening this scope extends the potential scope of innovation; every component of business concept is and should be a potential candidate for business innovation. Every new ideas level of how radical it is should be judged with two criteria, first, "How different it is from the industry norms?" and "How many parts of the business concept elements the idea reaches?" (Hamell 2000: 63). Company that hopes to outperform the mediocre competition should have large number of its projects scoring high on both of these scales.

Business concept innovation aims to imagine what has not done yet, on average it is less risky to do than fundamental technology innovation, risk be-

ing the probability of failure multiplied by minimum required investment. Although business innovation is not risk free there are ways to reduce the costs of the innovation through low cost experimentation and fast market feedback cycles. Radical innovation does not require radical risk taking it just needs above average thinking and better than average rate of improvement.

New business models are not just disruptive technologies they are new business concepts that instead of replacing existing technology they create new possibilities. When done in most effective way business innovation leaves the competition only bad choices, leave their familiar and tested business model and moving on to the new field with little knowledge of the rules, or stay in the old model and end up in dying market. Business concept innovation aims to circumvent the competition instead of fighting against them. The author distils the idea to this thought “what is not different is not strategic. To the extent that strategy is the quest for above-average profits, it is entirely about variety—not just in one or two areas, but in all components of the business model.” (Hamell 2000: 72)

#### *Components of the Business Model*

The author describes four major components in his system: Core Strategy, Strategic Resources, Customer Interface, and Value Network. Three bridges combine these four components: Configuration of activities, Customer benefits and Company boundaries. Underlining all these are four factors that determine the models profit potential. The model is illustrated in figure 4.

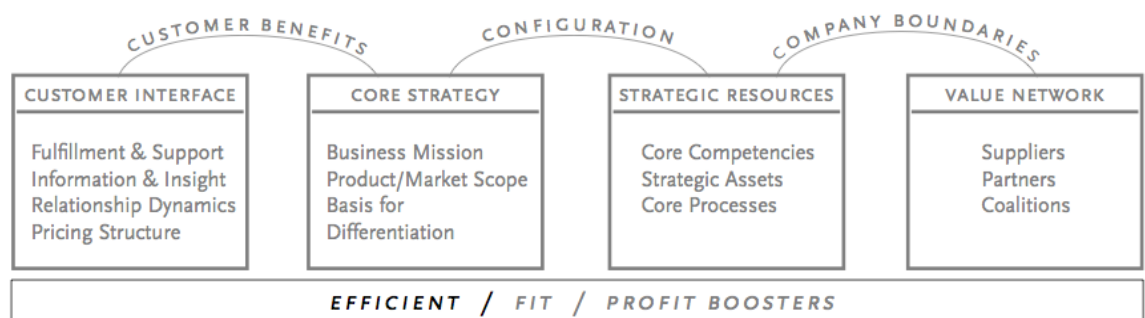


Figure 4. Hamell business model components and their relations (Hamell 2000: 100).

### *Core Strategy*

This component defines how the business chooses to compete (Hamell 2000: 74). Core strategy contains the market scope or where the company chooses to operate in the market, which product segments, what customer group and where geographically. Also it contains information about where the company does not want to operate. Second point is the mission, the business goal the business model is set out to achieve and includes issues like value proposition and strategic intent. It gives the company a goal where it wants to be some day. Last point is how company differentiates itself from competition. What makes the company different from the competition and how the company uses the differences to its advantage in the competition on the market.

### *Strategic Resources*

The unique resources company has are the foundation used to gain competitive advantage in the market. The strategic resources have to be used wisely to gain advantage because these assets are usually hard or impossible to imitate and provide long lasting advantages (Hamell 2000: 79).

*Core Competences* is knowledge, unique capabilities and skills that company has in its use. *Strategic Assets* define the rare resources the company owns; these can be patents, infrastructure, proprietary standards, customer information and other valuable physical items or rights. Last item is the *Core Processes*; these define what the people in the firm actually do. They are activities used to modify the assets and competences to customer value they are also excellent base to radically change the business concept innovation.

### *Configuration*

Configuration combines core strategy and strategic resources (Hamell 2000: 81). It defines how the strategic resources are combined and used to support strategy. It contains information about the links between the competences, assets, and processes and how they are managed. Great strategies rest on the unique combination of these resources, competences and processes.

### *Customer Interface*

This section has four points that focus on reaching the customers. *Fulfillment and Support* (Hamell 2000: 83) defines the channels that are used to reach the customers. What kind of support the company gives to the customers and what is the service level that is provided. *Information and Insight* (Hamell 2000: 86) refers in the information that is collected and utilized for the customer, basically the information content available in the customer interface. It also refers to the information given to the customer before and after the purchase. *Relationship Dynamics* (Hamell 2000: 88) refers to the nature of the interaction between customer and company is it direct or indirect, continuous or infrequent, how easy the interaction is and what feelings the interaction raises on both parties. Like all relationships it is acknowledged that there is also emotional component in addition to the transactional in the consumer producer relationship. Last point is *Pricing Structure* (Hamell 2000: 89), which defines how you charge the customer for the value they receive, which according to the author is great way to find business innovation.

### *Customer Benefits*

Customer interface and Core strategy linked together with *Customer Benefits* concept (Hamell 2000: 91). It contains information on how to link the strategy and the customer needs together. Important in this link is to define which needs are and which are not included in the offering.

### *Value Network*

Fourth component in the business model is *Value Network* that surrounds and complements the company and increases available resources but is not directly under the company's control (Hamell 2000: 93). These elements include suppliers and partnerships or coalitions the company belongs to. Choosing the correct network company associates itself, can have large impact on the competitive position and thus it could be a good place to seek innovation.

### *Company Boundaries*

Boundaries combine the *Value Network* and *Strategic Resources* (Hamell 2000: 97). It refers to the decisions that have to be made on what parts of the contract company does itself and what parts are contracted to the value

network. Changes in these boundaries are an important contributor to business innovation.

### *Wealth potential factors*

In addition to the abovementioned factors a company needs to find a way to generate profits from the business. Company must be efficient so the customers and other beneficiaries from the value production are paying exceeds the cost of producing it. If this does not happen the company cannot be profitable. Company must also be fit in a sense that all the elements of the company support each other in the common strategic goal. If the goals of the elements are conflicting, it usually results in mediocre.

There are few issues that are referred as *Profit Boosters* (Hamell 2000: 102). These drive the profits of the company higher than otherwise possible. The boosters can be placed in to four categories; *Increasing Returns* and *Competitor Lock-Out* are synonyms to monopoly. Revolutionary business concepts are usually based on a temporary monopoly because every company strives to reach uniqueness in the business. Concepts with monopolistic tendencies often withstand the assault from competitors longer than others.

*Strategic economies* is another profit booster it refers to the fact that operational excellence is not the main profit generation increaser, instead company uses strategies like economies of scale, high focus or wide scope to gain advantage in the market.

Last profit booster is *Strategic flexibility*. It refers to company's ability to change its strategy fast and thus does not get caught in businesses that do not lead to anywhere anymore.

### **3.3 The Osterwalder Model**

Alexander Osterwalder studies in his Thesis (Osterwalder 2004) studies in his Thesis a way to create a generic business model and furthermore make a software-based tool that can be used in managing in complex and fast changing business environment. The question of the Thesis is not that important to us but it contains a lot of information on the parts that a business model must define in order to be complete.



Mr Osterwalder describes a business model as "a conceptual tool that contains a set of elements and their relationships and allows expressing a company's logic of earning money." (Osterwalder 2004: 15). In his view business model describes the value company produces to its customer segments and also the structure of company and its network of partners that produce and deliver the value together in order to make profitable and sustainable revenue.

The Thesis uses several literary sources to define and categorize the different parts of business models and groups them together in to nine elements. The nine elements are further grouped to four categories or pillars as he calls them, *Product*, *Customer Interface*, *Infrastructure Management* and *Financial Aspects*. These pillars as well as the elements they contain are described in the next subsections.

### *Product*

The first part in the model is the product that describes what the company is in business for and what is its value proposition to the market. Value proposition is the overall view of the products and services that are offered in order to provide value to the customers (Osterwalder 2004: 49). The world of business has changed and continues to change over time, previously companies concentrated on positioning themselves in the correct market position and customer segment at the correct time with their products and services. Globalization, rapid changes in the market and developing technology make it hard to do so anymore. Increasingly companies organize themselves into networks and bundle their services as groups. Developing information technology has made this development possible and at some level mandatory if company wants to succeed. This has also opened up new value creating information-based services for the physical products. Developing information technology has separated information from the physical products which allows them to be sold separately, for example books and music no longer need the physical media in order to be sold, the transfer of information is all that is needed (Osterwalder 2004: 48). This diminishes the limitations of the physical world and opens up host of new possibilities for value added services. In some cases it forces fundamental changes to the entire business models. *Value Proposition* is the first of the nine elements (Osterwalder

2004: 49), and it contains one or several products that by definition cover all aspects of what the company or group of them are offering.

### *Customer Interface*

The customer interface part covers all customer related aspects, targeted customers, customer communication channels and it defines what kind of relationship a company wants with the customers (Osterwalder 2004: 58). Customer interface describes how and to whom the company chooses to deliver the value it is offering via Value Proposition.

*Targeted Customer* is the second element in the model (Osterwalder 2004: 60). It describes the segment of customers the company chooses to target for its value offering. Targeted customers have certain set of criteria that are used to identify the people that belong to the selected segment. Choosing the correct criteria and through that the correct segment is essential because this way company can better choose the best way to get maximum attraction effect for the allocated resources.

Third element in the model is the *Distribution Channel* (Osterwalder 2004: 63). This element contains information about how the company reaches the targeted customers so it lies between the target customer and value offering. Its purpose is to make it possible to deliver the right amount of right products at the right time to the right people. The limiting factors in this are costs, required investment and limitations in flexibility. Company should try to message the potential customer during all four phases of the customer buying cycle which are awareness where customer needs to be made aware of the value offering and attracting them to try the product, evaluation where company should match the customers value needs with their offering, purchase where the transaction needs to be convenient and after sales where customer is provided additional value through manuals, FAQ and other means and not forgotten.

Last element in Customer Interface category is the *Relationship*, (Osterwalder 2004: 71) which defines what kind of relationship a company wants with its customers while keeping in mind that resource needs that have to be allocated to upkeep it. Current trend is to move from traditional simple transactions to more complex and longer lasting relationships so the company needs to think how much it wants to invest resources in acquisitions, reten-

tion and add-on product sales for each customer. Also technological advances like Internet need to be taken into consideration in this area.

### *Infrastructure Management*

The third part of Osterwalder business model is *Infrastructure Management*, which defines the how value is created part of the model (Osterwalder 2004: 79). It contains information about the complex interactions between company, its strategic partners, suppliers, customers and community. In other words, this category defines the capabilities of the business model and the resources it has available. Also the information reveals who owns and provides the required resources, who is responsible in the execution of the activities and how are the activities related to each other. The elementary goal is to make possible to deliver the value proposition and maintain customer interfaces.

*Capability* is the first element in this category and fifth overall (Osterwalder 2004: 79). Its description is that it is repeatable actions that use the resources to create the products and services to the market. Company uses the capabilities in order to provide the value proposition. Capabilities can be inside the company or other companies or even the customers can perform them.

Next element is the *Value Configuration* (Osterwalder 2004: 83). It shows all necessary actions, and the links that combine various capabilities in order to create the total value company proposed to the customer. There are three types of value configurations: chain, shop and network. Chain is set of capabilities chained back-to-back in order to sequentially transform the inputs into outputs. Shop type tries to discover what the client needs, figure a way to fulfil the need and iteratively improve the process. In Network configuration a company is not involved in the actual production, instead it acts as an intermediary between customer and the producer and the value it provides is the linking of the two parties.

Last element in the category is *Partnership*; it maps the capabilities between the various companies that are within the partner network (Osterwalder 2004: 89). Traditionally these have been joint ventures between companies but nowadays formation of strategic alliances is more common. Strategic alliances aim to create and enhance the competitive positions of its members.

