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BUSINESS MODEL MAPPING: ACTION RESEARCH APPROACH FOR CHOCOKOO CHOCOLATERIE

Master’s Thesis
Business Administration

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I hereby declare that I have compiled the paper independently and all works, important standpoints and data by other authors has been properly referenced and the same paper has not been previously presented for grading. The document length is 10889 words from the introduction to the end of conclusion.

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ABSTRACT

Business model domain is a popular topic among scholars and business practitioners in the 21st century. It is considered that successful business model management is a prerequisite for any firm to compete in a highly globalised, complex and uncertain business environment of this century. However, there is no considerably strong consensus on business model meaning and theoretical framework within academic communities. This thesis reviews scientific literature to bring clarity around business model term, including the relationship between business model and business strategy.

The strategy of the research is action research. Mapping business model of Chocokoo Chocolaterie, a recognised micro batch chocolate maker in Estonia, is the main goal of the research. The mapping process will follow popular Business Model Canvas framework and method. A concept mapping technique will be used to analyse and represent business model.

Keywords: business model, business model mapping, business model canvas, action research, concept map.
1. INTRODUCTION

1.1. Background, the goal and structure of the research

The domain of this thesis and research is about business models and how to map a competitive business model using widely recognised methodology. More specifically, the idea and actual need behind the choice of the research subject of the thesis is practical and personal: to develop business model version 1.0 for author’s family owned chocolate manufacturer Chocokoo Chocolaterie (Chocokoo) using Business Model Canvas (BMC) approach. As Chocokoo was established three years prior to this research, in 2015, and still being in a birth stage of its corporate life-cycle (Miller & Friesen, 1984), the inputs, however, for developing business model during analysis are knowledge-based - based on the use of ideas and information (“knowledge-based,” n.d.) of its owners. The output of this research will be of critical importance for further improving Chocokoo’s competitiveness and profitability in local and international marketplace. Business model design is a key decision for a new firm entrepreneur (Zott & Amit, 2010).

It is worth to note that this thesis is not about business strategy. However, the author of will explain relations between business strategy and business model in second chapter. The relevance of the thesis for broader audience: students, business model domain researchers and for business practitioners emerges from literature review, analysis process, conclusions and key insights.

The main body of the thesis is organised into five chapters: 1. Introduction and central research question; 2. Literature review and theoretical framework of business model domain; 3. Methodology and research design; 4. Analysis and evaluation; 5. Conclusions and key insights.

1.2. Central Research Question

The goal and the choice of methodology of the research is inspired by an approach and mentality of Osterwalder (2004): the research about business model mapping for Chocokoo is an attempt to create things that serve human purposes (Osterwalder, 2004). Osterwalder (2004) was originally
referring to scientific problem-solution finding approach using design science method to achieve the goals of his dissertation. Therefore, the author has chosen action research (AR) approach as a strategy of the research. AR has broad relevance to practitioners and applicability to unstructured or integrative issues; AR aims both at taking action and creating knowledge or theory about that action. (Coughlan & Coghlan, 2002). AR approach will be further explained in chapter three.

The central research question (CRQ) of the thesis is: How can the owners of the birth stage firm create and capture value for their enterprise by using business model mapping approach?

The research questions (RQ1): Can BMC method facilitate structured discussions and exploration (validating the respective claim made by Osterwalder & Pigneur (2010)) - strengths and weaknesses of BMC method?

The research question (RQ2): What are the business model development areas identified during business model mapping process?

In order to answer CRQ, RQ1 and RQ2, series of workshops which will follow Business Model Canvas methodology by Osterwalder and Pigneur (2010) will be carried out. Business model mapping process will be documented and analysed through action research process.

Among other things, by reviewing relevant and up-to-date scientific literature, the author attempts to clarify the ubiquitous misinterpretation of “business model” term and explain the relevance of business model for any firm - whether it is young business or already an established business. The clarity and “no-fuzz” are fundamental for practitioners before applying business model approach.

1.3. About Chocokoo Chocolaterie

Chocokoo, founded by Kristel Lankots in 2015 in Estonia, is a micro batch chocolate manufacturer. Its portfolio of products and services consists of four distinctive segments (Figure 1): bean-to-bar chocolates, chocolate bonbons, truffles and other candies made from high quality couverture, chocolate making workshops, Café Chocokoo. Chocokoo is a micro category enterprise according to European Commission (2015) classification.
Bean-to-bar manufacturers strive to control the entire production process, including purchasing cacao beans directly from farmers, to create unique and high-quality chocolate bars or confections (Gallo et al., 2018). Chocokoo sources cacao beans from various regions/farms in Costa Rica, Ecuador, Vietnam, Indonesia, Ghana and other countries. Chocolate truffles and bonbons are made from Valrhona couverture and own-made ganache.

According to Miller & Friesen (1984) tentative typology of corporate life stages, Chocokoo has all the distinctive characteristics of birth phase. It is a young and small firm which is dominated by owner-manager. Organisational structure is very informal. Chocokoo runs distinct niche strategy where rapid product development and innovation is fundamental. Chocokoo has a typical long tail business model, which is about offering a large number of niche products, each of which sells relatively infrequently (Osterwalder & Pigneur, 2010).

Superior product quality combined with outstanding product concepts and taste experience are the heart of its identity. Chocokoo has collected some significant references and received a number of domestic and international awards for its taste concepts. Chocokoo served its chocolate bonbons and truffles in the reception of the President of the Republic of Estonia on the 24th of February 2016, which celebrated 98th anniversary of the Republic of Estonia. Chocokoo dark chocolate with rye bread received special diploma in Estonian Best Food Product 2018 contest. Chocokoo’s bean-to-bar chocolates won silver and bronze at the International Chocolate Awards European Bean-to-Bar competition in August 2018: Costa Rica 70% with Rye Bread – Silver (category: dark chocolate bars with inclusions or pieces) Vietnam 80% - Bronze (category: micro-patch

Figure 1. Chocokoo products and services
Source: the author

On macro level, Chocokoo has two distinctive customer segments: a) business-to-business customers (retailers, catering companies, other corporate customers) and business-to-consumer customers. There are already some infrequent export customers, one returning customer even as far as in Japan.

Chocokoo represents entrepreneurship and women in business. Entrepreneurs play an important role in economic development and entrepreneurship is essential for the growth of both businesses and overall economy (Huarng, 2013). More women to start-up businesses can contribute to a more competitive economy and economic growth, as well as reducing social exclusion (Piacentini, 2013). Our understanding of the nature of the firm itself, together with the role of entrepreneurs and managers in the economy and in society, should also benefit from a better appreciation of business models and their role in entrepreneurship, innovation and business performance (Teece, 2010). The author together with Kristel Lankots encourage women to start up their own businesses and become entrepreneurs.

Second chapter of the thesis, the literature review, mostly reflects business model related scientific literature from twenty-first century. It explains the history of business model domain, reflects various definitions of term “business model”; describes the role of business model innovation; clarifies relations between business model and strategy. Third chapter describes action research approach for Chocokoo and Business Model Canvas method. Fourth chapter analyses business model mapping process with concept mapping technique and proposes business model for Chocokoo. Fifth chapter reflects on main findings and key insights from action research process.
2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK OF BUSINESS MODEL DOMAIN

A business model describes the rationale of how an organization creates, delivers, and captures value (Osterwalder & Pigneur, 2010). Yet, business model concept lacks a well-defined theoretical foundation. The whole domain is relatively new and unstructured. Nevertheless, successful business model management is nowadays considered as an essential prerequisite for firms for being able to compete in an environment which is highly globalized, complex and uncertain. Business model concept has become a popular tool in business practice because it can help to successfully analyse and handle these complexities (Wirtz, 2016). Controversially, however, no consensus regarding its meaning has been established (DaSilva & Trkman, 2014) within academic communities. And just to highlight aspects of identity-crisis of business models among scientific community, some interesting conclusions have been drawn: “When we look carefully at how business models are used by their communities, we find a variety of activities going on which we suggest makes them more similar to the model organisms of biology than to the mathematical models of economists” (Baden-Fuller & Morgan, 2010 p. 163). Although that might sound as a tempting exploration, for the sake of focus, the author will keep the literature review away from biology avenue.

