

VIRTUAL GUIDE ON ENTREPRENEURSHIP
Learning unit 3 Developing a business model
Lesson 2

Developing a business model. Part 2



Innovative smart textiles & entrepreneurship

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Introduction

A well-structured business model canvas is essential in creating a successful business. The canvas is based on 9 key elements, including customer segments, the value proposition and distribution channels. These components interact synergistically, shaping a company's ability to create value, generate revenue, and ultimately thrive in a competitive marketplace.

Furthermore, when developing a business model canvas for smart textiles, one must consider the sector's specificities and decide on the optimum choices that are efficient and positively impact the business.

1. Developing the Business Model Canvas

The business model canvas is a strategic tool that helps to visualize and develop a comprehensive business model. It comprises nine key elements crucial for any business, including a smart textiles product or service.

According to Osterwalder and Pigneur (2010), the nine elements of the business model canvas are:

1. **Customer Segments:** The specific groups of customers that the business is targeting.
2. **Value Proposition:** The unique benefit the product or service provides customers.
3. **Channels:** The methods used to reach and interact with the customers.
4. **Customer Relationships:** The type of relationships that the business has with the customers, such as personal or automated.
5. **Revenue Streams:** The sources of revenue for the business.
6. **Key Activities:** The main activities required to deliver the product or service.
7. **Key Resources:** The resources required to deliver the product or service, such as materials, equipment, and personnel.
8. **Key Partners:** The external partners that the business works with, such as suppliers or distributors.
9. **Cost Structure:** The costs associated with delivering the product or service.

2. Customer Segments

Customer segments are fundamental building blocks of any business strategy. These segments represent groups of customers who share common needs, characteristics, and behaviour patterns. Recognizing and comprehending customer segments is not merely beneficial but, in fact, pivotal for crafting an effective business strategy and designing a compelling value proposition. By distinguishing these groups and gaining insights into their unique preferences, challenges, and desires, businesses can tailor their products, services, and marketing efforts to address the specific requirements of each segment. This strategic alignment enhances customer satisfaction and drives growth and competitiveness in today's dynamic marketplace.

To create a successful business model, it is essential to clearly define and prioritize the customer segments that the product or service will target.

Market segmentation is dividing the target market into smaller groups with similar characteristics, such as age, income, personality traits, behaviour, interests, needs, or location (Kotler, 1989).

Different ways to segment the market depend on the specific product or service and the target market. Common customer segmentation methods include:

- **Demographic segmentation:** dividing customers by age, gender, income, education, and other demographic factors.
- **Psychographic segmentation:** dividing customers by their interests, values, personality, and lifestyle.
- **Behavioural segmentation:** dividing customers by their buying behaviour, product usage, and decision-making process.
- **Geographic segmentation:** dividing customers by their geographic location and regional factors.

Once the customer segments have been defined, developing a deep understanding of their needs, preferences, and pain points is important. This can involve gathering data through market research methods such as surveys, focus groups, and interviews. The insights gained from this research can then be used to tailor the product or service to the specific needs of each customer segment and develop a marketing strategy that resonates with them.

2.1. Types of customer segments and specific value propositions

Once the customer segments have been defined, understanding the diverse types of customer segments and crafting specific value propositions is the key to success in a dynamic market landscape. There are several types of approaches when it comes to market strategy:

- **Mass Market.** Mass market segments target a broad range of customers without specific demographic or psychographic distinctions. The value proposition aims to appeal to a large customer base and is often based on common needs or preferences.
- **Niche Market.** Niche market segments focus on serving a specific subset of customers with unique needs or characteristics. The value proposition is tailored to address the niche audience's specific pain points and preferences.
- **Segmented Market.** Segmented market segments divide the overall market into distinct groups based on specific demographics, behaviours, or preferences.

The value proposition is customized to address each segment's specific needs and desires.

B to B and B to C Customer Segments

When developing a business model, it is important to consider the difference between B2B (business-to-business) and B2C (business-to-consumer) customer segments. This can influence pricing, marketing, distribution channels, and customer support decisions.

B2B stands for Business-to-Business, which refers to businesses that sell products or services to other businesses. This includes manufacturers, wholesalers, and distributors who sell products to retailers or other businesses. B2B customers are typically looking for products or services that can help them improve their business operations, increase efficiency, reduce costs, or improve their products or services.

B2C stands for Business-to-Consumer, which refers to businesses that sell products or services directly to individual consumers. This includes retailers, online stores, and service providers selling products or services to customers. B2C customers are typically looking for products or services that can help them solve a specific problem or meet a specific need, such as clothing, food, or entertainment.