Alliance members can exchange and share capital, technology and assets and also co-develop their products. Alliance operations allow companies to jointly coordinate the skills and resources so each company does not have to take risks alone and face competition from the other alliance members.

### *Financial Aspects*

The last part in Osterwalder model contains the financial aspects of business. The part is the outcome of the other areas in the model. The part contains the Cost Structure and Revenue model of the company and it is the most transversal part because all the other parts of the model have large influence towards it. Financial aspects of the company determine the profit making logic and thus how the company is able to compete in the market.

*Cost structure* of the company contains information about all the costs company creates in creation, marketing and delivery of the value it brings to the customers (Osterwalder 2004: 101). In other words it represents all the things company needs to operate in monetary values. It sets pricing to all the resources, activities, assets and networking costs company needs in its operation. Author suggests that there is an important cost saving and value creation opportunity for company if it focuses on its core competences and relies on its network to fulfil its other competence needs. Cost structure is divided to a set of accounts that are revenue, cost of goods sold, gross margin and operation expense costs. Operation expenses are split further into R&D, services and marketing and general expenses for more detailed handling. Dividing the monetary values in the cost structure this way makes it easier to manage and its documentation becomes clear.

Last element is the *Revenue Model*, which measures the ability to translate the value company produces to the customers into money and is composed of incoming Revenue Streams and Pricing components (Osterwalder 2004: 95). Company can have several revenue streams and each stream has its own pricing mechanism. Author states that it is increasingly important to focus on the customer group's willingness to pay because this varies between different customer groups. It is efficient for the company to charge different prices from different customers. The Thesis categorizes the revenue streams to five groups based on the nature of the revenue. These groups are Selling operations where the ownership of the goods are exchanged for money. Lending operations, where goods are temporarily given to customer

for a period of time. Licencing where permission to use something non-material company owns is sold. Transaction-cut where company gets part of the money that is moved in the larger transaction. The large transaction itself is handled by network of companies. And last Advertising where other company pays to have their products publicly displayed by your company.

Pricing which is the second part of the revenue model is also divided to groups depending on their characteristics. Fixed pricing is, as name suggest, element that has fixed price that is not dependant on the buyer or real time market conditions. These are usually pay-per-use, subscription based or menu style pricing schemes.

Differential pricing group differ from fixed pricing in that the price changes according to the products or customers profile, are volume dependant or are linked to customers preferences but are not based on real time market conditions. Differential pricing changes according to volume, product characteristics or product features. Profiling price according to customers, which belongs to this group, has just recently become more popular as computerized customer management systems are becoming more common.

Last pricing group is the market pricing that is based on the real-time market conditions. The mechanisms in this pricing in this group are basic bargaining, that has existed as long as business has been done. Yield management, which is commonly used in airline ticket sales for varying prices based on reservation status, Dynamic Market where pricing is determined by large amount of buyers and sellers real-time like stock market, and last auctions and reverse auctions where highest bidder, or lowest in case of reverse auction, gets the value or job.

### **3.4 The Johnson Model**

The article "Reinventing your business model" discusses about when changes are needed in a business model and how to create a new model that is revolutionary to the business field (Johnson et al. 2008). Although this Thesis is more concerned about creating a new one, the lessons in the article can be applied to Thesis question as well. The article strongly points out that creating a new business model that is not revolutionary to industry is

not worth creating. This is probably true as if the model is easily copied the stronger players in the industry will drive a new company out with sheer size and resource availability unless it has some unique way of delivering enough value to survive the competition.

Authors suggest that first item on the list to create a new business model is to create a *strong customer value proposition* (Johnson et al. 2008: 53) that solves the customers needs or fixes their problems just like earlier described in Mullins and Komisar revenue model (Mullins et al. 2009: 65). After figuring out the value proposition company must construct a profit formula that allows it to create value from solving the identified customer problem or need. This value creation requires well thought out process and resource planning that supports the value proposition.

Article suggests that the value creation process building should begin from the bottom so company starts from *required total profits* (Johnson et al. 2008: 53) and builds their processes and resources from that foundation. Things to consider are the *profit formula* that contains the revenue- and margin- models, cost structure and resource velocity considerations. After that company must identify and list the *key resources* that it cannot live without such as people, equipment, technology, partnerships, brand, and information needed (Johnson et al. 2008: 53). This list is constructed in a way that the parts are supported by the profit formula. Linked to the key resources and profit formula are the *key processes* (Johnson et al. 2008: 53) that include the actual value generating processes like design, marketing and manufacturing that define how value is actually created in a way that is repeatable and scalable. Last part of the key processes are the metrics and rules that measure and set boundaries to the processes and resource usage. The profit formula, key resources and key processes are linked together so, that each part creates restrictions to the others. Linking the parts in a way that they support each other is the most difficult phase in the building process, usually the limitations, especially on resource part, force the company to focus its business instead of trying to solve all possible needs at once.

### 3.5 The Frei Model

Creating a business model that contains service components is more difficult task than purely product oriented business model because the customer management partition needs to be added to the model also as the customer is involved in creation of the services. Frances Frei describes the problem field that adding customers to the process involves in her article "Four things a service business must get straight" (Frei 2008). Adding customers to the model can easily damage the cost structure so companies have to find ingenious ways to fund their distinctive advantages. There are four elements in the service business that can disrupt the business model if they are not taken to account. The elements that need careful study if service company wants to succeed are the *value proposition*, *funding mechanism* for the offering, *the employee- and customer management systems* (Frei 2008: 72). The author states that there are no formulated right way to combine these elements each company has to create their own mix that is successful. Because the elements are linked together changes in one reflect to the others as well.

#### *The Offering*

In service business the view of the offering is largely different than in product business, instead of simply fulfilling customers needs like in traditional product business the service has to be thought as pleasant experience for the customer. Company has to make decisions on which service attributes are highlighted (Frei 2008: 72). Examples of service attributes are low prices, easiness of customer interaction or wider range of services. The strategy of the service is defined by the author as; company choosing on what not to do well instead of choosing on what not to do at all like in product business. This definition comes from the fact that company has to take part on all aspects of the service but at the same time it cannot do everything well and still remain profitable. So company has to choose which parts of the service they do excellently and which parts poorly and adjust their strategy accordingly. These decisions are dependant on the needs of the customers and their values. In order for a company to succeed it has to find the properties of the services customers value the most and focus on those. If company wants to focus on every aspect of the service it will be mediocre in them all

and will probably not succeed. It is better to be excellent in some fields and inferior in others as inferiority fuels the excellence (Frei 2008: 73).

### *The Funding*

Developing working funding mechanism is also harder in service business than in product business, because service business usually involves bundling of the offer from various elements that some produce income and others do not. Author gives four basic ways to build funding mechanism two of which are saving costs from operational side and two are dealing with customer paying for the excellent service. First way is to fund the service by plainly charging more money from the products (Frei 2008: 73). It can be made more pleasant if you charge from something else than the actual service the customer is using. Second way is to find some ingenious way to combine value adding service costs with operational savings in a way that produces positive income (Frei 2008: 73). This is very hard to do in most cases because most of the time this can easily be copied by competition. Third option is similar to second; spend resources to services in hopes that they generate tangible savings in the future in other parts of the business (Frei 2008: 74), for example in product development. Fourth mechanism is to have the customer do part of the actual work like assembling of furniture, self-service check-in at the airports etc. (Frei 2008: 74). Author warns that companies wanting to aim for service excellence should not look for indirect benefits from self service or use price discount as a pulling factor but instead make the self-service welcomed by the customers as pleasurable and easy way to do business with you. The funding mechanism should be well thought before the launch of the service because customers react in overly negative manner to previously free service that company suddenly starts to charge money from. With well thought out design company can afford to offer better service experience than the customer could get from anywhere else.

### *The Employee Management System*

The choosing of employees uses the same logic then the offering. Company usually has to make trade-offs with the level of service they give (Frei 2008: 75). In other words, choices have to be made with the employee level of professionalism and how much they cost to the company in wages. Depending on what the company is offering it does not necessarily need all



employees to have excellent level of professionalism. If the company is concentrating on building a model that emphasises the service then it is good for the company to consider what makes its employees able to achieve excellence and then to give a really through consideration on what motivates them to do that.

### *The Customer Management System*

Because customers are always a part of the service business and sometimes quite a large part of it managing them effectively is integral part of the business (Frei 2008: 76). Customers affect not only their own service experience but also quite often they affect the other customers experience also. Main benefit, according to authors, is that customer involvement in the value creation interaction along with the company employees, first of all, decreases costs, as the customer part of the labour is free, and can also usually increase the service experience.

In order to make the customer do part of hired employees job a company must first make the task simple and as intuitive as possible because many times the customer has not done the self service part before and is less skilled than trained professionals (Frei 2008: 76). Also company has to consider that like the employees the customers also need motivation in order to do part of the work and as there is little control on what kind of customers there are, a company needs to place penalties and rewards for customers to make them do their part correctly. There are two ways to motivate people, first is direct reward and penalty way or “instrumental” where discounts and extra fees control the behaviour. Second way is “normative” which utilises peoples pride, shame and blame to achieve the same control. According to the author a company must find answers from its strategy to three important points, what kind of customers does the company want, which behaviour is desired from them and last what techniques best affect their behaviour. This way you can make your customers do what you want.

### **3.6 Synthesis for Business Model Theory**

In this subsection, a new combined business model is suggested based on the literature. The different ideas from the literary sources are grouped into four categories that match the four primary questions presented earlier that are common to all businesses. Although the same questions in different

form can be found from different authors only one of them is selected for application in our model.

This section also collects the relevant questions for building a model for small company operating in service industry and filters them into a manageable set that takes into account most issues a company model may depend on. We believe that if answers to these questions do not contradict each other, the company business model is sound and viable. The questions that are marked in grey colour are the most important ones and they are selected for Ohdake Puutarha case. It should be noted that since Ohdake Puutarha does not have standing inventory, many of the resource-related questions are not relevant. Thus they were left out of the final question set, although the questions are still relevant to businesses with different business model.

### *Customer Proposition*

The first of the primary questions: What is the customer proposition? Which in itself is quite abstract, is divided in this part to a set of more detailed and concrete questions. All of the sources dealing with this subject want answers to question: who will the company sell the products to, e.g. who is the target customer and what kind of need is fulfilled by the value offering. Also the communications channels that are used to reach and communicate with the target audience need specifying. It is also noted that company needs to specify which are the customer targets the company is not trying to reach.

	<b>Mullins &amp; Komisar</b>	<b>Frei</b>	<b>Johnson</b>	<b>Osterwalder</b>	<b>Hamell</b>
Customer	Who will buy?			To whom is value created?	Who is the target customer? Who is not?
Value	What will they buy?		Create Strong value proposition.	What is the value proposition?	What is the value proposition?
Communications				What are the communication channels?	How to contact the customer?
Need	What are the customers need?				

	<b>Mullins &amp; Komisar</b>	<b>Frei</b>	<b>Johnson</b>	<b>Osterwalder</b>	<b>Hamell</b>
Learning					What can company learn from the customers?
Relationship		Which service attributes should be highlighted?			What kind of relation company wants with the customers?

Mullins and Komisar (Mullins et al. 2009) approach is most down to earth and concrete as they directly ask the relevant questions from the reader. Osterwalder (Osterwalder 2004) and Hamell (Hamell 2000) bring out the important factor that company should consider how to contact, communicate and interact with the customer. Frei (Frei 2008) brings another good point on customer communication as the initial communication comes from the company side the company should emphasize on what it is good at from the first contact onward and not change the message. Hamell also points out that the customers needs have to match the company strategy for best results.

Hamell groups the customer aspects together with his questions concerning the company's target audience: who is the target customer, who is not, (Hamell 2000: 75) what kind of relation a company wants with its customers, (Hamell 2000: 88) and what can company learn from the customers (Hamell 2000: 78).

The purpose of the company is condensed to two simple questions: what will the customers buy and what is the need the company is trying to fulfil (Mullins et al. 2009: 66).