Some scientist even state that designing new business models is closer to an art than a science (Casadesus-Masanell & Ricart, 2010). Yet, various communities (academics, journalists, business practitioners etc.) talk a lot about business models – ultimately, it can be concluded that business models are extremely important. (DaSilva & Trkman, 2014).

According to the online research made by the author (Table 1) with web-based citation indexing service Google Scholar, it can be concluded that the number of scientific documents containing phrase “business model” in title, started to rapidly appear during this century only. It confirms that scientific research on business model domain is a relatively new subject. So far, the notional period of 2011-2015 has been most fruitful for business model research domain in terms of number of published scientific articles. The research activity in business model domain in the next period, 2016 and onwards, will most probably match the first half of this decade. While writing this thesis,
the author has found out that some of the most cited authors in the field of scientific business model literature since year 2010 are Osterwalder & Pigneur (2010), Teece (2010), Chesbrough & Rosenbloom (2002), Magretta (2002), Zott et al. (2011). However, the review of business model related scientific literature, contains also references to other authors’ researches.

Table 1. Search phrase “business model” in titles

<table>
<thead>
<tr>
<th>Period</th>
<th>Articles</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-1999</td>
<td>1 570</td>
</tr>
<tr>
<td>2000-2005</td>
<td>3 760</td>
</tr>
<tr>
<td>2006-2010</td>
<td>6 320</td>
</tr>
<tr>
<td>2011-2015</td>
<td>9 720</td>
</tr>
<tr>
<td>2016-</td>
<td>4 830</td>
</tr>
</tbody>
</table>

Source: Author’s research on 8.10.2018.

The literature review chapter mostly reviews and reflects business model related scientific literature from twenty-first century. The related literature search was highly explorative where search phrases “business model”, “business model innovation”, “business model concept” and “business model mapping” were mostly used to target potential articles about business model domain.

2.1. The history and evolution of business model domain

The term “business model” was first mentioned in an academic article in 1957 by Bellman, Clark and Malcolm (DaSilva & Trkman, 2014). However, according to Osterwalder et al. (2005), the term was not actively used for decades and research activity on “business model” remained low until 1990s. With the development of information and communication technologies (ICT) and the emergence of Internet companies, the term quickly gained prominence among both practitioners and business scholars (DaSilva & Trkman, 2014) during 1990s and beginning of 2000s.

What is the link between emergence of internet companies and business model boom? Zott et al. (2011) refers to swift expansion of the Internet and the rapid decline in computing and communication costs, which have opened new horizons for firms in how they organize and engage in economic exchanges both with customers and suppliers; within and across industry boundaries. Consequently, 1990s witnessed a global explosion of e-businesses. In the mid-1990s ,”dot-com” firms pitched business models to attract funding (Shafer et al., 2005) for their e-businesses.
DaSilva & Trkman (2014) even proved that there was a clear correlation between a number of scientific papers published on business model and NASDAQ curve (Figure 2), which at that time was strongly influenced by dot-com bubble. The Internet is a principal driver of the surge of interest in business models and the consequent emergence of a literature that revolves around the topic (Zott, Amit, & Massa, 2011). When dot-com bubble exploded in early 2000s, the term “business model” survived and subsequently paved its way to the analysis of long-established industries and firms as “business model approach.”

![Figure 2. Number of papers published on business models vs. the NASDAQ trend](image)

Source: DaSilva & Trkman (2014)

As business model as a term started to gather popularity during 1990s and 2000s, initially and still today, there seems to be quite a bit of confusion what it really means and what would be appropriate context for its usage. The term became a buzzword and was used by managers, academics and journalists for everything and nothing (Osterwalder, 2004), routinely invoked, to glorify all manner of half-baked plans (Magretta, 2002). It has been frequently confused with other popular terms in the management literature such as strategy, business concept, revenue model, economic model, or even business process modelling. Business models seemed to be the answer for explaining how innovative undertakings dealing with technology or any other form of unclear but potentially profitable concepts, foreign to the logic of traditional industries, were materialized in business terms (DaSilva & Trkman, 2014).

Before managers can apply the (business model) concept, they need a simple working definition that clears up the fuzziness associated with the term (Magretta, 2002). Therefore, bringing clarity to business model definition(s) is critical.
2.2. Definition and purpose

Agreeing a precise definition and the aim of business model is challenging even for scientific community. According to Zott et al. (2011) only less than half of scientific publications on business models attempted to define or conceptualise business model. While defining what business models actually are has brought some order into the confusion; some of these concepts are highly abstract and very precise and some are merely lists of relatively low conceptual contribution (Osterwalder, 2004).

Even though there are significant differences in defining what are business models (Appendix 1), the majority of studies seem to converge on the basic understanding that business models specify the company’s fundamental value proposition(s), the market segments it addresses, the structure of the value chain which is required for realizing the relevant value proposition, and the mechanisms of value capture that the company deploys, including its competitive strategy (Saebi & Foss, 2015).

The next question what naturally emerges is: why are business models important? The main reason, according to author’s opinion, is simple, straightforward and rational. The overarching goal of business model generating is creating and capturing value for core stakeholders (Wahl & Prause, 2013). The same is confirmed by Bocken et al. (2014): value creation is at the heart of any business model. According to Wahl & Prause (2013) values in the context of business model can be both quantitative (e.g. price, speed of service, profit) and qualitative (e.g. design, service level, speed of service).

Building on Bocken et al. (2014) and Clauss (2017) a firm’s business model framework can be explained through three value related dimensions which are central to any business model: value proposition (a portfolio of solutions for customers and how they are offered: product/service, customer segments and relationships); value creation and delivery (how and by what means firms create value along the value chain using the resources and capabilities of intra and interorganizational processes: key activities, resources, channels, partners, technology); value capture (defines how value propositions are converted into revenues; defines how firms gain revenues that cover cost and achieve profits that ensure sustainable performance: cost structure and revenue stream).
Since agreeing on commonly accepted definition of business model seems to be problematic for scholars, the other way to look at business models is trying to define what they are not. Zott et al (2011) proposes following clarification: the business model does not involve a linear mechanism for value creation from suppliers to the customers of the firm (value creation through business models involves a more complex, interconnected set of exchange relationships and activities among multiple players); the business model is not the same as product market strategy or corporate strategy (i.e., it does not describe or prescribe the areas of business in which a firm becomes active); the business model cannot be reduced to issues that concern the internal organization of firms (e.g., control mechanisms, incentive systems).

Magretta (2002) highlights the value of business model from communications perspective – if business model tells a good story, this is a strong basis for employee communication and motivation: “Stories are easy to grasp and easy to remember. They help individuals to see their own jobs within the larger context of what the company is trying to do and to tailor their behaviour accordingly. Used in this way, a good business model can become a powerful tool for improving execution” (Magretta, 2002 p. 8).