Some key differences between the two categories are illustrated in Figure 1.

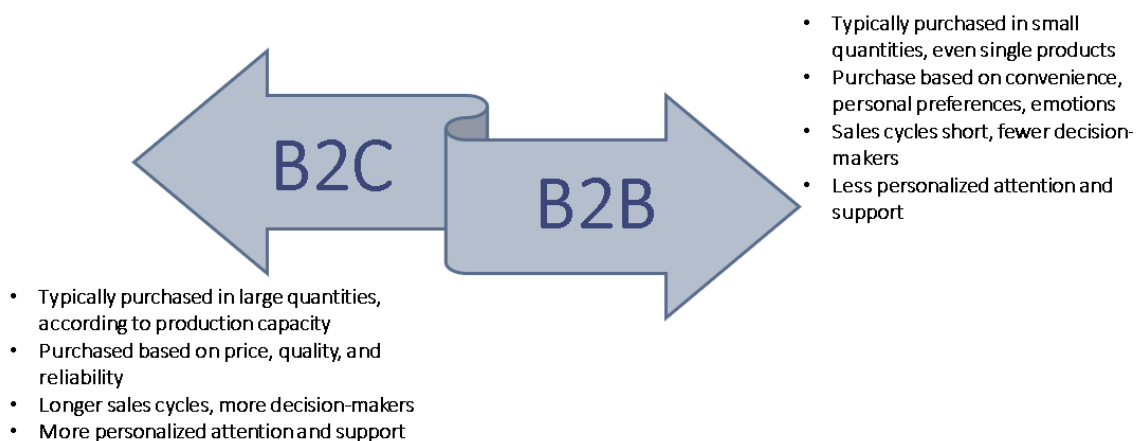


Figure 1. Differences between B2B and B2C customer segments

For example, a smart textiles company that specializes in creating safety equipment for industrial workers may focus on a B2B customer segment, as their products may require customization and longer sales cycles. On the other hand, a company that creates smart clothing for athletes may focus on a B2C customer segment, where convenience and style may be more important.

There are some Key Considerations regarding Customer Segments analysis:

Customer Needs and Behaviours. Understand the needs, preferences, and behaviours of different customer segments. Identify their pain points, motivations, and desired outcomes to design targeted value propositions.

Market Size and Growth Potential. Assess the size, growth potential, and profitability of each customer segment. Prioritize segments with the highest market potential and align them with the business's capabilities.

Competitive Landscape. One should analyse the competition within each customer segment. Identify gaps, opportunities, and differentiation strategies to effectively compete and capture market share.

Adaptability and Evolution. Customer segments may evolve over time due to changing market dynamics. Continuously monitor and adapt the customer segment strategy to stay aligned with evolving customer needs.

3. Defining the value proposition

The value proposition refers to the unique benefit that the product or service provides to the customer. The value proposition should clearly articulate the specific benefit that the product or service provides to the customer. This could include comfort, durability, functionality, or sustainability features. It should also clearly distinguish the product or service from competitors and communicate why it is the best option for the customer.

At its core, the value proposition encapsulates the essence of what makes a product or service truly exceptional in the eyes of the customer. It goes beyond mere features and functions; it delves into the unique benefits that the product or service brings to the table. Essentially, it answers the critical question: **'What's in it for the customer?'**

To craft a compelling value proposition, **clarity** is paramount. It should eloquently and transparently articulate the specific advantage or benefit the product or service delivers to the customer. This benefit can take various forms, from the promise of unrivaled comfort to the assurance of long-lasting durability, the seamless functionality that simplifies everyday life, or the eco-conscious sustainability features that resonate with today's conscientious consumers.

In addition to clarity, **differentiation** plays a pivotal role. The value proposition should stand out prominently in a crowded marketplace, distinguishing the product or service from competitors. It is not merely about asserting uniqueness but substantiating it with evidence that resonates with the customer. It's about making a convincing case for why this offering is the superior choice, addressing the customer's pain points, and fulfilling their desires that no other option can.

Moreover, the value proposition is not just a static declaration; it's a **dynamic** promise. It should evolve and adapt as customer needs and market dynamics change. It's a commitment to continuous improvement and innovation to ensure that the product or service remains the best choice for the customer.

Defining the value proposition is a fusion of clarity, differentiation, and adaptability. It's about articulating the unique benefits that set a product or service apart, substantiating its superiority, and committing to an ongoing journey of excellence. In a competitive business

landscape, a well-defined value proposition is not just a statement; it's a promise that forges a deep and lasting connection with customers, driving brand loyalty and sustained success.