Customers need to be reached and so does the company, this raises the following important question: what are the communication channels (Osterwalder 2004: 63).

Service company cannot be identical to others if it wants to achieve over average returns so question rises: which service attributes should be highlighted (Frei 2008: 77).

Answering this set of questions will allow company to create the value proposition that takes to account the target customers, value offered to them and the communication between customers and company.

### *Earning Logic*

The subject in this part of the model is the second primary question: How does the company make enough money with the proposition? Earning logic defines how the company wants to generate profits, how to price its products and services, with which companies it should network with and how it should do things differently from its competition. As the target company is small networking should be priority in this area.

	<b>Mullins &amp; Komisar</b>	<b>Frei</b>	<b>Johnson</b>	<b>Osterwalder</b>	<b>Hamell</b>
Income	How high can company drive its prices?		What is the revenue model?	Financial aspects: Revenue model.	
Payment	- What are the payment terms customers and vendors agree on?	How to cover expenses from customer with the 4 funding mechanisms		Financial aspects: Pricing model (Fixed / differential / market)	
	- How many days of sales in accounts receivable?				
Costs			What is cost structure of the company?	Cost structure	Profit potential: How to be efficient?
				Cost of goods sold	
				Operational expenses	

	Mullins & Komisar	Frei	Johnson	Osterwalder	Hamell
Gross margin	How much revenue and how high gross margin can the company generate to cover its costs?		How much money can be made?  Start building from required total profits.	Financial aspects: Gross margin	What does the company do differently?
Margin mix	How should the margin mix be handled?				
Value Network					Who are the value network participants?  How is the value network used in value creation?
Resource velocity			Profit formula: What is the Resource velocity?		
Profit boosters					Profit potential: What profit boosters are available?

Johnson thinks differently from the others in this category as he suggests starting the building process from required total profits and build from there. Others do not give clear place to start and only state that all the parts in the models influence the others. Fixing one part in place first and letting it dominate the others could in my opinion limit the planning too much so it probably is not a good idea. Osterwalder presented some interesting ideas in his work but the issues he raised are handled in less theoretical way by the other authors that is why they were filtered out from the results.

From Mullins & Komisar the following pricing and margin related questions were picked for this section: how high can company drive its prices, how should the margin mix be handled (Mullins et al. 2009: 90), what are the payment terms customers and vendors agree on (Mullins et al. 2009: 138) and how much revenue and how high gross margin can the company generate to cover its costs (Mullins et al. 2009: 159).

There is a need to find out if there is a way to cover the costs without directly charging everything directly from the customers so article from Frei presented a suitable question: how to cover expenses from customer with the four funding mechanisms (Frei 2008: 73-75).

Company has to know how its money is spread across the board so we need to know: what is cost structure of the company (Johnson 2008: 54) and what is the resource velocity. (Johnson 2008: 53)

And finally Hamell brings the value network and gross margin differentiation questions: who are the value network participants, how is the value network used in value creation (Hamell 2000: 93) and what does the company do differently (Hamell 2000: 76).

After these questions the company knows if it is at all possible to gather enough funds from the market and more importantly how it is going to do it.

### Resourcing

The third primary question is more closely defined in this section: what resources are needed to fulfil the proposition? Available resources are the main limiting factor in building a business model so it makes sense to carefully study what the company has to work with. Resourcing sets the most concrete boundaries on what business can do and what it can't. Company can stretch the availability of resources with careful inventorying and acquiring the needed resources only when it needs to thus reducing the waste.

	<b>Mullins &amp; Komisar</b>	<b>Frei</b>	<b>Johnson</b>	<b>Osterwalder</b>	<b>Hamell</b>
Need	Costs and efforts needed?	What is the required skill level of employees?	What are the required key resources?		What are the core competences?
	How much cash is needed to start?				
Availability				What resources are available?	What resources are available from the network?
Limits			What are the metrics that limit the processes, resources and profit formula?		
Testing	Cost of testing the required leaps of faith?				
Minimizing costs	How long can the additional funding be postponed?				

	<b>Mullins &amp; Komisar</b>	<b>Frei</b>	<b>Johnson</b>	<b>Osterwalder</b>	<b>Hamell</b>
Strategic Assets					What kind of strategic assets are available?
					How strategic assets are used to support strategy?
Resource costs	How are the costs spread between categories?	How much does it cost to motivate the employees?	Profit formula: Resource planning. How are the resources used?		
	Which resource costs can be eliminated or reduced?				
	What are the equipment buy/lease costs?				
Ownership				Infrastructure mgmt.: Who owns the resources?	
Velocity	How many days worth of inventory?		Profit formula: What is the resource velocity?		



In this section there is unity in the sources concerning the resourcing issues. Basically all suggest that all available resources should be listed and careful consideration should be put to how the resources are handled. What exactly is needed? Should they be bought or leased? Mullins & Komisar (Mullins et al. 2009) again present the most concrete day-to-day business running questions and gives ideas on how to stretch the funds, while Frei (Frei 2008) is concerned about the employee aspect of the requirements. Hamell (Hamell 2000) points out that much of the required resources are not necessarily within the company but instead they are located in other parts of the value network surrounding the company.

First thing a company has to do is find out what resources it has to work with: what resources are available? (Osterwalder 2004: 82).

Competences are also a resource and resources do not always come from the company itself: what are the required key resources (Johnson 2008: 53), what are the core competences (Hamell 2000: 77) and what resources are available from the network (Hamell 2000: 96).

Practical questions required for company survival come from Mullins & Komisar: which resource costs can be eliminated or reduced (Mullins et al. 2009: 131), how many days worth of inventory (Mullins et al. 2009: 156), how much cash needed to start (Mullins et al. 2009: 158) and what are the equipment buy/lease costs? (Mullins et al. 2009: 159).

If company wants to grow we must know the requirements of present and future employees: what is the required skill level of employees (Frei 2008: 75).

Resource usage and limitations set the boundaries for business operations so they must be taken care of: what are the metrics that limit the processes, resources and profit formula (Johnson 2008: 55).

When the company is aware of the resources it has available, and how to secure a steady supply of them it is possible for the company to succeed in utilizing them in optimal manner in its processes that are covered next.

### Core Processes

Last one of the primary questions: How does the company convert the resources to fulfil the proposition, is split into sub questions in this section. It defines how the resources are handled to make the actual value. The key processes should be optimised to spend as little resources as possible and unnecessary processes should be eliminated. Basically study has to be made on how to streamline and make the processes cost effective, identify the most important processes and give necessary processes enough resources that they can support the business.

	<b>Mullins &amp; Komisar</b>	<b>Frei</b>	<b>Johnson</b>	<b>Osterwalder</b>	<b>Hamell</b>
Cost of Goods	How low can cost of sold goods be driven?				
Key Processes			What are the key processes?	What is the value configuration within the company?	
Gross Margin Model	How can chosen gross margin model give advantage?				
Value		How to motivate customer to participate in value creation?	How actual value is generated?		
Differentiation					How company chooses to compete?
					What does the company do differently?

	<b>Mullins &amp; Komisar</b>	<b>Frei</b>	<b>Johnson</b>	<b>Osterwalder</b>	<b>Hamell</b>
Costs	How are the costs spread between processes?			Which activities use the resources?	
	What costs can be reduced or eliminated?				
	What costs can be increased to support strategy?				
Activities	Development activities needed before launch?			What activities do suppliers and partners perform?	
Operations Model	How thin operations model can be maintained before break-even?				
Risk Management	Which proven leaps of faith reduce risk of failure?				

In this section apart from Mullins & Komisar (Mullins et al. 2009) the authors do not give very detailed points to think over, this is understandable, as the business requirements concerning processes are very different between businesses. Mainly the authors stress on general level that core processes are very important to look at and much of the competitive advantages come from optimising the processes. Hamell (Hamell 2000) points out that differentiation is often done in the process section and revolutionary business practices can be achieved here. Mullins & Komisar (Mullins et al. 2009) give practical advices on how to identify and minimise the risks and damages in a

company that is just starting up. Frei (Frei 2008) describes the ways customers can be brought in to value creation and the importance of doing so.

The general description of the processes is asked in Johnsons work: what are the key processes (Johnson 2008: 55) and how actual value is generated (Johnson 2008: 53).

Hamell point out the need for company to define how it operates and how company differs from others with following questions: how company chooses to compete and what does the company do differently (Hamell 2000: 76).

Customer involvement is one of four service business issues from Frei: how to motivate customer to participate in value creation (Frei 2008: 76).

Osterwalder questions process resource usage: which activities use the resources (Osterwalder 2004: 82).

The detailed questions concerning the practical issues in this area are listed by Mullins & Komisar: how can chosen gross margin model give advantage (Mullins et al. 2009: 90), how is costs spread between processes, what costs can be reduced or eliminated (Mullins et al. 2009, p. 131), how thin operations model can be maintained before break-even (Mullins et al. 2009: 159) and which proven leaps of faith reduce risk of failure (Mullins et al. 2009: 160).

Processes are a good way to differentiate the company. By paying close attention and fine-tuning the processes a company can achieve above average performance results. After this last set of questions are answered and fitted into the business model of the company the entire model is completed and it is ready for testing in real life.

### 3.7 Model Used for the Case Company

In this section the sub questions for the four primary questions are combined to one table. The table contains the collected questions that are relevant to the case company. They are also applicable to all businesses that operate with minimal inventory. Businesses with larger inventories need to select more questions in that area. The answers to these questions reveal the business model that Ohdake Puutarha follows in its operations.

<b>Customer Proposition</b>	<b>Earning Logic</b>	<b>Resourcing</b>	<b>Core Processes</b>
What will the customers buy?	How high can the company drive its prices?	How much cash needed to start?	What are the key processes?
What is the need the company is trying to fulfill?	What are the payment terms customers and vendors agree on?	What is the required skill level of employees?	How can chosen gross margin model give advantage?
Who is the target customer? Who is not?	How to cover expenses from customer with the 4 funding mechanisms?	What are the core competences?	Which activities use the resources?

<b>Customer Proposition</b>	<b>Earning Logic</b>	<b>Resourcing</b>	<b>Core Processes</b>
What kind of relation the company wants with its customers?	What is cost structure of the company?	What resources are available?	How are the costs spread between processes?
Which service attributes should be hi-lighted?	How much revenue and how high gross margin can the company generate to cover its costs?	What resources are available from the network?	What costs can be reduced or eliminated?
What can company learn from the customers?	What does the company do differently?	Which resource costs can be eliminated or reduced?	How thin operations model can be maintained before break-even?
What are the communication channels?	How should the margin mix be handled?	What are the equipment buy/lease costs?	Which proven leaps of faith reduce risk of failure?
	Who are the value network participants?	How many days worth of inventory?	How actual value is generated?
	How is the value network used in value creation?	What are the metrics that limit the processes, resources and profit formula?	How to motivate customer to participate in value creation?

<b>Customer Proposition</b>	<b>Earning Logic</b>	<b>Resourcing</b>	<b>Core Processes</b>
	What is the resource velocity?		How company chooses to compete?
			What do you do differently?

The Customer Proposition questions combined provide answer to the primary question: what is the customer proposition? They specify who the customer is, what is offered to them how the offer is made and how to communicate with the customers. Earning logic column answers are parts of the larger question: how does the company make enough money with the proposition? These questions deal with cost structure, funding mechanisms, pricing and resource velocity. Third column Resourcing contains relevant issues that answer to third primary question: what resources are needed to fulfil the proposition? This contains questions about material and nonmaterial resources company has and what it needs to operate. Finally: how does the company convert the resources to fulfil the proposition? That question is split into sub questions in the core processes column. Issues in this column deal with process definition, differentiation and competitive advantages gained through the different processes. Also the cost management of the processes that is important for businesses are covered in the fourth column. With these four question sets covered the company that is creating its business model should have quite clear and well-covered understanding on its operations, funding and most importantly whether the pieces in the whole model can be fitted together in a whole at all.