2.3. Business model concepts and classification

The aim of this section is to reflect on various, judgementally selected business model concepts. Building on the thinking that the term “model” in the phrase “business model” relates to "a representation of something as a simple description of the object which might be used in calculations" (Osterwalder, 2004), one expects visually coherent structural templates of how firms run and develop their business on holistic and system-levels (Clauss, 2017). As can be shown theoretically and empirically, processing information through the visual system can substantially increase the degree to which complexity can be handled successfully (Osterwalder, 2004).

Business model concepts come with various levels of complexity. While the leanest models only define three components, the most complex ones define 17–20 components (Clauss, 2017). Demil & Lecocq (2010) identifies two types of business models: models with static approaches and models with transformational approaches. The static view [of a business model] allows us to build typologies and study [its] relationship with performance; the transformational view deals with the major managerial question of how to change [it] (Demil & Lecocq, 2010).
As for the content, Chesbrough (2010) insists that a good business model has seven distinctive characteristics. It must articulate the value proposition; identifies a market segment and specifies the revenue generation mechanism; defines the structure of the value chain required to create and distribute the offering and complementary assets needed to support position in the chain; details the revenue mechanism(s) by which the firm will be paid for the offering; estimates the cost structure and profit potential; describes the position of the firm within the value network linking suppliers and customers (incl. identifying potential complementors and competitors); formulates the competitive strategy by which the innovating firm will gain and hold advantage over rivals.

Besides value proposition and value network elements, Voelpel et al. (2004) introduced leadership capabilities (that ensure the satisfaction of relevant stakeholders) as third interactive key element in its business model concept.

In his PhD dissertation in 2004, Alexander Osterwalder proposes business model ontology (BMO), which “stands” on four pillars (Product, Customer Interface, Infrastructure Management, Financial Aspects) and nine interrelated blocks (Value Proposition, Target Customer, Distribution Channel, Relationship, Value Configuration, Capability, Partnership, Cost Structure, Revenue Model). The meaning of term “ontology” is hereby defined as a conceptualization as an intentional semantic structure which encodes the implicit rules constraining the structure of a piece of reality. Osterwalder’s BMO form a fundamental and conceptual basis for Business Model Canvas (BMC) tool published by Osterwalder & Pigneur in 2010. BMC methodology framework will be further described and analysed in Chapters 3 and 4. Osterwalder’s BMC has become one the most popular managerial tools for mapping and innovating business models.

Christoph Zott and Raphael Amit, the leading researchers in business model field define their business model concept as an activity-based system in Zott & Amit (2010), which consists of design elements (Content, Structure, Governance) and design themes (Novelty, Lock-In, Complementarities, Efficiency). Focus on activities is a natural perspective for entrepreneurs and managers who must decide on business model design. (Zott & Amit, 2010).

Few other business model concepts by various scholars can be listed. Shafer et al. (2005) describes its business model as affinity diagram consisting of four clusters (Strategic Choices, Value Network, Create Value, Capture Value). Al-Debei et al. (2008) interactive business model framework stands on four pillars (Value Proposition, Value Network, Value Architecture, Value Finance). Demil &
Lecocq (2010) introduced three-component RCOV business model framework (where RC – resources and competences; O – organisation; V – value propositions).

Business models can be classified according to various characteristics. Gorevaya & Khayrullina (2015) conclude in their research that business models can be classified based on the significance of how big competitive advantage they yield, or based on various competitive measurements of the new business model, or based on similarities in characteristics. For example, business models can be classified according to production system attributes (classical production technology, but new service technology; new production technology and old services; new production technologies and new services), or according to similarities in business model patterns (separation of business models, “Long Tail”, multilateral platforms, free as business model, open business models).

2.4. Integrated business model management

Wirtz (2016) introduce integrated business model management concept. Although, as reviewed in previous sections, business model concept has rooted from technology and ICT, nowadays business model management has three distinctive scientific approaches.

According to Wirtz (2016), authors from different research areas and from different scientific disciplines have contributed to business model concept since mid 1900s. In early days, business models were used primarily in Information Systems domain as business modelling to system construction, computer and system modelling (Wirtz, 2016), which then consequently led to emerge of e-businesses in 1990s. Eventually, nowadays, business model concept has evolved into integrated business model management approach, which according to Wirtz (2016) has three basic distinctive scientific approaches: technology-oriented approaches; organisation-oriented approaches; strategy-oriented approaches.

Technology-oriented approach, the main historic root mainly explains concepts relating to business modelling and e-businesses. Organisation-oriented approach in business model context describes organisation, overriding corporate design, centralisation of decision-making, job planning. Strategy-oriented business model approach bridges business models to strategic management and business model innovation. Beyond the company’s internal view, strategy oriented business model
approaches also take elements of competition into account (Wirtz, 2016). The firm competes through its business model (Casadesus-Masanell & Ricart, 2010).

Wirtz (2016) proposes integrated business model framework which consists of three components and nine partial models. Strategic Component containing strategy model, resource model and network model; Customer & Market Component containing Customer model, Market offer model, Revenue model; Value Creation Component containing Production of goods and services model, Procurement model, Financial model. When looking at discussions of strategic management, both internal aspects as well as environmental conditions of a company need to be considered in order to derive the relevant components of a business model (Wirtz, 2016).

2.5. **Link between business model and strategy**

Significant discussions are ongoing about the interrelations between business model and strategy in scientific communities. It seems that certain consensus on the matter that business model is not strategy has been reached. The fundamental question in the field of strategic management is how firms achieve and sustain competitive advantage (Teece et al., 1997). Business model can be a source of competitive advantage (Zott et al., 2011).

Casadesus-Masanell & Ricart (2010) goes even as far saying that every firm has some business model, but not every firm has a strategy. Strategy is much more than the mere selection of a business model; it is a contingent plan as to how the business model should be configured, depending on contingencies that might occur (Casadesus-Masanell & Ricart, 2010). Strategy and business model, though related, are different concepts: a business model is the direct result of strategy but is not, itself, strategy (Casadesus-Masanell & Ricart, 2010). We further emphasize that strategy reflects what a company aims to become, while business models describe what a company really is at a given time (DaSilva & Trkman, 2014). It can be concluded that firm’s business model reflects its strategy.

Osterwalder (2004) argues that strategy, business model and business processes address similar problems, but on different layers (Figure 3).
The business model layer would then translate these issues into the elements and relationships of the money earning logic of a company's business model: the vision of the company and its strategy are translated into value propositions, customer relations and value networks (Osterwalder, 2004).

Teece (2010) says that a business model is more generic than a business strategy. Coupling strategy analysis with business model analysis is necessary in order to protect whatever competitive advantage results from the design and implementation of new business models (Teece, 2010).

How can a business model be a source of competitive advantage asks DaSilva & Trkman (2014)? Competitive firms can serve same product market customers and needs while having quite different business models. Although many components of the business model could be “bought” on the market, the success of a specific business model depends on the interplay between elements, argues DaSilva & Trkman (2014). The author here claims that managerial and entrepreneurial skills of a firm determine the combination, quality and uniqueness between business model elements.

2.6. **Theoretical foundation: resource-based view, dynamic capabilities**

As being tightly linked to firm’s strategy, scholars have been looking for appropriate theoretical foundation for business model domain. Both strategic management paradigms high-lighting efficiency, the resource-based view (RBV) and dynamic capabilities (DC), have been suggested as suitable for business model. The inclusion of knowledge and dynamic capabilities into the RBV paved the way for more linkages between the business model and RBV (George & Bock, 2011).