3.1. Elements of the value proposition

When defining a value proposition, several elements are to be considered:

Customer Needs. Understand the specific needs, pain points, and desires of the target customers. Tailor the value proposition to address these needs and provide meaningful solutions. A feature or characteristic becomes a value proposition when it is relevant and important for the target customer.

Unique Selling Proposition (USP). Define the unique features, benefits, or advantages that set the product or service apart from competitors. Clearly communicate why customers should choose your offering over others.

Competitive Advantage. Identify the competitive advantages that differentiate the business in the market. This can include factors like pricing, quality, convenience, innovation, customer service, or brand reputation.

Value Delivery. Articulate how the product or service delivers value to customers. Highlight the specific benefits, outcomes, or experiences that customers can expect. It's essential for customers to clearly understand your offering and the value the product/service brings to their life.

3.2. Defining the Value Proposition for Smart Textiles

Examples of value propositions for smart textile products could include:

- **Smart athletic clothing** with a high degree of Comfort, including moisture-wicking characteristics, that keeps the user cool and dry during workouts while monitoring vital signs.
- **Smart clothing that maintains its functionality** after a high number of washing cycles.
- **Durable and long-lasting workwear** with sensing capabilities that protect the customer from workplace hazards.
- **Sustainable and eco-friendly smart textiles** with lower carbon footprint that reduce environmental impact while providing high-quality performance.
- **Smart sleepwear for enhanced Rest** - sleepwear embedded with innovative sensors that monitor sleep quality and adjust temperature and comfort levels to enhance the user's sleep patterns and overall well-being.
- **Elderly care smart garments:** develop adaptive clothing for elderly individuals with built-in fall detection and vital sign monitoring, ensuring their safety and providing peace of mind for caregivers.
- **Customizable corporate uniforms:** provide clients with smart uniform solutions that offer customization options, such as built-in RFID access control, employee location tracking, and communication features for improved security and productivity.

These diverse value propositions showcase the versatility of smart textiles, addressing various customer needs across different demographics and industries, from healthcare and fashion to sports and education. Tailoring value propositions to specific customer segments and their unique requirements can be a key strategy for success in the smart textile market. By defining and communicating a strong value proposition, a smart textiles company can differentiate itself from competitors and provide a compelling reason for customers to choose their product or service.

4. Channels

Channels refer to the ways businesses deliver their value propositions to customers. Choosing the right channels is essential for reaching target customers effectively and efficiently.

There are various types of channels that a company can use to reach its customers, including.

- **Direct channels:** selling the product or service directly to the customer through an online store or physical retail location.
- **Indirect channels:** selling the product or service through third-party retailers or distributors, such as partnerships with athletic wear retailers or industrial safety equipment suppliers.
- **Online channels:** using e-commerce platforms or social media to reach customers and promote the product or service.
- **Offline channels:** using traditional marketing and advertising channels such as print or broadcast media to reach customers.

For example, a smart textiles company specializing in clothing for athletes may prioritize online channels and social media to reach younger, tech-savvy customers who are more likely to make purchases through e-commerce platforms. On the other hand, a company that creates smart fabrics for industrial use may prioritize direct sales and partnerships with established distributors to reach their target market. These are some of the ways smart textile companies can leverage channels to reach their customer segments:

- **E-commerce Platforms:** A smart textiles company can leverage its own website or third-party e-commerce platforms like Amazon to reach tech-savvy consumers looking to purchase smart clothing or textiles online.
- **Wearable Technology Retailers:** Companies specializing in wearable smart textiles, such as fitness clothing embedded with sensors, can partner with retailers that focus on health and fitness products to reach their target audience.
- **Sports and Fitness Expos:** Exhibiting at sports and fitness expos and trade shows allows smart textile companies to showcase their products to athletes, sports enthusiasts, and industry professionals.