In the final model there are total of 37 most relevant questions gathered from the five literary sources. These questions have been selected to represent the four main categories customer proposition, earning logic, resourcing and core processes. Questions are then combined to represent the final business model. These questions were specifically selected to cover most aspects of the business field that surround a small-sized company with minimal

inventory needs. The particular models that were used to create the model in this Thesis are mainly lacking the service aspect of the business and article by Frei (Frei 2008) contains solely the service aspect. The service aspect is mentioned in the other works but it is not handled in so much detail that small service company could utilize it without additional references.

This combined model is next tried against the case company



#### **4 APPLICATION OF THE BUSINESS MODEL TO OHDAKE PUUTARHA**

This section describes the case company answers to the questions presented as a business model in previous sections. The answers define how Ohdake Puutarha business model works and how it chooses to compete in the industry.

These answers are collected from 2 3-hour meetings with the company owner and the minutes from these meetings can be found at Appendix I. There were also several short undocumented conversations that led to the answers final formation that is presented in this Thesis. Company owner already had certain vision on how she would like to work. Therefor these meetings were used to verify which relevant issues concerning the business model the owner took into account.

While building the business model it is important to remind that the business owner had some preconditions to the business model. She desires to keep the size of the company quite small and had decided on how the customers are billed. The owner wishes to keep the company small in size, just maximum of few persons and to not grow large. As it was said before, the small size and minimal overhead costs allow the company to succeed in a niche where the customer jobs are too small for larger operators to take. Since the billing will be done by the hour, this simplifies the project cost estimation compared to most fixed price projects.

In the following subsection, the proposed combined business model is applied to analyse Ohdake Puutarha current situation.

## 4.1 Customer Proposition

Ohdake Puutarha offers its services to homeowners. The goal is not to grow large but to help enthusiasts better their knowledge and make gardens available for people that do not have the time, interest or skills to do it themselves. Customer relation is based on professional but friendly approach and relations with the customers are ideally long term.

### *Value*

#### What will the customers buy?

Ohdake Puutarha sells visually appealing and high quality gardens. Its service range extends from *consultations* and information services up to a turn-key solution for *the entire garden*. Ohdake Puutarha concentrates on eco-dynamic garden building. The company has ecological approach to the garden building by designing gardens with large biodiversity, ecological plant protection and ecological pest control. The plant selections take into account that the garden should look good in any season.

### *Need*

#### What is the need the company is trying to fulfil?

The case company has noticed that quite often people do not poses the *knowledge, skill* or *time* to make their expensive gardens comfortable and visually appealing. The price of houses in the capital city area is high and people have spent much money to purchase their gardens. As a result the company suggests that, it would be reasonable to assume that people want to get as much enjoyment from their garden as possible. From the company point of view, these people are in need of help and this is where Ohdake Puutarha steps in.

### *Customer*

#### Who is the target customer? Who is not?

The company's potential customers can be divided to two groups. The first group, called *the enthusiasts*, mostly need information about how to build and maintain their gardens. They are active in their gardens and have the time to take care of it. However, they often lack the knowledge on where to start, what to do, how to choose plants, how to place the plants correctly,

and generally, how to take care of the garden for optimal performance. For this group, Ohdake Puutarha offers *consultancy services* and short time contracts to set up the garden. Customer can participate in the building process and learn the tricks needed to maintain the plants and structures delivered from Ohdake Puutarha employee while they work together on the customer garden. Later on, customers can obtain additional consultancy services, if they have problems or otherwise require help. The second group nicknamed *the enjoyers*, want to enjoy their garden but they lack the time, desire or ability to do the manual labour. Customers in this group need someone to take care of their gardens while they subsequently enjoy using it. Work for this group is based on *short term contracts* to set-up the garden and *long-term maintenance contracts* to take care of it. The customers do not have to participate in the actual garden work. However there is heavy competition for this customer group due to the fact that the customers in this group are willing to make long-term contracts, which is a goal for most of the companies in this industry. Ohdake Puutarha does not want to participate in large government or communal projects due to the excess bureaucracy that is needed to participate in them.

### *Relationship*

#### What kind of relation the company wants with its customers?

The company wants to communicate a *professional touch* to the customers. From the company point of view a customer should feel that they could trust themselves in the hands of the company. The best the customer interaction model benchmark Ohdake Puutarha strives for comes from Bebesinfo.fi, which is a store for baby products. The owner of the business is enthusiastic but professional about the company products, and customer stories about the interactions with the company tell that customers have feeling of trust in the fact that the business owner knows what she sells. As a result customers feel that they are dealing with honest enthusiast that knows what she is doing and not just trying to sell them unknown products. The customer can feel comfortable after the transaction is finished, and they usually believe that he/she is welcome back for further information/business.

Ohdake Puutarha desires to establish similar long-term relationship with the customers helping them to create and update their gardens.

The best benchmark for the desired Internet communication is a company called Villi Niitty that sells gardening related equipment over the Internet. The categorization of their products by use instead of type and overall easily approachable down to earth outlook of their site ([www.villiniitty.fi](http://www.villiniitty.fi)) has similar familiarity towards clients Ohdake Puutarha wants to convey in its website. Every aspect of Ohdake Puutarha communication offers easily approachable, down to earth but yet professional outlook.

Which service attributes should be hi-lighted?

Company wants to hi light its *professional* but customer *friendly* and *honest* approach to interactions. Ohdake Puutarha stresses that it only makes high quality gardens that last and are ecologically sound. When working with Ohdake Puutarha, customers get honest opinion on the feasibility of what can be done and can trust the company since they receive proper guidance based on knowledge and experience. The company believes that honesty is more important than immediate profit. Therefore employees are not afraid to refuse a project if accepting it leads to a solution that is not acceptable in quality perspective.

*Learning*

What can company learn from the customers?

In relation to *customer selection*, bad customers should be identified early in the process and guided elsewhere for their needs. Company owner distills the idea to: "They are not worth the effort, as they cannot be made happy what ever the company does." Long-term relationship is not going to work with difficult customers. Working with customers also teaches to verify certain key issues like soil depth and composition before making promises. All details that have been agreed on have to be documented in the contract to avoid confusion on the issues agreed on. It is important to show the customer images of all the plants that are discussed to avoid confusion even if the plant is well known to the customer visually. Experience from projects has shown that "people have strong but different sense of aesthetics, and image from certain plants in their mind even if they do not tell it at first. In some cases certain plants are not acceptable by the customer because of the customers background and previous experiences." A designer has to take the psychological aspect of *beauty* into account and he/she has to iden-

tify the problems in the customer vision, bring them out to the open and find acceptable alternative choices. Many people have difficulty to see what the garden looks like when completed if it is built exactly as they wish. This part of customer interaction cannot be taught in school, it has to be learned on the job.

### *Communication*

#### What are the communication channels?

The main advertisement channel for good gardening company is usually *word of mouth*, potential customers especially in the enthusiast group usually discuss with their fellow enthusiasts about their gardens and if the friends like what they see they are more inclined to use the same gardening company's services in their own projects. Other effective marketing channels that can be used are the *company webpages*. The main web-page does not necessarily gain that much publicity but if the pages contain relevant information section and is made search engine friendly customers can find the company more effectively when they are searching the net for issues and problems that they are facing in their gardens. Creating a *non-commercial presence* on gardening related discussion boards and linking the company information pages to them on relevant topics should attract also commercial attention on the board users. Discussion board participation requires a lot of time, finesse and psychological sense to be successful. The company may not have enough personnel resources to dedicate to this media so it probably is not the best channel for communication unless there is free time that can be assigned.

According to the interviews performed for this Thesis, gardening enthusiasts usually subscribe to *magazines* that are dedicated to gardening so advertising in those could be considered. Better way would be to have someone make an article about the garden Ohdake Puutarha has made and thus give the company visibility in the field. Interviews indicate that newspapers are not cost effective enough advertising media to contact the desired customer groups.

After first contact, communication with the clients happen trough phone, email, and on location visits. As the company's strategy is to create a long-term relationship with its customers occasional contacts should be made af-

ter the project has been finished. Customers should be encouraged to contact the company for help in future problems also, this way if some follow-up project arises later where they need more extensive help, they have a place to call.

## 4.2 Earning Logic

In this section the relevant questions on how Ohdake Puutarha creates its income is answered. Market conditions and the fact that Ohdake Puutarha is at this stage relatively unknown put pressure on the amount of money that can be charged from the customers. On the other hand the company overheads are small so profitability boundary is low. The small size does not give much advantage to strive towards negative working capital but it is ideal to keep it as close to 0 as possible in order to keep the money that is tied to the projects as small as possible.

### *Income*

#### How high can the company drive its prices?

According to the preliminary market research the company owner made, the average competing gardening companies charge currently around 42€/h because Ohdake Puutarha does not have established name yet, so according to the owner this is a good price to start. Once reputation as a high quality service provider grows and more people are willing to purchase the services, prices can, according to the owner, be increased above the industry average. Ohdake Puutarha does not compete with its pricing but with quality and the desired customer base is not that influenced on price. Preliminary study indicates also that it is not worth to go below industry average either in order to gain reputation.

### *Payment*

#### What are the payment terms customers and vendors agree on?

Materials are billed from the customer when the products arrive from the suppliers and are quality controlled by Ohdake Puutarha employee and customer. Suppliers expect payment 14 days after accepted delivery. Work is billed using the reported hours once project is completed or in 14-day intervals if contract is longer. For maintenance contracts billing is done in 30-day

interval if not otherwise agreed. The project details and purchases have to be agreed and documented beforehand with the client.

How to cover expenses from customer with the 4 funding mechanisms?

Enthusiast customer profile can benefit from their participation of the work. Ohdake employee consults and teaches the customer as the customer takes part in the actual manual labour. This way customer saves on the total costs because the Ohdake Puutarha employee is billing by the hour and customer participation in the actual work allows the work to be completed faster. Additionally the customer learns the skills needed to maintain the garden while the working with Ohdake Puutarha employee in the project.

*Costs*

What is cost structure of the company?

Like in most consultancy and manual labour intensive companies employee salaries are the majority of the fixed costs. Other costs are negligible. The primary focus is to employ only the owner. In the future there is a possibility to hire some employees but we start with the assumption that the owners salary is the only employee cost. The minimum recommended salary in the gardening industry for the needed expertise level in Finland is 9.31e/h 172h/month (Finlex, 2010: 16) thus the minimum the salary would be around 19,500e pa. The rule of thumb in accounting is that total employee costs (includes mandatory pension payments and other social security payments) is around 1.4 times the actual salary so minimum required upkeep for one person is 27300e pa. This should be kept in mind if/when new employees are hired. Business partner would be more desirable solution than employee. Other fixed costs are the rent and utilities for the office and book-keeping costs. Variable costs are the used gardening equipment, computers, travel expenses. The amount budgeted to these is 2000e annually. This cost is low as the company is currently working from home office. In order to be successful the annual revenue of the company has to be 30000e the employee has to work  $30000e/42e/h = 714h$  in a year or around 100 days to achieve this amount.

### *Gross Margin*

How much revenue and how high gross margin can the company generate to cover its costs?

Current hourly rate of 42e/hour on location work, design work rates are agreed with the customer separately for each contract.

What does the company do differently?

Ohdake Puutarha owner describes the gross margin differentiation strategy when compared to its larger competitors: "By keeping the overhead costs in strict control small company can maintain the flexibility inherent to them. This allows it to do even very small contracts, too small for large companies do to their larger overhead costs."

### *Margin Mix*

How should the margin mix be handled?

Ohdake Puutarha has two pricing categories for employee time. Manual labour is billed by the hour at 42e/hour no matter what the actual work is. Design work is billed flexibly depending on the complexity of the project. On products, the possible company discount compared to market price is kept so all materials are sold at current market prices available for consumer. If the ordering of the materials requires extra effort due to irregular request by the client normal hourly billing is applied to the time spent fulfilling the order. All the non-design actions taken for the project are billed hourly on 42e/hour rate.

### *Value Network*

Who are the value network participants?