By a resource is meant anything which could be thought of as a strength or weakness of a given firm (Wernerfelt, 1984). Examples of resources are: brand names, in-house knowledge of
technology, employment of skilled personnel, trade contacts, machinery, efficient procedures, capital, etc. (Wernerfelt, 1984). Firm’s unique, rare, imitable and non-substitutable resources as source of competitive advantage. (Schneider & Spieth, 2013). The resource-based approach sees firms with superior systems and structures being profitable not because they engage in strategic investments that may deter entry and raise prices above long run costs, but because they have markedly lower costs, or offer markedly higher quality or product performance (Teece et al., 1997). The ultimate desired position for a for firm according to the resource based approach is to achieve a situation where its own resource position directly or indirectly makes it more difficult for others to catch up (Wernerfelt, 1984).

For business model it means that value is created from unique combinations of resources (Morris et al. 2005). However, building on Chesbrough (2010) and DaSilva & Trkman (2014), resource itself has no single objective value for the firm or to customer until it is commercialised through transactions in some way via a business model.

However, the RBV has its limitations from business model perspective. It works well in a static environment, but today’s world is extremely dynamic (Wahl & Prause, 2013). The dynamic-capabilities perspective extends the static character of the resource-based view by emphasising the decreasingly lasting character of any competitive advantage in volatile environments and the need of firms to be capable of renewing themselves and applying new value creating strategies (Schneider & Spieth, 2013). While the RBV emphasizes resource choice or the selecting of appropriate resources, DC emphasize resource development and renewal (Wahl & Prause, 2013).

In a context of business model, a capability is the ability to execute a repeatable pattern of actions that is necessary in order to create value for the customer (Wahl & Prause, 2013). Teece et al. (1997) and DaSilava & Trkman (2014) define dynamic capabilities as the firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments, but as well as anticipate, shape, seize opportunities and avoid threats while maintaining competitiveness. Dynamic capabilities thus reflect an organization’s ability to achieve new and innovative forms of competitive advantage (Teece et al., 1997), which is achieved by carrying out high-performance internal processes. Hence firm’s dynamic capabilities are critical to sustain long-term value creation and value capture via renewing its business model.

Therefore one can say that companies which manage to create value over extended periods of time successfully shape, adapt and renew their business models (Achtenhagen et al., 2013). And
moreover, as defined previously, the aim of any business models is to create and capture value for its main stakeholders. Therefore, external customers, being one of the most distinctive stakeholders of any firm according to Freeman (1983), benefit directly from firm’s ability to renew its business model. DaSilva & Trkman (2014) argues that firm’s strategy is about building dynamic capabilities which then alter existing business model and hence sustained competitiveness and value creation in the future.

According to Achtenhagen (2013) a firm to be able to sustain long-term value creation through business model change, three strategizing actions must be taken: the focus on organic growth complemented with strategic acquisitions; the simultaneous expansion along different dimensions; combination of cost-efficiency with a high-quality focus.

An orientation towards experimenting with and exploiting new business opportunities; a balanced way of using resources; achieving coherence between an active and clear leadership, a strong organizational culture and employee commitment, are three critical capabilities which are crucial for and are fuelling business model change according to Achtenhagen et al. (2013).

Above mentioned critical capabilities are formed by sets of activities (Achtenhagen et al., 2013). According to Wahl & Prause (2013), key activities depend on business model type and could be categorized e.g. production-, problem solving-, network activities.

2.7. Business model innovation

Building on dynamic capabilities paradigm, this section of literature review focuses on the subject of business model innovation (BMI). As learned previously, successful renewal of a firm’s business model is a pre-requisite for sustained value creation. Therefore, it can be said that managing BMI is critical success factor for any firm. Thus the literature on BMI has gained an increasing amount of attention in management research and among practitioners (Foss & Saebi, 2016).

DaSilva & Trkman (2014, p. 386) asks a critical question: “What does the frequently-used term “business model innovation” mean? Which elements of a business need to be altered in order for a change to be considered a business model innovation?”. And then claims that BMI must go much
further than a “marketing change”, it should involve more than a simple business process redesign (DaSilva & Trkman, 2014).

Foss & Saebi (2016) describe four occasions which meet BMI criteria in their Business Model Innovation typology (Table 2).

Table 2. Business Model Innovation (BMI) Typology

<table>
<thead>
<tr>
<th>Novelty</th>
<th>Scope</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Modular</td>
</tr>
<tr>
<td>New to firm</td>
<td>Evolutionary BMI</td>
</tr>
<tr>
<td>New to industry</td>
<td>Focused BMI</td>
</tr>
</tbody>
</table>

Source: Foss & Saebi (2016)

Evolutionary BMI is a fine-tuning process involving voluntary and emergent changes” in individual components of the BM, often occurring naturally over time (Foss & Saebi, 2016). Adaptive BMI involves changes in the overall BM that are new to the firm but not necessarily new to the industry (these are cases where the firm adapts the architecture of its BM in response to changes in the external environment, as in the face of competition from a new BM in its industry (Foss & Saebi, 2016). Focused BMI is the firm innovates within one area of the BM, such as targeting a new market segment that has been ignored by its competition (hereby, the firm creates a new market while keeping its value proposition, value delivery, and value capture mechanisms intact) (Foss & Saebi, 2016). Complex BMI affects the BM in its entirety (examples include traditional brick-and-mortar companies that shift toward becoming online platforms to facilitate the matching of customers and sellers of goods and services, e.g., as seen in the sharing economy) (Foss & Saebi, 2016).

Focused BMI and complex BMI can be defined as the processes by which management actively engages in modular or architectural changes in the BMI to disrupt market conditions (i.e., new to the industry) (Foss & Saebi, 2016). According to BMI Typology, minimum change in a business model to be classified as BMI, must at least happen on BM element level.

Voelpel et al. 2004 explains that business model innovation has four dimensions. Customer sensing (including new customer value propositions) refers to the relative ease of acceptance of a new value proposition; technology sensing indicates the relative strength, direction and impact of technology on new customer value and the business network; business infrastructure sensing
(organizational and business network infrastructure) refers to the relative responsiveness of the traditional business network to reconfigure, or to the relative ease of a new business network configuration; economic/profitability sensing: indicates the relative economic feasibility and profitability of the proposed model (Voelpel et al, 2004).

The fact that business models are constantly changing is highlighted both by Demil & Lecocq (2010) and Teece (2010). In real-world, business models are constantly in disequilibrium and change because of continuous interaction between its elements and managers’ entrepreneurial actions, among other motivations, might want to build organisations and business models for markets what might even not exist.

Teece (2010) recommends considering eight critical questions when developing an outline for new business model against the current state of the business ecosystem, and also against how it might evolve. First, how does the product or service bring utility to consumer, how is it likely to be used, are the necessary complements already available to the consumer with the convenience and price that is desirable (or possible). Second, what is the ‘deep truth’ about what customers really value and how will the firm’s service/product offering satisfy those needs, what might the customer ‘pay’ for receiving this value. Third, how large is the market? Is the product/service honed to support a mass market. Fourth, are there alternative offerings already in the market, how is the offering superior to them. Fifth, where is the industry in its evolution, has a ‘dominant design’ emerged? Sixth, what are the (contractual) structures needed to combine the activities that must be performed to deliver value to the consumer, both lateral and vertical integration and outsourcing issues need to be considered. Seventh, what will it cost to provide the product/service, how will those costs behave as volume and other factors change? Eighth, what is the nature of the appropriability regime, how can imitators be held at bay, and how should value be delivered, priced, and appropriated.