- **Smartphone Apps:** Developing a dedicated mobile app can be an effective channel for companies in the smart textile market, especially for products that sync with smartphones to provide real-time data.
- **Social Media:** Platforms like Instagram and Facebook can be used to create visually engaging content that showcases the functionality and style of smart textiles, targeting fashion-forward consumers.
- **Outdoor Gear Retailers:** Smart textiles designed for outdoor activities, such as heated jackets or moisture-wicking hiking clothing, can be sold through outdoor gear retailers catering to adventurous customers.
- **Healthcare Industry Partnerships:** Smart textiles with medical applications can establish partnerships with healthcare institutions, clinics, and medical supply companies to reach patients and healthcare professionals.
- **Influencer Marketing:** Collaborating with fitness influencers, tech reviewers, or fashion bloggers who specialize in smart textiles can help raise brand awareness and reach a relevant audience.
- **Tech Conferences:** Exhibiting at technology conferences or expos, especially those focused on wearables or IoT (Internet of Things), can connect smart textile companies with industry experts and potential partners.
- **Educational Institutions:** Collaborating with universities or vocational schools that offer courses in wearable technology and textiles can be a channel to introduce products to future professionals in the field.
- **Corporate Partnerships:** Companies producing smart textiles for industrial use may establish partnerships with corporations in sectors like construction or manufacturing to provide specialized solutions.
- **Online Marketplaces:** Besides e-commerce platforms, companies can utilize specialized online marketplaces that cater to smart textiles and wearable technology, ensuring visibility among interested consumers.

Selecting the right mix of these channels based on product focus, target audience, and marketing strategy can help smart textile companies effectively reach their intended customers and grow their market presence.

4.1. Factors to Consider when Choosing Channels

There are several factors to consider in the channel selection process.

- **Customer Preferences.** Consider the preferred channels of the target customers. Understand how they prefer discovering, purchasing, and interacting with products or services. It is essential to be where your customer base is and to be able to communicate so they easily understand and react.

- **Cost and Efficiency.** Evaluate the cost-effectiveness and efficiency of different channels. Analyse factors like distribution costs, reach, scalability, and resource requirements.
- **Competitive Landscape.** Assess the distribution channels used by competitors. Identify gaps or opportunities to differentiate through alternative or innovative channels.

5. Customer relationships

Customer relationships refer to the interactions and connections businesses establish and maintain with their customers. Building strong customer relationships is vital for customer satisfaction, loyalty, and long-term business success. Customer relationships influence customer retention, repeat purchases, and positive word-of-mouth. They contribute to understanding customer needs, personalizing experiences, and gaining competitive advantage.

There are different types of customer relationships that a company can cultivate, depending on the specific product or service and the target market. Some common types of customer relationships include:

1. **Personal assistance:** providing individualized attention and support to customers, such as through one-on-one consultations or dedicated customer service representatives.
2. **Self-service:** enabling customers to interact with the product or service on their own terms, such as through online support resources or mobile apps.
3. **Co-creation:** involving customers in the product development process, such as through crowdsourcing or feedback sessions.
4. **Communities:** building a community around the product or service, such as through social media or user groups.
5. **Automated:** using automated systems and technology to deliver personalized experiences at scale.

When developing a business model, it is important to determine the most effective customer relationship model for the target market and customer segments. This can influence decisions regarding marketing and sales strategies and the types of customer support and engagement provided.

For example, a smart textiles company specializing in clothing for athletes may prioritize personal assistance and individualized attention, such as through in-person fittings and consultations with fitness experts. On the other hand, a company that produces smart fabrics with embroidered sensors may focus on self-service and online support resources to provide quick and efficient solutions for customers.

By developing strong customer relationships that align with the needs and preferences of the target market, a smart textiles company can build brand loyalty and generate repeat business, leading to long-term success.

Summary

This presentation deals with the steps needed in developing a business model canvas and emphasizes the following main ideas.

Customer Segments: At the heart of the business model canvas lies the identification and definition of customer segments. These segments are not mere demographics; they represent distinct groups of customers with specific needs, preferences, and behaviors. Businesses can precisely tailor their offerings and strategies by discerning these unique clusters within the market. This ensures that products or services align harmoniously with the desires of each customer segment, allowing the company to capture market opportunities effectively.

Compelling Value Proposition: The value proposition is the soul of the business model. It embodies a succinct promise that encapsulates the unique benefits of a product or service. It goes beyond mere description; it clearly communicates why this offering is exceptional. It highlights its distinct advantages over competitors and persuades customers why it is the superior choice.

Building Customer Relationships and Effective Channels: Beyond identifying customer segments and crafting value propositions, the canvas emphasizes developing strong customer relationships and effective product and service delivery channels. These relationships foster brand loyalty and long-term customer retention. Channels encompass the avenues through which a company reaches its customers, whether through online platforms, retail stores, or partnerships. Nurturing these connections and ensuring a seamless delivery process is essential for customer satisfaction and continued success.

Want to learn more about this topic?

- Alexander Osterwalder, Yves Pigneur, Gregory Bernarda, Alan Smith and Trish Papadakos (Designer) (2014) - *Value Proposition Design: How to Create Products and Services Customers Want* (The Strategyzer Series)

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