The subcontract work is not handled directly by Ohdake Puutarha and which is ordered from the network include electrical work for lighting and automation, stone and masonry work for stone fences and pathway stone works, carpentry work like building of decks, fences and gazebos and finally waterworks for fountains and waterways. At this stage the value network has not been built. Ohdake Puutarha will look for suitable company that it can use in the projects when such need arises.



### How is the value network used in value creation?

Parts of the project can be sourced to other contractors that make with separate contracts with the garden owner. Ohdake Puutarha at this stage is not willing to handle the subcontracts directly on a larger scale, instead the company can recommend other companies in its value network that it knows. When more reliable network is established the customers can get all their needs filled with just one contract and Ohdake Puutarha handles the subcontract issues with its network. Ohdake Puutarha does need to occasionally subcontract some minor individual tasks from other companies. These tasks are not directly linked to the project itself but are indirectly linked to the processes and include for example logistical tasks like transportation of waste from the project area and tasks where special equipment or skills are required. Also if large scale earth moving is absolutely needed Ohdake Puutarha subcontracts companies that own heavy machinery for soil transport and spreading. Materials and plants are bought from trusted suppliers who deliver the products directly to the work site for Ohdake Puutarha employee inspection.

### *Resource velocity*

#### What is the resource velocity?

Ohdake Puutarha does not keep any standard inventory of goods or resources as they are bought on demand after contract for the work has been agreed upon.

### 4.3 Resourcing

This section contains relevant questions and answers that are related to the third primary question: what resources are needed to fulfil the proposition? Ohdake Puutarha does not have standing inventory and the resources needed for projects are ordered when project implementation starts. The required physical resources are related to company internal activities and employee tools. Most important resources are non-material and consist of employee knowledge, skills and time.

#### *Need*

##### How much cash needed to start?

Current estimation for resources needed to start the business is around 10000e. This sum does not include the salaries for the company owner. In the beginning of the business the owner's salary comes from government subsidiary that is 25.63e/day. This subsidiary lasts 18 months in which time the business model of the company has to prove it can support also the owner's salary.

##### What is the required skill level of employees?

The workers union contract (Finlex 2010: 16-17) divides the required worker skills in five categories numbered one through five depending on the required skill level, official training and experience. Level one does not any official training and only short introduction; level three requires vocational training and short experience. Level five requires higher education, wide range of expertise and managerial duties. Employees that want to do part time jobs as occasional help can be level one but they have to be interested in the area. For longer contract project employees level three is required. If employee or company is looking for permanent employment or partnership within Ohdake Puutarha they have to meet level five requirements due to high responsibilities of permanent staff.

##### What are the core competences?

Ohdake Puutarha strives to be a working consultant for client projects. Main required resource is the knowledge of the workers that represent the company. Currently company only employs one person but there are plans to

get a business partner that allows company to take on more simultaneous projects or larger ones and increase the knowledge base of the company.

### *Availability*

#### What resources are available?

In addition to the owner's knowledge and experiences, basic gardening tools, funds invested in the company in the creation stage and the start-up grants from the government there are no other available resources. As the investments to the company are low breakeven point can happen soon after company operations start.

#### What resources are available from the network?

As described in section 4.2 the network of companies surrounding Ohdake Puutarha currently provides services that are outside of Ohdake Puutarha scope. The company can at this stage only recommend suitable companies to its customer but will not take direct responsibility of subcontracting them in most cases. When the surrounding value-network matures all the resources needed to create a beautiful garden can be found from the contractors. Ohdake Puutarha function at that stage will be the design and coordination of the different subcontractors that are required as well as normal implementation of the garden.

### *Resource Costs*

#### Which resource costs can be eliminated or reduced?

Tools required to complete projects are basic gardening tools for the manual labour part, computer and suitable modelling- as well as office software to manage the projects and create the designs. Other materials needed by the individual projects are bought on demand from the network of suppliers. Equipment sold to customers are ordered when project starts, as project usually takes a long time from design phase to finish the delivery of the equipment is timed to when the groundwork has finished. This allows the company to minimise the required inventory it needs to keep in order to run the business. Customer keeps the items ordered for their project so the company does not require storage space for any leftover goods from the processes. The purchase of the modelling software for the computers can

be postponed until there is larger need for it. The software makes it easier for customer to visualise the finished garden and helps the company to follow the progression of the projects. The software has to be customised to meet the company's requirements and as this customisation work is quite expensive and company can manage without it by using manual processes, the purchase of this software should be postponed to a time when company is better established and profitable.

What are the equipment buy/lease costs?

The costs are only circa 2000e yearly. Leasing everyday tools is not profitable option. The tools required to implement the projects are not expensive compared to other businesses and they last a long time. Purchase costs for the required tools are negligible in the running of the business. If company requires more expensive machinery that is used rarely it is leased for the duration of the project or the part of the work is subcontracted to another company.

*Velocity*

How many days worth of inventory?

Ohdake Puutarha does not keep stock of the materials needed for the garden creation. The materials are ordered from the suppliers when the design for the garden is created. Customer can order the materials themselves if they wish to do so, or let Ohdake Puutarha make the purchases. Ohdake Puutarha would prefer that they handle the purchases because they know exactly what and when the materials are needed and can time the work with the deliveries. If customer however chooses to acquire the materials him/herself the risk of ordering wrong equipment/materials falls on the customer and possible delays on the work could cost the customer more, cause timetable issues and endanger the smooth operations in the target worksite. To discourage customers from making the purchases themselves Ohdake Puutarha does not put extra margin on the actual ordered items but sells them to the customer at the same price the customer could order the materials themselves. The company, however, does charge the time needed to arrange the material purchases, delivery inspections etc.

## Limits

### What are the metrics that limit the processes, resources and profit formula?

Main limiting factor in Ohdake Puutarha operation is currently the available time. Company employs only one person if suitable business partners are not found. This limits the size of the projects that can be handled to average private yards. Ohdake Puutarha cannot and does not want to take part in large public projects due to large bureaucracy requirements associated with them. At this stage another limiting factor for the company is the current stage of the value network that is too unknown to be trusted in large projects. When the network is better known and trusted larger projects are possible.

## 4.4 Core Processes

This section contains answers to the questions regarding company processes and how value is created through them. Answer to the primary question: how does the company convert the resources to fulfil the proposition? is gained when the answers are put together. Ohdake Puutarha has several processes that cover most aspects of the day-to-day activities and project management, from client acquisition to customer care. Main differentiation factors of the company, mainly ecological aspects of the work are also evident from the answers.

## Key Processes

### What are the key processes?

When Ohdake Puutarha started its operations it did not have formalized processes. One of the Thesis goals was to create working processes that can be used in operations and is flexible enough to be used in the future. There are nine key processes in Ohdake Puutarha operation. Although one employee operates the company at first, it is good to establish the different formal processes that company needs to operate with. At a later time if there are more people working for the company it is easier to divide tasks between employees or partners. The processes are illustrated in figure 5.

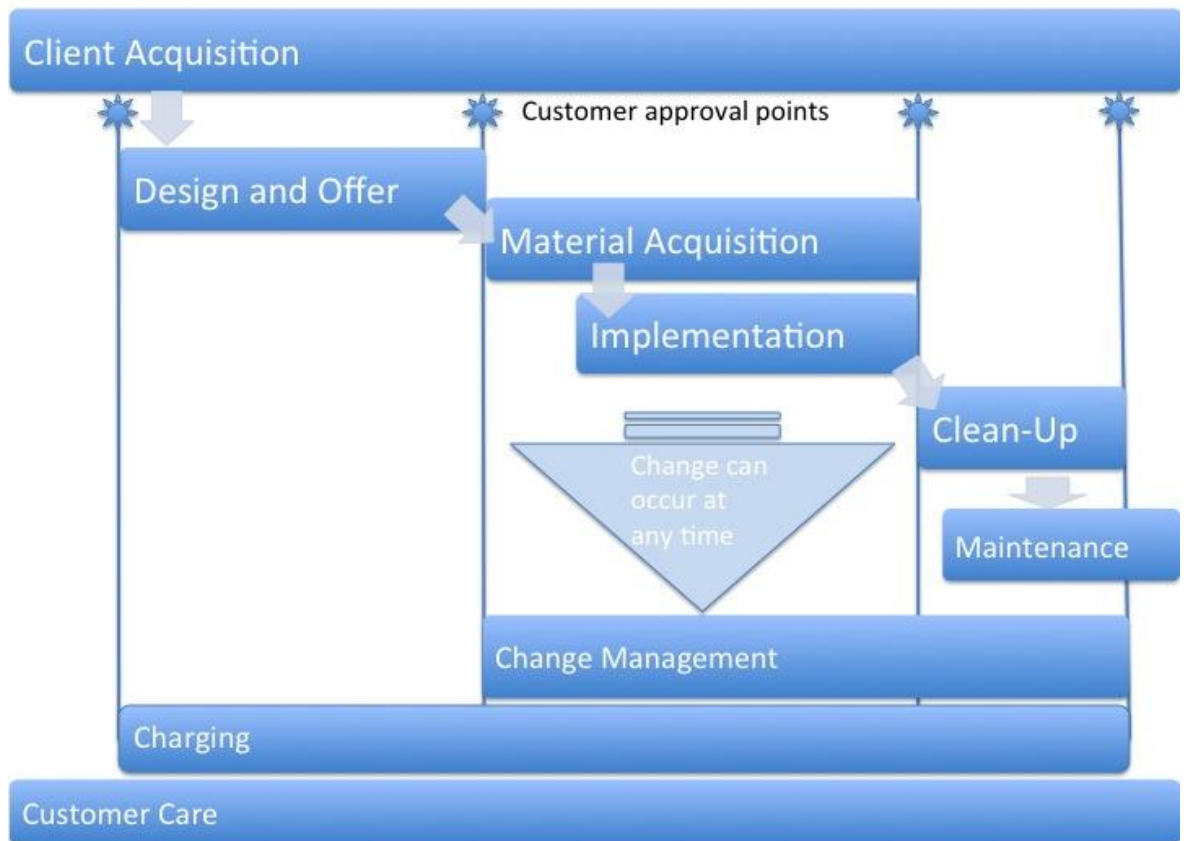


Figure 5. The Processes of Ohdake Puutarha.

First process concerns *client acquisition and analysis* that concentrates on answering queries and analysing the possible clients, the problems clients are facing and whether they and their projects are suitable for the Ohdake Puutarha services. This includes preliminary meeting, site inspection and evaluation of the project customer wants to have done process ends in offer to create the design for the project which customer accepts. Offer contains also very rough nonbinding budget estimate for the actual work that is performed. A process called *design and offer* starts when the company accepts the work, and the client signs the contract. This stage contains the design of the target garden as well as more detailed estimates on required work and materials. Second process ends in delivery of the design plan and signing of the contract for the actual work. At the same time with design and offer begins, the *charging* process starts for the customer. This process gathers all the hours generated in the project and categorizes them to billable and non-billable categories. Also all material purchases are reported to this process and the process also monitors all monetary transactions. The charging process produces the intermediate and final bills sent to the customer, it also

handles interactions between company and accounting office. Process ends when the final outgoing and incoming bills related to the project are taken care of. If customer's contract contains a maintenance part it starts its own charging process after project is delivered and accepted by the customer, this is done to separate project resourcing from the maintenance contract resourcing.

After design and offer stage two processes start, first is *material acquisition* where required materials and tools are ordered from the suppliers. This process contains all purchases needed for the project site the resource inspection and acceptance or re-ordering if needed also supplementary material purchase needs are monitored by this process. Process ends only when customer accepts the project results. Parallel to material acquisitions is the *implementation* process that contains the customer guidance, actual building of the target garden and possible subcontractor management on site. This process ends when customer accepts the final results of their new beautiful garden. Shortly before main working process ends starts the *clean-up* process. The process target is to handle the removal of waste, tools and other materials from the work site so the customer can accept the project as finished. The *Maintenance* process starts after project has been delivered and accepted, if maintenance contract has been added to the original contract. Maintenance process has its own charging and material acquisition processes.