To proceed with developing an initial business model or innovate existing model in practice, Chesbrough (2010) recommends business model mapping approach to experiment with alternatives. For a young firm like Chocokoo Chocolaterie, who is in a phase of attempting to become a viable entity (Miller & Friesen, 1984), business model mapping approach is a way to construct its first business model version. One example of this (business model) mapping approach has come from Alex Osterwalder who, following his dissertation at Lausanne, has consulted and spoken widely on business models and business model innovation (Chesbrough, 2010). Based on his 2004 dissertation, Osterwalder together with Yves Pigneur have developed a method for
business model mapping and innovation, which is published in a handbook “Business Model Generation: A handbook for visionaries, game changers and challengers.” This method is also known as Business Model Canvas (BMC) framework. Taking the note from Chesbrough (2010), the author has chosen BMC method and process to be analysed with action research approach.

It can be generalised that business model is an activity-based system which has three value related dimensions: value proposition, value creation and value capture. The aim of any business model is about creating value to its main stakeholders. Business model is a set of dynamically linked components which describes a money earning logic of a firm at a given time. Business model is not a strategy. Strategy is about building dynamic capabilities which constantly innovate business model so that a firm sustains competitiveness and value creation over an extended period of time. Well-structured and visually coherent business model representations tell a story about firm’s business logic and hence make a strong basis of employee communication and motivation. Leadership capabilities, strong organisational culture and employee commitment are crucial for successful business model innovation.
3. METHODOLOGY AND RESEARCH DESIGN

The primary goal of the thesis is to improve competitiveness and profitability of Chocokoo Chocolaterie (Chocokoo) by mapping its business model and development needs. Action research (AR) approach combined with Business Model Canvas (BMC) approach will be utilised for achieving the goal and answering central research question. The secondary goal of the research is to develop action research and business model mapping skills. The research is a parallel process (Figure 4) of developing practical outcome while analysing it with scientific method.

Figure 4. Research process of the thesis
Source: the author

The analytical model of the research includes verbal and graphical forms. The research is classified as explanatory – its objective is to provide insights, learnings and understanding about practical aspects of business model mapping. The research data is gathered into Research Journal (Appendix 3) mainly via loosely structured observations and projective questioning of the participants during business model mapping workshops. The research process is pre-defined but may evolve while researcher progresses and learns. The research data will be analysed with qualitative analysis techniques (though not assumed, the research may generate quantitative data). The observations take place in contrived environment – set up specially for business model mapping process.

The following sections will explain both AR and BMC approaches.
3.1. Action Research approach for Chocokoo

What is action research (AR)? AR has been used in a wide variety of settings in the social sciences, particularly in areas such as organisational development, education, health, and social care (French, 2009). AR is a case study methodology. The fundamental difference between case study and AR is that in AR the researcher is not “divorced” from the research (French, 2009). The process can only be classified as AR when concurrence of action, research and participation is present. AR is a cyclic process. AR has broad relevance to practitioners and applicability to unstructured or integrative issues - AR aims both at taking action and creating knowledge or theory about that action. (Coughlan & Coghlan, 2002). AR projects are situation specific and do not aim to create universal knowledge (Coughlan & Coghlan, 2002).

AR approach for Chocokoo unbundles its product and service portfolio into four sub-businesses: bean-to-bar chocolates; chocolate bonbons/truffles/candies; chocolate making workshops; Café Chocokoo. AR plan is based on three phases (Figure 5). Phase #1 maps corporate business model (bundled approach). Phase #2 maps business models of sub-businesses (unbundled approach). Phase #3 revises and validates corporate business model through analysis process. During each cycle, business model development needs will be discussed and mapped.

<table>
<thead>
<tr>
<th>Phase #1. Corporate business model (bundled approach)</th>
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</thead>
<tbody>
<tr>
<td>Phase #2. Sub-models</td>
</tr>
<tr>
<td>Bean-to-bar</td>
</tr>
<tr>
<td>Candies</td>
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<tr>
<td>Workshops</td>
</tr>
<tr>
<td>Café</td>
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<tr>
<td>(unbundled approach)</td>
</tr>
<tr>
<td>Phase #3. Business model validation (bundled approach)</td>
</tr>
</tbody>
</table>

Figure 5. AR phases for Chocokoo
Source: the author

Each AR phase includes multiple workshops. The total number of workshops needed to complete each cycle depends on the progress made during workshops; and the availability of the Customer - the AR workshops overlap with the high-season of chocolate making. However, it is assumed that it takes maximum twenty net work hours to complete all three cycles. Each AR phase has four distinct stages (Table 3).
Table 3. Stages of Action Research cycle

<table>
<thead>
<tr>
<th>Phase</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan</td>
<td>- Review research plan and progress</td>
</tr>
<tr>
<td></td>
<td>- Setting targets for next workshop according to action research progress</td>
</tr>
<tr>
<td></td>
<td>- Align and communicate targets with participants</td>
</tr>
<tr>
<td></td>
<td>- Prepare and distribute pre-reading materials for the workshop</td>
</tr>
<tr>
<td>Act, Observe</td>
<td>- Contributing to business model mapping in the workshop</td>
</tr>
<tr>
<td></td>
<td>- Taking short notes on observations</td>
</tr>
<tr>
<td></td>
<td>- Projective questioning</td>
</tr>
<tr>
<td>Reflect</td>
<td>- Expanded notes</td>
</tr>
<tr>
<td></td>
<td>- Provisional running record of analysis and interpretations</td>
</tr>
<tr>
<td></td>
<td>- Learnings from cycle</td>
</tr>
</tbody>
</table>

Source: the author

General agenda of the workshops: reflections and learnings from previous workshop (what went well, what could be improved); setting targets for the workshop; business model mapping actions according to BMC building block; recording observations and notes.

Roles and responsibilities in AR approach for Chocokoo: Asso Lankots - researcher; contributes to business model mapping, conducts research; Kristel Lankots - represents Chocokoo, contributes to business model mapping.

Workshops are scheduled to take place during November and December 2018.

3.2. Business Model Canvas approach: method and process

The author agrees that management literature is famous for producing concepts and models. Yet, little of these concepts have been translated into tools, although, in my opinion this could bring enormous value to management. (Osterwalder, 2004). Therefore, Osterwalder (2004) and Osterwalder & Pigneur (2010) works are much appreciated by business practitioners because of their practical value. Although there is no widely accepted definition of the business model (BM) construct among academics, the Osterwalder Business Model Canvas (BMC) is used by many professionals (Verrue, 2014). The author has chosen BMC method based on personal judgment and large citation and reference base. BMC method has also been recognized by one of the leading scholars in business model field, Henry Chesbrough in his Chesbrough (2010) research.
BMC approach for this research originates from Osterwalder & Pigneur 2010 handbook “Business Model Generation: A handbook for visionaries, game changers and challengers,” which is co-developed with 470 practitioners from 45 countries. In a book review, Oliveira & Ferreira (2011, p. 4) has concluded: “This practical book is the result of rigorous research undertaken over the last decade and can be used as a handbook to improve business models. A major advantage of the book is its graphics, which communicate its message clearly, hand-in-hand with its straightforward narrative. The book will be of great assistance to students, researchers, and practitioners looking for “powerful, simple, tested tools” leading to superior business model implementations.”