At any time from the start of material acquisition to the end of clean up there is a possibility to make changes in the original design, *change management* process is used to manage these changes. Depending on the complexity of the change it can spin out entirely new project or in small cases it just keeps track on the changes to the original plan. The changes and their impact on schedule and costs are always discussed with the customer and customer approval is needed for the changes to take effect.

The *customer care* process runs parallel to all other processes. This process task is to maintain contact with customers even after the projects have been completed. Process is there also to scout new re-sell prospects among the previous customers. This process contains information about possible customer problems and complaints projects that have been done to

them etc. basically all customer information is available for this process and they are stored in centralized customer management system.

### *Gross Margin Model*

#### How can chosen gross margin model give advantage?

The chosen gross margin model for Ohdake Puutarha where income mostly comes from the work be it physical or consultancy, instead of the physical goods. This model does not depend on customers source of the used resources. Customer can if they wish get the used materials from their own sources and take the risk of wrong deliveries themselves. If they choose to let Ohdake Puutarha handle the product deliveries they will give the risks of the deliveries to the company but they will also have to pay for the time company uses in creating deliveries. Giving the task to the company employee will most likely save the customer time as Ohdake Puutarha has already knowledge of what to buy exactly and where and how to buy them. Open policy on resource pricing should also give the customers lessened feeling that they are being overcharged from the products and they are more willing to also give the product acquisition task to Ohdake Puutarha employee. This is desirable to Ohdake Puutarha due to better control of material flows to the project site.

Because large part of the costs to the customer gets are employees working hours and the employee time is not mixed with the products, customers can utilize the tax deduction of household work as effectively as law allows. Some companies use this tax deduction in more questionable ways and give discounts on the products but charge higher price on the labour in order to increase the tax deduction amount. Ohdake Puutarha does not want to act in this questionable way because the reaction of the tax authority to these practices is yet unknown. Company can get bad publicity and customers get additional trouble if company gets caught using this method and tax authority decides to take action.

### *Costs*

#### Which activities use the resources?

Currently there is only one employee in the company, so all the required work is done by her. Company owner is looking for a suitable business



partner to divide the workload and risk. How the work is divided between the business partners depends largely on the partner's skillset. The owner would like to concentrate on the design, building and customer consultancy roles within the company, which would leave room for more management oriented business partner that would take care of the issues concerning the running of the company and have smaller part in the design portion of the business.

How are the costs spread between processes?

For this question the measurement is done with monetary value for time. Time is the most limiting resource in the business so it is good measuring value for the cost of each process. Time allocation to different processes can be seen in the following table:

Process	Percentage of time spent
Client acquisition and analysis	<10%
Design and offer	10-20%
Charging	<5%
Material acquisition	5%
Implementation	50%
Clean up	10%
Maintenance	0-5%
Customer Care	1-2%

*Client acquisition* and analysis is the most time-consuming non-billable process, for each individual client this stage usually takes half working day.

This should be kept under 10% of the total spent time on the project. As each project implementation process is in average 5 to 10 days long the client acquisition is considerable overhead that does not necessarily give any guaranteed income. Therefore company must take care not to invest too much time in this stage if the amount of work estimated for the project is small.

Billable processes take 90% of the time, and they are divided as follows. *Design and offer* is usually takes from 10 to 20% of the total project time, depending on the complexity of the project. *Charging* is on-going process, which takes only few hours per customer divided throughout the project length. On average small project the amount is still around 5% of total time. In normal cases *Material acquisition* process takes 5% of the time. The bulk of the working time is assigned to Implementation process where all visible work is done in it so it is the most important process concerning the customer. Clean up is small but important process that takes around 10% of the total project time. Outside of normal project processes are couple of on-going processes that also eat up precious time. First one is *Maintenance*, small process but depending on the contract details this billable area can possibly cumulatively grow to significant time sink. Care should be taken that if long-term maintenance contracts are signed, enough time is still available for projects as well; otherwise company needs to consider changes in the strategy. The other not project related process is *Customer Care*. It is small process but important when seeking long term clients. This process should be given good attention; if company wants to perform above average in the service business, but still make sure that it does not consume too much time. In the beginning this percentage is small but it has potential to grow.

#### What costs can be reduced or eliminated?

Currently the software that is used to visualize the work area to the client as well as other computerized customer information and project management systems have been postponed until the company has established itself in the market and has reached a point where it feels that the business model is working. These systems represent high monetary investment and although the automated systems help the business processes quite a lot the manual implementations are good enough for the purposes for now. Focusing on

smaller geographical area first can reduce travel costs and time limitations in the early stages of the company's business. This will also strengthen the word of mouth advertising when more of the company's works can be seen in the smaller area.

### *Operations Model*

#### How thin operations model can be maintained before break-even?

The company can stay small one-person business until breakeven, at this stage there is no pressing need to grow large. The required initial investment for the company is quite low. Therefore breakeven happens in early stages of the company's operations.

### *Risk Management*

#### Which proven leaps of faith reduce risk of failure?

One large indicator that companies like Ohdake Puutarha has even a viable a market in Finland is when certain trends that have been popular for a while in central Europe gain foothold in Finland. The trends like Ecological growing Boom, Kitchen gardens, composting, and recycling are very popular in Europe but not yet in Finland in larger scale, having them gain more popularity in Finland would prove that there is growing business opportunities in this area. When/if this happens Ohdake Puutarha is well prepared to work and compete in these areas. There already exists one company in the market with similar business model, a company called "Perniön Taimisto" has worked with "Ekopiha" brand name for some time, and it is a successful pioneer in the ecological yard-building field. Their success has proven that there is demand for this kind of business.

### *Value*

#### How actual value is generated?

The value is generated directly by Ohdake Puutarha personnel when they build customers garden and indirectly by Ohdake Puutarha consultants teaching the customers the information they need to build and maintain their garden. The ratios of these parts depend on the customer wishes and on the amount of money the customer has budgeted on the task.

### How to motivate customer to participate in value creation?

There are three reasons why customers should participate in the building work. Two are related to customer's nonmonetary rewards and third is cost savings. First, customers gain knowledge on how to better work in their garden by doing the building work with Ohdake Puutarha employee. If customer is typical enthusiast they also broaden their knowledge of their hobby by doing the actual care procedures with the guidance of Ohdake Puutarha employee. Second reward for the customer is mental one, especially for enthusiasts, they can feel pride in the fact that they participated in the creation of their own garden instead of having it handed to them by someone else. Third motivator is monetary one, when the amount of manual work done by the owner in the project increases the amount of required from Ohdake Puutarha employee to complete the task decreases.

### *Differentiation*

#### How company chooses to compete?

The projects that can be handled are small in scale due to the small size of the company, and lack of large competitors in that segment. Larger companies are more interested in works that require heavy machinery that is better utilized in larger projects. Doing small projects is not cost effective for them and they typically charge up to 500e just to show up on customer property for project evaluation. Ohdake Puutarha concentrates at first on these small projects that are around 2000e+materials in value and take around 5 work-days to complete.

#### What do you do differently?

Hamell formulates this question in longer sentence: "Most important, do we have a business mission that is sufficiently distinguished from the missions of other companies in our industry?" (Hamell, 2000: 76)

Main differentiating factor with Ohdake Puutarha and larger competitors is the mental approach to the garden and yard building. Experiences have shown that for larger companies it is common practice to dig out the old yard entirely and implement the development plan from clean foundation. This is preferred process for larger operators because they have the heavy machinery to implement the work, and this procedure allows more freedom in the

garden design. Using heavy machinery this way make the operations fast and cost effective compared to subtler approaches.

Heavy machinery usage has its drawbacks, Matthias Lebert in his article (Lebert, M. and Böken, H.: 2008) describes the soil compaction problem in detail, but in short, the heavy machinery compacts the ground very tightly and the few centimetres of topsoil that is applied on top of the foundation can not alone provide stable enough ground for plants to root and grow properly. The adult trees that are planted do not usually root as well as they should. This leads to a situation where the garden looks good for a couple of years but large amount of the plants wither and possibly die after the warranty period has expired, mainly because the plants can not grow strong enough to resist the diseases and weather conditions.

Ohdake Puutarha approach is more conservative in nature, the process preserves as much of the original vegetation as possible while at the same time the garden owner can have much of his/her desires fulfilled. Old trees that have grown for a long time should be preserved, as the planting of adult trees is rarely successful. The design is created to incorporate the existing vegetation as much as possible and what needs to be modified is done with minimal impact on the old vegetation. Heavy machinery is not used unless absolutely necessary. The modification of the garden is more organic and ecological in nature and it does not disturb the chemical balance of the soil that is established during the years and that is familiar to the plants that are staying there and most importantly soil compaction does not occur. This approach is much gentler to the old trees and vegetation. Modifying the garden more naturally ensures that the results of the modification are long lasting and plants in the garden are stronger to withstand diseases and harsh weather conditions. This approach requires lots of skill from the persons designing the garden but the end results are longer lasting than in quick and easy approach.

#### 4.5 Summary of the Ohdake Puutarha Business Model

In this section the results from the individual detailed questions presented in previous sections are condensed in order to describe the business model of Ohdake Puutarha. The model is then analyzed for apparent weaknesses and strengths.

##### *Customer proposition*

The Customer proposition questions combined provide answer to the primary question: what is the customer proposition? Ohdake Puutarha sells high quality and visually appealing *gardening projects* and *maintenance contracts* with strong ecological emphasis. Contracts contain consultation services as well as physical labour part. Target customer segment is *enthusiasts* and people that are interested in their private garden. Ohdake Puutarha wants to build long-term professional but friendly relationships with the clients and make them feel that they can trust Ohdake Puutarha with all their problems. Close relationships will increase the returning customer ratio; so new customer acquisition is less vital to the business. Company is not interested in public large-scale projects due to required bureaucracy. Ohdake Puutarha uses word of mouth as well as Internet presence combined with limited garden magazine advertising to communicate to potential customers. Additionally the companies in its value network can recommend Ohdake Puutarha as suitable candidate for their customer projects. For established customer communication direct phone and e-mail is preferred.

##### *Earning logic*

Earning logic questions combined bring answer to the second primary question: how does Ohdake Puutarha make enough money with the proposition? Ohdake Puutarha charges fixed amount of 42e/h for the gardening work. The price of design time is agreed with the customer separately case-by-case based on the complexity of the work. Customers are billed in 14-day intervals during the project; on shorter projects billing occurs after project completion. Materials purchased during the project are billed in the next available bill in the 14-day billing cycle. Customers can influence the price of the gardening work portion by doing part of the labour themselves. This shortens the required work time and as additional benefit customers that participate in the work will learn the skills needed to maintain their garden in the future. Company cost structure is kept as lean as possible in order to

survive the intervals when the company is non-productive and to make it possible for Ohdake Puutarha to accept smaller projects than the large competitors. Ohdake Puutarha relies on its value network when the projects require skills that are outside of the owner field of expertise. At this time the value network is still forming and new companies that match the requirements are being sought. The company does not subcontract the projects at this stage but recommends suitable companies to the customer from the value network. Ohdake Puutarha does not have standing inventory of sellable goods and resources. Instead all materials that are bought for the project are consumed during the project, given to the customer on project completion or disposed if garden owner does not want them. The gardening tools used by Ohdake Puutarha employee and the office equipment are the only hard consumable assets that the company owns.

### *Resourcing*

Third set dealing with company resourcing answer to primary question: what resources are needed to fulfil the proposition? Ohdake Puutarha starts off with estimated amount of 10000e in the beginning company receives government subsidiary but this cannot be relied on for longer than 18 months. Primary resource Ohdake Puutarha needs and possesses is the skill and knowledge of the owner. The situation is similar to most other consulting companies. Ohdake Puutarha workers have to be highly skilled in gardening and ecological aspects of it. Currently the only worker in the company is the owner but Ohdake Puutarha is looking for a suitable business partner as a means of growth as currently there is not enough work to hire a full time employee for all year around. Resources consumed by the company other than wages are the gardening tools used in the projects by the employee, office equipment and outsourced bookkeeping services that consume around 2000e annually. Ohdake Puutarha could benefit from advanced design and modelling software, but that purchase has been postponed due to the price benefit ratio. Main limiting factor for Ohdake Puutarha operations is the time of the owner, as the sole employee all projects and processes have to be taken care by the owner and careful

### *Core Processes*

Finally the core processes of Ohdake Puutarha are described: how does the company convert the resources to fulfil the proposition? Ohdake Puutarha

has nine processes that are visible to the customers they cover all foreseeable aspects of the business starting from Client acquisition through design, material acquisition, implementation, clean-up, change-management, maintenance, charging to customer care. Ohdake Puutarha keeps the processes lean and does not tie capital to the resource purchases. Main differentiating factor of Ohdake Puutarha is its design and implementation approach. The ecological view is encompassed into the work methods and used techniques. Ecological aspect is present in preservation of the original growth environment as much as possible, avoiding non-ecological pest control methods and selection of plants in a way that make it easy for garden owner to take care of them but still have a garden that is visually appealing.



## **5 CUSTOMER REACTION TO THE MODEL**

In this section, the results of the interviews with the customers are presented they concern such issues as existing skill level, willingness to contract professional help, experiences with the company during projects and whether they felt that they received what they thought they had bought. For this Thesis several interviews were conducted amongst past and potential customers. There are 7 interviews in total one of them is from a finished project and one of them is an on-going project. 4 interviews are conducted amongst potential customers and one is with a member of Ohdake Puutarha value network. These interviews reveal diversity in the customer base and the customers can be divided to 2 groups as suspected. The questions presented to the customers are collected in Appendix II.

### **5.1 Outside Contracting and Personal Skill Level**

First questions presented were there to find out the general willingness of the people to contact outside help with their problems and describe the types of problems they faced in their garden. All of the interviewees indicated that they seek help when their knowledge of the issue surpassed their own knowledge. In several cases the interviewed people stated that they wanted to first try themselves. In some cases, customers indicated that they had spend a lot of money trying to build the garden themselves, before they sought out a professional company for the task. The potential customers attitude towards buying the service could possibly be the greatest challenge for market growth in gardening service market. Interviewees indicated that they wanted to try themselves first and hinted an attitude of “How hard can it be?” and “Everyone can do it himself or herself” which can inhibit the growth in this sector. People do not necessarily see the benefit of buying a service, as they do not recognize that there are a lot of important issues they do not know about garden building.

According to the interviews most common areas where help is needed is fertilizing, plant selection and garden foundation. The selection of gardening services seems to be lacking in variety, most interviews indicated that they would probably use the services more if there would be broader selection of offered services to choose from. The customers are not well informed about the available selection of services so communicating with the customers

could pose a problem for a newcomer company. The interviews revealed that the average skill level of the customers varied greatly, none of them had any schooling for the arts and were self-educated in garden maintenance and building. Some customers had grown their gardens with trial and error principle and are mostly seeking information on how to successfully grow their plants. According to the interviews people have learned gardening from books, Internet and magazines. Others were inexperienced to the area and are more willing to pay for actual work as well.

## **5.2 Vision of their own Gardens**

Customers that were interviewed indicate that they do not have any precise vision on what their gardens should look like. In most cases interviewees have some vague image of general picture or some specific components that they want but not a concrete big picture. The answers reveal that long time amateur gardeners seem to build their gardens iteratively one place at the time, which leads to situations where the areas of the garden do not fit together nicely and this produces more work for the garden owner or create irreversible limitations in the future. Judging by the answers, the customers appreciated the company policy towards quality. The representative pointed out possible issues and problems in customers vision and offer alternative solutions to the problem areas. This was considered very good service. The older customers demonstrated that they do not generally follow global trends and at most times are not aware of them. Even if they are there is sentiment that the European trends do not work well this far north. However younger customers were more informed of the trends and also followed them selectively. For the question of ecology versus efficiency the customers strongly preferred ecology one of the interviewees summed it together: "Original growth has to be taken to account, old plants and trees must be taken to account when building (a garden)"

## **5.3 Financials**

The price for the manual work (42€/h) was perceived as acceptable by all of the interviewed clients. We also revealed that the preference of fixed price vs. hourly billing had supporters on both sides. Others preferred fixed price contracts due to the more precise budget but other customers commented that: "Estimating the amount of work needed for their garden is extremely

hard beforehand”, so they preferred hourly billing. On the other hand the interviewed customers welcomed the idea that they could influence the final price by doing part of the labour themselves. Whether they would actually do part of the labour remained open in many cases. We also discovered that the pricing in completed cases was a surprise to the customer as the actual amount billed was lower than expected. Material acquisitions in ongoing and completed projects were in all cases trusted to Ohdake Puutarha. Potential customers indicated that they wanted to purchase the plants themselves but leave the purchase of soil and other building materials to the company. The reasoning for this as the customers related, was that this way the customers save a lot of trouble and that “it is most likely to be cheaper for the customer and the products are correct and high quality”

#### **5.4 Service Experience for Completed Projects**

Judging by the answers, the customers that have went through the whole process seem very happy with their experiences. According to them the representative of Ohdake Puutarha asked precise questions on what the customer liked and how the garden was going to be used in the future. The visioning of the garden was done together with the client and the broad lines of the original vision remained to the end. The details of the plan were generally changing throughout the process due to unforeseen soil conditions but according to the customer, the change management was performed well. Customer stressed that they were generally well informed of why changes needed to be made and the details of the changes were discussed with the client during the process. Customers stated that they “definitely learned the skills to build and upkeep their garden” and stressed the importance of the chance that there is opportunity to get consultancy services even after the project has finished. Customers stress that the experience has been enjoyable for them and the estimated budget held. Future prospects seem promising for return business as the customer with finished project stated: “I will buy a new project next summer for garden upgrades”.

#### **5.5 Views from Value-Network**

The view from the value network came from an entrepreneur that has in the past done visual planning in co-operation interior decorators, according to him, “these two fields are so close to each other that the operations are al-

most identical". The interview revealed that the co-operation has just recently started but there are high hopes for fruitful and long-term relationship, which is the goal for both parties. It is evident from the interviews that co-operation in the gardening industry works better when the participating companies are all small in size and more equal instead of economy that is centred around one large company like in technology environment. Making the relationship and network is more important to the companies if companies are the same size and company does not have large amount of competing subcontractors. The value network participant does not have preference on the issue of direct contract with the customer vs. subcontract from another company he stated that: "there is not an either-or answer, this should be decided on case-by-case basis." The possible synergy benefits of the co-operation are yet to be proven, there is not enough experience to see how much larger projects the two companies can safely handle compared to each working individually.

The customer reactions to the presented model and their experiences with the finished projects indicate that Ohdake Puutarha business model does have potential to be successful in the market. The reactions also reveal that well thought out service components is important part of the total value offering and the customers welcome them. Based on the interviews the customers of Ohdake puutarha are satisfied with the projects they receive. The ecological garden building, which is the main differentiation factor of Ohdake puutarha, seem to be important to all of the interviewees. Service and knowledge exchange during the projects seemed to work even when there were several minor alterations needed for the plan. Largest potential problem for company is possibly that people are reasonably unaware of the potential of their garden and they would need to know more about what is possible in order to seek help.

## 6 DISCUSSION AND CONCLUSIONS

By now, Ohdake Puutarha has been running with the business model described in section five for one summer at this point. The company has successfully finalized one large and several smaller projects during the summer and is currently planning the projects for next summer.

In this section the created model is evaluated on the basis of reusability in other companies and business and overall as a business model. Also the steps needed to implement the model in Ohdake Puutarha are listed.

In the final model there are total of 37 most relevant questions gathered from the five literary sources. These questions have been selected to represent the four main categories Customer Proposition, Earning Logic, Resourcing and Core Processes. Questions are then combined to represent the final business model. These questions were specifically selected to cover most aspects of the business field that surround a small-sized company with minimal inventory needs. The individual models that were used to create the model in this Thesis are mainly lacking the service aspect of the business and article by Frei (Frei, 2008) contains solely the service aspect. The service aspect is mentioned in the other works but it is not handled in so much detail that small service company could utilize it without additional references. This combined model is next tried against the case company

When the Ohdake Puutarha model is put together it is evident that it is targeted towards enthusiasts that enjoy working with their gardens or customers that are aware of ecological factors in gardening and want to incorporate them into their garden. These are the main differentiating factors for the company at this stage. When company manages to create presence in the market and is more recognised as a high quality brand only then do the other qualities of the company become more dominating in client acquisition. Factors like the professional service needs customer interaction to be apparent competition factors.

The income that Ohdake Puutarha produces comes at first mainly from the manual labour. However design and consultancy services most likely provide better income growth potential but they need reputation from the company. Design and consultancy are not as clearly limited by competitors price like the manual labour is and they are harder to duplicate by the competition.

Challenge for the company is to arise to public awareness. Resourcing for the Ohdake Puutarha projects are quite optimal, there is no standing inventory to take care of and project materials are ordered on demand from supplier. Main resource, the employee knowledge, is the primary concern, if the employee is unfit to do the tasks it is hard to find someone to replace her. Processes during the first summer were only forming and needed formalization. With clearly defined processes, transitions and procedures it should be easier for company to manage the allocated resources and most importantly it allows company owner to concentrate on the productive work instead of management.

The customer reactions to the presented model and their experiences with the finished projects indicate that Ohdake Puutarha business model does have potential to be successful in the market. The reactions also reveal that well thought out service components is important part of the total value offering and the customers welcome them. Based on the interviews the customers of Ohdake puutarha are satisfied with the projects they receive. The ecological garden building, which is the main differentiation factor of Ohdake puutarha, seem to be important to all of the interviewees. Service and knowledge exchange during the projects seemed to work even when there were several minor alterations needed for the plan. Largest potential problem for company is possibly that people are reasonably unaware of the potential of their garden and they would need to know more about what is possible in order to seek help.

## **6.1 Managerial Implications**

At current time there is only one employee in the company, so implementing the ideas presented in this Thesis in a formal policies may not seem to be important. Implementing them at this stage will help the company monitor itself, collect data of the operations, reveal problem areas, speed up different standard processes and prove the validity of the operations. To implement the models answers described in this Thesis the company management has to make the following 10 changes to its operations. The changes are aimed to save the most critical resource that is company owner time. These changes clarify the company operations and minimize the time the owner needs to spend on day-to-day company issues instead of productive work and still be well informed of the overall situation of the company.

1. The processes that formalize the company projects should be implemented in practice, in order to manage the owner time and project stages. This can be done with project management software.
2. Accounting should be modified to include information on different project stages. This allows closer following of company spending.
3. Project management should write down the project stage where a cost occurred and mark it to the correct stage, in order to verify the estimations of the project costs and monitor the overall business costs.
4. The customer interaction guidelines have to be written down and formalized so that networking companies and future employees or business partners know how Ohdake Puutarha interacts with the customers.
5. The company should create templates of the different contracts that are made with customers and verify their legality with help of legal counsel. This speeds up the contract negotiations with the customers
6. The company should create a website to give information about itself to potential customers.
7. The company should create a single calendar accessible to all company employees where all projects are marked by stage. This is to avoid possible project-timing conflicts and overbooking.
8. The company should formalize customer information and place it some Customer Management System that is available on the market. This formalizes the customer data and allows easier customer analysis.
9. The company should start actively looking for potential value network contacts in work-areas that are not yet covered. No formal contracts are needed at this stage but informal contacts should be established. Several companies should be contacted so when value network is needed in a project the potential candidates for the work already exist.

10. The company should create a database with information along with images of all plants and other objects it is planning to sell to the customer. This helps the customer to visualize the plants that are planned for his/her yard.

## 6.2 Evaluation

The resulting combined model covers all fields of operations for a small sized company. Following the map of questions should be applicable to any similar size company. In this respect, the study fulfills the goals it set to reach.