The original full-scale business model mapping process recommended by Osterwalder & Pigneur (2010) on page 249 is modified to an extent which makes it relevant for the case, mainly considering the fact that it is the first business model mapping occasion for Chocokoo. However, the research process will identify needed next-step actions to meet the full-scale business model innovation process, but these steps are not in the scope of this research.

Osterwalder (2004) Business Model Ontology forms a fundamental and conceptual basis for Business Model Canvas (BMC) tool. Business Model Canvas model is a structured template, which consists of nine “building blocks” (Appendix 2). Business Model Canvas provides structure to facilitate exploration (Osterwalder & Pigneur, 2010), and works best when printed out on a large surface so groups of people can jointly start sketching and discussing business model elements with Post-it® notes or board markers (Osterwalder & Pigneur, 2010).

The author hereby also acknowledges some of the criticism towards BMC method. The main condemnation seems to be the fixed architecture and filling-in type of exercise. It does not explain the dynamics between the blocks (e.g. how activities contribute to value creation, or how key resources are accumulated through the activities) and by consequence only delivers a quick scan of the BM, there is also too much overlap between the blocks (Verrue, 2016). Also, the canvas may be useful in representing a business model, but it misses the key dynamic elements of working business models—it does not represent coherence (or the relationship among elements); it does not represent the competitive position (which is off the canvas); and it does not quantify the economic leverage points (Euchner & Ganguly, 2014).

As Chocokoo has been actively operating since 2015, inputs and discussions for business model mapping process are knowledge-based.
4. ANALYSIS AND EVALUATION

Action research for Chocokoo was organised in three phases (see section 3.1 for details). In-depth semi-structured interviewing of Kristel Lankots (business owner of Chocokoo) was used to gather data during each business model mapping workshop. The interview and discussions followed the order and structure of critical questions of Business Model Canvas (Appendix 2). A1 format chequered white board sheet of papers were used to outline Business Model Canvas structure. Altogether six business models were mapped during action research process (two corporate level business models, four sub-models for product and services ranges). Adhesive multi-coloured Post-it® notes and marker pens were used to take notes from discussions. The notes were structured on the canvas according to BMC structure (see photo in Appendix 4). All workshops involved two persons: the researcher and business-owner. Altogether, eleven business model mapping workshops were held with combined length of eighteen hours. The workshops occurred on November 18th, 24th, 25th, 27th, 28th, December 2nd, 13th, 15th, 22nd in 2018. Phase #1 took ten net work hours (55% of total net work hours) to complete. The main reason behind high time consumption of Phase #1 was the step-by-step learning process of how to use BMC method; and long discussions over Customer and Value Proposition elements. Phases #2 and #3 advanced much quicker, taking 60-90 minutes of discussions and mapping per business model.

The analysis of the research may lack objectivity due single interviewee. However, this is a typical challenge of micro sized start-up companies who are often low in human resources. To overcome this problem, the conclusions drawn during first cycle of action research, should be validated with external stakeholders during next cycle (not in the scope of this research). However, it must be acknowledged that Kristel Lankots contributed to research with high quality insights due to very active personal interaction with Chocokoo’s customers.

The analysis of the research focuses on explaining relationships between and inside the business model “building blocks”. Lucidchart mapping software was used to create visual diagrams, also referred as concept maps (Davies, 2011), to assess the logic of the model and build internal relationships. The overall logic of Chocokoo business model concept is explained of Figure 6. The visual diagrams are complemented with relevant comments about specific business model “building block”.

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4.1. Customer Segments

The longest discussions during business model mapping process were related to customer segments (Figure 7) and value proposition. It is vital to build thorough understanding about customers, because they are at the centre of any business model. Two distinctive customer macro segments were identified: business to business + institutional customers (referred as B2B) and business to consumer (referred as B2C). Both macrosegments have sub-segments. Altogether eleven distinctive segments based on their purchasing patterns and demands were identified. Each customer segment is linked to average value per purchase (AVP) and purchase frequency (PF). The ranges for AVP and PF scales were judgmentally determined due to lack of relevant
management controlling data. One of the conclusions about customer segments is that there is no single segment where high average purchase value is combined with high purchase frequency. B2B customers typically have high demand in November and December due to Christmas period. They usually place single order with high or very high value. Customer segments “Retail gourmet” and “On-board shops” have the biggest potential to become frequent shoppers with high average purchase value due to their reseller nature. Customer segment “Quality timers” is common both for B2B and B2C macro segments. High-value-low-frequency and High-frequency-low-value customer segments yield same revenue on annual basis.

The relationships between customer segments and portfolio will be explained in section 4.2.

**4.2. Products and services**

The portfolio of products and services (Figure 8), also explained in section 1.4., has three distinctive segments: own made products (bean-to-bar chocolates, chocolate bonbons and truffles) services (chocolate making workshops) and café. The production of own products, services and café is run in the same space on Telliskivi Street 33 in Tallinn. Combining so-called open production (chocolate smell, chocolatiers in action) with customer service area is critical for fulfilling customer experience.

Chocokoo bean-to-bar chocolates get their distinctive taste from specific cacao cultivar and also depends on the chemical composition of the soil and the climate of specific region. All Chocokoo bean-to-bar chocolate bars have only two ingredients: cocoa beans and unrefined cane-sugar. Low amount of organic cocoa butter will be added during conching to ease the start-up of the process. Chocokoo bean-to-bar chocolates are vegan friendly; and free of diary components and gluten. Chocokoo bean-to-bar chocolates do not contain any added food flavours.

Chocolate bonbons and truffles have more sophisticated composition compared to bean-to-bar chocolates. The shells of bonbons and truffles are made from Valrhona couverture which is then filled with Chocokoo own made ganache (fillings).

(continued on page 32)
Figure 7. Chocokoo customer segments
Source: the author.
Figure 8. Chocokoo products and services
Source: the author

Both bean-to-bar chocolates and bonbons & truffles go through carefully controlled tempering process which add specific shine and snap to chocolates. Bean-to-bar chocolates have storage life of 12 months while bonbons and bonbons & truffles have storage life of 30-45 days due to very fresh and natural components of the ganache. The length of storage life enables or restricts, depending on context, the product distribution in the marketplace. Chocokoo products are considered as premium type of products. The packaging concept of bonbons is simple and elegant without overprint. The packaging of bean-to-bar chocolates, as well as corporate design concept and logo design, is inspired from nordic mitten narrative.

Chocolate making workshops are offered in limited amount due space and human resource restrictions. The main role of workshops is to provide cash flow without significant incurring cost. The secondary role of workshops is to create customer awareness and enable product evaluation.

Each customer segment has its specific demands and needs. Therefore, customer segments are also linked to specific portfolio segment (Appendix 5).
4.3. Value Proposition

The relevance of Chocokoo for its customer segments was analysed during value proposition design process. Well designed and executed value proposition makes customers to turn to Chocokoo instead of its competitors.

The analysis process included mapping of customer “pains” and “gains”. The typical “gains” and “pains” of each customer segment were mapped during in-depth interview with Kristel Lankots. “Pains” (Appendix 6) represent something that annoys or prevents customer segment to achieve its goal. “Gains” (Appendix 7) represent the outcomes and benefits a customer segment wants or can be positively surprised about. “Pains” and “gains” were then grouped (Appendix 8), both according to the semantic interpretation of the researcher and the customer, into meaningful homogenous “clusters” with relevant keywords describing the “cluster”. The “clusters” formed the pillars of value proposition. Finally, the value proposition was composed by omitting the “clusters” meaningful short names with customer relevant descriptions (Figure 9). The clustering and naming also took into account the original vision of Kristel Lankots about the reason why Chocokoo was established in year 2015.