According to customer reactions and the operations in the summer 2010, the suggested service operation model seems to please the customers. The model that was built in this Thesis has not yet been fully implemented in practice so definitive data on how well it will work in practice is yet to be collected. Some preliminary results from the customer interviews are encouraging but possible oversights in the model are unknown at this time. The second year of operations when the model is implemented as a whole will reveal its possible flaws.

There were 6 interviews with the customers so the amount of customers that participated in the interviews is limited. This is due to short operations time of the company and research resource limitations. The results of the interviews are only trend-setting and cannot be considered comprehensive customer study.

It should to be noticed that the case company has only a minimal inventory and because of that the final model is not detailed on the issues surrounding inventory management. Companies that are having larger inventories are recommended to select more questions in that area.

Each company using this model will have different answers to the question-set and those answers have to be evaluated as a whole in order to see whether their business model is viable.



## 7 SUMMARY

What is our goal and how do we get there? That is a fundamental question of every successful business. This Thesis has split it into four primary questions: what is the customer proposition, how does the company make enough money with the proposition, what resources are needed to fulfil the proposition and finally how does the company convert the resources to fulfil the proposition. Each of these are further split into total of 37 sub questions that when answered in a way that fit together create a model of business that has taken to account most issues that surround company regardless of size or market.

The target of this Thesis was to seek out issues that have to be taken to account in business model creation. The issues that company faces have been collected from literary sources and formulated into a map of questions. With this maps questions answered in a way that is not conflicting, creates a business model that is useable and can reveal flaws and point out the issues where company can excel with the current operations model. The business model creation in the case company revealed potential weak points in the company operations model, mainly the informal of the company operations caused extra work for the company owner. With the new formalized processes the running of the business should be on more solid ground.

Some resulting business model parts (that are visible to the customers) were then presented to company customer and value network for evaluation in 7 interviews. The reactions from these interviews were to subsequently revise the model for the future. The customer reactions to the current model were mostly positive and do not give much cause for revising of the model. However, as the customers that have been through the whole project process have not been exposed to the model in its current form the results of this investigation can be judged as preliminary. All the questions mentioned, especially the ones selected for the final model, should be considered carefully when company first considers the business plan it is going to operate with. So far the model is considered applicable to small companies operating in various fields of business.

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## **APPENDIX I: MEETING MINUTES WITH THE COMPANY OWNER**

### **Meeting on 16.02.2010**

#### Larger Companies

- Firms charge 500e for just showing up on site for evaluation (Sum is refunded if contract is formed)
- Large companies are not interested in small works.
- Large companies are interested in works that require large scale operations
- Large machinery is better utilized in larger projects doing small projects is not feasible

#### Ohdake Puutarha:

- Small, no large machinery, fixed operational costs low
- Can be called to site without initial charge, lowers the threshold to get to know the company
- Networked, extensible network of trusted co-producing companies are needed.
- Needs established processes to keep everything organized, (Build them)

#### Manual labour:

- Trimming of trees and bushes
- Lawn care
- Weed control
- Fertilizer and plant protection
- Spring and fall plantings
- New plants

- Growth platform building
- Lawn seeding
- Design of gardens (Private yards, ecological approach)

Ecological solutions (consulting):

- Compost
- Ecological plant protection
- Fertilizing
- Water systems (Rainwater is combined as part of the garden as decorative element, structure looks good empty and when filled with rainwater)
- Biodiversity (on large scale)
- Modular unique solutions
- The care practices for the areas are similar the contents of the area is selected based on this principle.
- ΔT (Outlook of the garden changes during seasons)
- Importing of garden supplies and other visual (Statue, art elements, etc.) also selling and manufacturing (*Item dropped on summer of 2010*)
- Manufacturing other garden related elements on order.
- Selling of Eco produced and fair trade food items.

WILL NOT compete in:

- Heavy ground work (needs heavy machinery, subcontracted if needed)
- Stone works: Yard stones, stairs, etc. (Subcontracted)
- Woodworks: Patios, fences (Subcontracted)
- Large water elements

- Playground equipment

#### Targeting

- Private yards
- Smaller yards, personal needs

1) Enjoys garden but is not able or does not want to do anything with it.

- Full long time service contracts
- Turn-key solutions

2) Enthusiasts

- Consulting
- Help the customer to get started as a project
- Sub 2000e projects (~ 3 days. max)

#### Costs:

- Low fixed costs.
- Needed start capital ~10k
- Tools: (large) rent (garden rollers etc.)

#### Cost Spread:

Gardens: 50/50 work/equipment (=seeds and tools)

Consulting: 90/10

#### Revenue:

Household deduction taken to account in billing

Hourly billing

Work: first hour 50e from then on 42e

Design: TBD

Leaps of faith:

- There is need for small projects
- People are willing to pay enough to make this worth while
- There are projects (design/consulting jobs) for offseason (winter).
- Business pays enough for one person at first.

Risks:

- People are not willing to pay for the service
- Owner has work related accident
- No projects during wintertime.

### **Meeting on 15.10.2010**

Things to ponder:

Home improvement tax deduction usage in service offering.

What kinds of service packages would be feasible: maintenance, teaching?

- *Example: 1 yard + 3 year maintenance with limited modification options. Teaching how to care for the garden as part of the purchase.*
- *Subscription based maintenance of a yard x euros/year. Based on size, (larger modifications cost extra).*
- *Subscription to "information hotline". Communication is Email based, and timetable is kept flexible no response time requirements.*

Location costs: middle of nowhere locations cost extra to maintain, maintenance charges must be higher.

How to combine limited workforce and broad variety of services? Expansion possibilities. => Keep it small and quick operation

The projects are manual work in large parts so how to serve several clients in parallel (scheduling)? *Flexible schedule, avoid fixed timetables in offerings.*

Outsourcing possibilities in the future? *Take control of the subcontracts when network companies are better known.*

Master-Apprentice style teaching to customers: *Ok.*

Activities "out of season?" *Vacation and design work.*

## APPENDIX II: QUESTIONS PRESENTED TO THE CUSTOMERS

These are the questions that were asked during the interviews. The order of the questions changed between the interviews. Questions are grouped according to customer interaction type with the company (All, Started project, finished project, Value network participant).

### These are for customers and potential customers

#### All interviews

1. What sources of information do you use in gardening?
2. How would you describe your skill level in garden maintenance?
3. What kinds of problems, in general, do you seek professional help?
4. Have you followed the gardening trends around the world?
5. What were your primary reasons to seek professional help with your garden?
6. How do you see the ability of Ohdake Puutarha to help you with your problem?
7. How would you react to a situation where Ohdake Puutarha representative says to you that the solution/vision you want in your garden cannot be implemented due to its non-ecological nature or because it is not possible to implement? The representative will give you explanation why he/she thinks so.
8. How do you feel about the opportunity to affect the total billable sum by doing part of the labour yourself?
9. Are there enough gardening services available within reasonable distance of your house?
10. Would you use more if there were more variation in the available offerings?
11. How do you feel about not being able to fulfil the whole project with just one contract? You would have to make several contracts for stone works and woodworks.
12. What are your experiences with other companies operating in gardening industry?
13. What is your opinion on hourly based billing compared to fixed-price contract?



14. Did / Do you have strong preliminary vision about what your garden looks like when finished?

15. Is 42e/h much for gardening work?

**Started Project Questions**

16. How easy was it for you to make Ohdake Puutarha representative to understand your vision?

17. Were there any changes suggested to your vision by Ohdake Puutarha representative?

18. Were the changes well founded, and clearly and thoroughly explained?

19. How easy were the change explanations to understand?

20. How easy was it for you to understand Ohdake Puutarha representative description of the garden in those parts where you did not have preliminary vision?

21. Was Ohdake Puutarha employee's vision of the garden acceptable or did you want to change anything?

22. Did the timetable and estimated costs match with your expectations?

23. Did/do you want to purchase the necessary materials yourself or let Ohdake Puutarha make the purchases? If Ohdake Puutarha purchases the materials they carry all the risks involved in the purchase, but they also charge for the time spent in the ordering.

**Finished Project Questions**

24. Were there any changes for the preliminary plan during the project? If yes, how easy was the change process?

25. Did the finished garden look like the one you expected/was described to you during the planning?

26. Did you learn garden maintenance and other gardening related skills and information from Ohdake Puutarha representative during the project?

27. Did the timetable and cost estimates hold?

28. Would you like to purchase additional projects from Ohdake Puutarha in the future?

**Value Network Participant Questions**

1. How do you see your role in future projects?
2. Would direct subcontracts to Ohdake Puutarha be better than individual contracts with the customer?
3. What kind of relation would you like between your company and Ohdake Puutarha?
4. How large projects can you handle in co-operation with Ohdake Puutarha?
5. How important in your opinion is the networking of small companies in your business?
6. Does networking bring any additional benefits?
7. How important do you think is that the companies participating in value network are similar size instead of there being a Supernode? Supernode is a large company that builds an ecosystem of small companies around it for example Nokia can be considered a Supernode in mobile phone industry.

**APPENDIX III: Q&A WITH THE CUSTOMER**

**Q:** What were your primary reasons to seek professional help with your garden?

*A: I have not owned a yard earlier and I did not know what to do with it. I had wasted a lot of money by making wrong choices regarding plant selection and plant care. My yard looked terrible mostly because I lacked knowhow on the gardening issues. I needed professional help.*

**Q:** What is your opinion on hourly based billing compared to fixed-price contract??

*A: Hourly based billing is definitely better because I could influence the progress of the work by for example shoveling dirt.*

**Q:** Did / Do you have strong preliminary vision about what your garden looks like when finished?

*A: Not a strong vision, but I had few things I wanted to include in my yard*

**Q:** How easy was it for you to make Ohdake Puutarha representative to understand your vision?

*A: The representative asked very detailed questions beforehand. The questions were about what I like and how my yard is going to be used later on. Based on these questions we ended up with durable simple by beautiful yard. The representative understood my problems easily; the problems being that I cannot design the yard and I especially needed help with creating the vision of my yard.*

**Q:** Were there any changes suggested to your vision by Ohdake Puutarha representative? Were the changes well founded, and clearly and thoroughly explained?

*A: We did the visioning of the yard together and everything suggested by the representative had a good and thorough explanation. For instance which plants will flourish and where they should not be planted.*

**Q:** How easy was it for you to understand Ohdake Puutarha representative description of the garden in those parts where you did not have preliminary vision? Was Ohdake Puutarha employee's vision of the garden acceptable or did you want to change anything?

**A:** *The plan was evolving throughout the project, which was a good thing. The representative had always several suggestions, which we discussed together. The major lines of the design held. For example the positioning of the flowerbed, hedge and the tree remained the same as in the original plan.*

**Q:** What are your experiences with other companies operating in gardening industry?

**A:** *To put it short, bad experiences. Starting from the fact that even the contract could not be negotiated in good spirit. Therefor the contract eventually was not signed.*

**Q:** Did the timetable and cost estimates hold?

**A:** *The expenses were smaller than I had thought. The schedule was dependent largely by outside product suppliers. There was no strict schedule in the first place.*

**Q:** Did/do you want to purchase the necessary materials yourself or let Ohdake Puutarha make the purchases? If Ohdake Puutarha purchases the materials they carry all the risks involved in the purchase, but they also charge for the time spent in the ordering.

**A:** *I am happy to let Ohdake Puutarha make the purchases. It is most likely to be cheaper for the customer and the products are correct and high quality*

**Q:** Were there any changes for the preliminary plan during the project? If yes, how easy was the change process?

**A:** *Yes there were changes, first of all because of the soil. The changes were well founded and explained. My trust in the contractor was strong so they were easy to accept.*

**Q:** Did the finished garden look like the one you expected/was described to you during the planning?

*A: I think so, although it is still early to say, as the final result will be fully visible next summer.*

**Q:** Did you learn garden maintenance and other gardening related skills and information from Ohdake Puutarha representative during the project?

*A: Yes, I definitely learned the skills to build and upkeep their garden, and there is of course always the continuous consulting opportunity available*

**Q:** Would you like to purchase additional projects from Ohdake Puutarha in the future?

*A: Yes, and I will buy a new project next summer for garden upgrades and maintenance*