To point out, it came evident during the analysis process, also due to the significant share in revenues, that the typical needs of B2B customers about quick, easy and precise communication and accurate delivery, must be addressed separately in value proposition. As a result, “flexible and reliable” promise was defined. Flexibility is associated with high customisation what Chocokoo promises both to B2B and B2C customers.

“Trustworthy” promise is targeted specifically for diet conscious customers. During customer segmentation, it was identified that a lot of B2C customers turn up because Chocokoo bean-to-bar chocolate bars meet their diet restrictions (vegans, allergies, breast feeding mothers – were mentioned). Trust in food and trust in source of the food is ultimately critical for this segment.

Even though Chocokoo value proposition stands on six distinct pillars, each of them being more or less relevant depending on customer segment, the main identity of and the ultimate experience Chocokoo wants to offer its customers is “genuine indulgement”.

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Figure 9. Chocokoo value proposition
Source: the author
4.4. Channels

Channels describes how company reaches its customers to deliver value proposition. Channels have five phases which each has distinct role in customer communication and interaction.

During 2015-2018, the main focus of channel management (Figure 10) has been on building awareness on Chocokoo and its products and helping customers to conduct objective evaluation. Different social media channels (Facebook, Instagram, Google), activities and stakeholders (bloggers, influencers) have been utilised to push through relevant information. In order to make evaluation easier for potential customers, Chocokoo is open to customer feedback and ratings in social media channels.

Figure 10. Channels and phases
Source: the author
Social media communication is effective and affordable way to reach its potential and existing customers for Chocokoo also in future.

Naturally, own shop is the main channel for evaluation, purchase, delivery and after sales now and in the future. Chocokoo e-shop was launched in autumn 2018 and will be further promoted to take more distinct role in purchase phase in future.

To further point out, word-of-mouth and international product contests (related to awards and references described in next sections) have important roles in consumer communication. The channel phase which has the highest need of conceptualisation is “after sales”.

4.5. Customer Relationships

The dominating motivation of Chocokoo customer relationships (Figure 11) is about customer acquisition and retaining existing customers. The heart of customer relationship strategy is personal assistance of its customers. All customers in own shops receive full and thorough attention. All customer inquiries coming in through other channels (social media, e-mails, calls) are also handled personally. Personal assistance concerns e.g. product related information, designing customised customer-solutions.

The other distinctive category of customer relationships what co-exists with personal assistance is presence in specific communities which discuss specific topics. Being part of communities is also critical for participating discussions and building awareness and enabling evaluation of Chocokoo’s products and services. Chocokoo is part of global and local bean-to-bar, pastry chefs’ and chocolatier’s communities. Being present in specialist communities helps to benchmark competitors and latest developments in chocolate related areas.

During the discussions it was identified that self-service customer relationship strategy has to be developed, because personal assistance is very resource-consuming strategy. Well-designed company homepage with relevant information for various customer segments together with convenient e-shop solution is a critical enabler of self-service strategy. Altogether, it was also acknowledged during discussions that customer relationships “building block” in the business model must be much further conceptualised and developed.
4.6. Revenue Streams

Revenue streams are said to be the arteria of any business model. Chocokoo generates 99% of its revenues (Figure 12) from own-made products and services. 1% of revenues are received from brokerage fees for providing space to sell the products of selected local artists. The precise financial data about product segments was not sufficiently available during the research, however. Financial information was obtained from financial book-keeping which is not sufficient for management controlling purposes. A development action in terms of establishing proper controlling mechanism was agreed.
It was also identified that bean-to-bar chocolates have much more potential to grow both in absolute and relative terms. Longer storage period of bean-to-bar chocolates sets less restrictions on potential sales channels compared chocolate bonbons & truffles.

Figure 12. Chocokoo revenue streams  
Source: the author

It was estimated that the share of revenues from chocolate making workshops would rather decrease in foreseeable future. Although it is a target to keep the current number of workshops on existing level (20-25 workshops annually), the physical space sets critical restriction for growth. Production of chocolates and workshops share the same space. However, chocolate production is clearly prioritised over chocolate making workshops. Still, chocolate making workshops provide additional cashflow for the company without significant incurring costs.

4.7. Key Resources

Key Resources are the most important assets required to make business model work. Chocokoo’s identified key resources (Figure 13) are diverse: it has physical, human and intellectual assets. Most of the fifteen identified key resources are own, however, some are acquired from partners or leased. Chocokoo visual identity including logotype is considered one of the most important key resources representing fine design and is inspired by the shape of Nordic mitten. The packaging concept of Chocokoo bean-to-bar chocolate bars also carry the identity of Nordic mittens and all (continued on page 40)
Figure 13. Chocokoo key resources  
Source: the author
chocolate moulds have Chocokoo logo stamp (Appendix 9) representing outstanding product design.

Overall, the critical importance of human and intellectual key resources was highlighted during the interview and discussions. For example, “awards and references”, which are the nominations from domestic and international product contests are regarded as one of the most important intellectual key resources. The other utterly critical non-physical key resources are highly skilled chocolatiers who are creative and perfectionists. This resource is rare and carefully selects his/her employer.

To assess the relevance of identified key resources, each key resource was tried to link to at least one value proposition element (Appendix 10) and then judge if the resource makes sense. Overall it can be concluded that all identified key resources have critical importance to support value proposition and business model work. Each value proposition element is linked to at least three key resources.

It was also noted during interview that low amount of sales and marketing related key resources was identified. This problem was also marked as development area for Chocokoo business model.

4.8. Key Activities

Every business model calls for specific key activities to make it work. Altogether twelve key activities (Figure 14) in two main categories were identified. In any modern business, networking and learning are critical Networking also leads to open innovation and co-creation. The flexibility and high customisation promise highlights customer problem solving as one of the most important key activities for Chocokoo. It also proves customer centricity and outside-in mentality of the company. It is worth to mention that besides social media activity, the importance of window marketing was highlighted. The role of window marketing is, in first place, is to stimulate so-called wow-effect, raise curiosity and pull customers to own shop. Building bean-to-bar knowledge base calls for regular field trips to cacao farms it was discussed that one trip to any chosen specific region of the world in two years is sufficient for time being. Bonbon & truffle knowledge base calls for specific trade fairs visits to learn new trends and get inspiration.
Similarly, as was done with identified key resources, key activities were linked to value proposition elements to assess the relevance. Most of the identified key activities support “Genuine indulgement” element of value proposition. It is also worth to highlight that supporting dynamic capabilities which are linked to innovation and self-renewal, were sufficiently addressed in key activities linking to “Dynamic” element of value proposition.

Figure 14. Key activities and value proposition
Source: the author
4.9. **Key Partnerships**

The main motive, for Chocokoo, of establishing key partnerships is about acquiring resources and performing some of the key activities. Buyer-supplier relationship which ensures sufficient supplies is the main type of partnership Chocokoo has established. Identified key partnerships (Figure 15) support innovation and learning; sourcing of key raw materials and ingredients; and chocolate making equipment related to key activities or acquiring key assets. The partnership with globally recognised chocolatier Michel Willaume and Valrhona has been one of most critical success factors for Chocokoo. The roots and the heart of Chocokoo’s bean-to-bar concept are anchored to Costa Rica where a key partnership with one of the most prominent cocoa traders and the owner of local bean-to-bar business has been established. This partnership has also made it possible to visit various cocoa farms in Upala region in Costa Rica.

Chocokoo’s market power is still low to establish balanced and mutually beneficial strategic alliances or co-opetition setups.

4.10. **Cost Structure**

Chocokoo is extremely cost conscious, but its cost structure (Figure 16) is value driven. Chocokoo has premium value proposition and high degree of customised solutions. Most of the incurred costs are related to running the company on daily bases. Most important fixed costs are rent, utilities and salaries. Variable costs are related direct materials for production. However, to keep the knowledge base up-to-date and being aware of latest industry trends and innovations, takes a lot of networking and travelling. Chocokoo runs open-innovation model which has also significant costs related to.

4.11. **Chocokoo Business Model**

Building on the outcome of business model mapping workshops, followed by the analysis of nine “building blocks” in previous sections, the researcher hereby proposes Chocokoo business model as represented in a concept map on Figure 17.
Figure 15. Chocokoo key partnerships
Source: the author
Figure 16. Chocokoo cost structure
Source: the author
Figure 17. Chocokoo business model

Source: the author
4.12. Main development areas in Chocokoo business model

During the business model mapping workshops with Kristel Lankots and further analysis of business model “building blocks” altogether six development areas were identified:

1. Revenues from customer segments “Retail gourmet” and “On-board shops” have significant growth potential. Relevant customer relationship development activities must be initiated;

2. Customer relationship building block, combined with further acquisition of sales and marketing key resources, needs much more conceptualising to ensure continuous growth of the business, primarily through customer acquisition;

3. Chocokoo web-page and e-shop must be developed further to improve overall operating efficiency through self-service type of customer relationship;

4. Revenues from bean-to-bar portfolio have significant growth potential due to long storage life and strong references;

5. Current key resource “premises” restricts further growth due to its unsuitable configuration for installing new chocolate-making equipment; and limitation of physical space which restricts to acquire more customers from “Quality timers” segment;

6. Chocokoo does not have sufficient data for portfolio and profitability analysis. Business controlling capabilities and resources must be acquired.
5. CONCLUSION AND KEY INSIGHTS FROM ACTION RESEARCH

This thesis is conducted in the field of business model domain. It clarifies the “fuzz” around business model term by reviewing various academic literature. The research strategy of the thesis is action research. The main goal the research is about mapping and analysing the business model of Chocokoo Chocolaterie using popular Business Model Canvas approach. The research has very high relevance for the author, because Chocokoo Chocolaterie is his family-owned firm. The research is a major milestone in the history of Chocokoo which is about to leave from “prototyping” phase into scale-up phase.

The literature review has found out that agreeing precise definition of business model term is challenging even for scholars. It can be generalised that business model is a set of dynamically linked components which describes a money earning logic of a firm at a given time. The literature review also points out that three value related dimensions are central to any business model concepts: value proposition, value creation and value capture. The main goal of business model is to create and capture value to its main stakeholders. It has also been noted that the value of well-designed business model contributes to employee communication who can feel themselves more relevant by seeing larger context of the company.

Resource-based view and dynamic capabilities strategic management paradigms have both been suggested as suitable for business model domain. Dynamic capabilities, especially, are linked to the firm’s ability to renew and innovate its business model. Hence, creating value for its main stakeholder over extended period of time.

Significant confusion has been around strategy and business model. The literature review concludes that business model does not replace strategy. Strategy is about building dynamic capabilities which constantly innovate business model so that firm sustains competitiveness.

Business model concepts differ from each other by variations in complexity. Although academic literature acknowledges the importance of business model management, it offers limited choice of
practical tools for practitioners Even though there is not a common agreement on business model concept, Alexander Osterwalder’s and Yves Pigneur’s Business Model Canvas method has been recognised and used by many business professionals. Solid structure, well explained relationships and dynamics between business model elements, good visuals are the characteristics of a good business model representation.

The action research approach for Chocokoo was done in three phases, including eleven business model mapping workshops with eighteen net work hours. All workshops were based on in-depth semi-structured interviews with Kristel Lankots, the founder of Chocokoo Chocolaterie. The notes from the interviews were structured onto Business Model Canvas templates. The researcher decided to use “bundle-unbundle-bundle” technique between phases. The first phase, the lengthiest of the three phases, was about getting familiar with Business Model Canvas framework. Business model was discussed and mapped as a full “bundle” of its products and services. The second phase unbundled Chocokoo into four portfolio segments. For each unbundled segment, business model was discussed and mapped as it would have been a separate firm. Third phase validated business model for Chocokoo through the analysis process. The decision to use bundle-unbundle-bundle technique was definitely a very right thing to do, because it created additional depth and focus, which lead to findings what remained unidentified during first cycle with “bundled” approach. The author hereby strongly recommends bundle-unbundle-bundle approach to any business practitioner about to conduct first business model mapping for a firm.

According to Kristel Lankots, the founder of Chocokoo, the ultimate value what Business Model Canvas approach delivered was structured discussion on business logic of the company, dynamics and relationships between “building blocks”, but ultimately, she was able to see the development needs in larger context. Altogether six business model development areas were identified during the research process.

From researcher perspective, the advantage of Business Model Canvas method comes from its ready-to-be-used nature, well designed structure and predefined questions to conduct in-depth interviews or facilitate discussions. The shortcomings of BMC approach, especially when using paper canvas, is its limited possibilities to describe relationships and dynamics between “building blocks”. To overcome that problem, the use of mapping software is strongly recommended. However, the use of paper canvas and adhesive notes stimulates creativity and human interaction during brainstorming.
The next cycle of business model action research for Chocokoo should validate customer “pains” and “gains” through customer interviews or questionnaires in order to improve the relevance value proposition; analyse current business model against competition; and assess the effect of development actions. The handbook “Business Model Generation”, the source of Business Model Canvas method, contains predefined method to analyse business models against external environment.

The author hereby admits that action research process which has had high personal relevance, was personally a fulfilling experience and a best way to finish master’s studies of business administration. It truly created value for “human purposes”. 
6. KOKKUVÕTE


Kirjanduse ülevaate peatükis selgus, et ärimudel mõiste ühene määratlemine on osutunud akadeemilise kogukonna jaoks keeruliseks ülesandeks. Üldistades on siiski võimalik väita, et ärimudel on erinevate moodulite ja seostest koosnev dümäraaline süsteem, mis kirjeldab ettevõtte rahase teenimise loogikat ning konkreetsel ajahetkel. Ärimudelite erinevate konseptsioonidele on üldjuhul omased kolm väärtusloomega seotud mõõdet: väärtuspakkumine (value proposition), väärtuse tootmine/genereerimine (value creation), kasumi teenimine (value capture). Ärimudelis põhiliseks funktsiooniks on luua väärtust ettevõttega seotud põhilisteid sidusrühmadele (omanikele, klientidele, töötajatele, varustajatele jne.). Kirjanduse ülevaatest selgus muuhulgas, et hästi koostatud ärimudeli esituse võimaldab nõuskoostööd ja sellega seonduv kommunikatsioon tõstab töötajate motivatsiooni, sest nii mõistavad nad ettevõtte toimimist ning isikliku rolli ettevõtte teavikpildis oluliselt paremini.

Ärimudelite teoreetiliseks käsitlemiseks sobivad kõige paremini strateegilise juhtimise kaks olulist paradigm, ressur sipöhine teoria ja dümäraliste võimekuste teoria. Ettevõtte dümäralised võimekused tagavad ärimudeli jätkuva innoomeerimise ning seeläbi väärtuse stabiilse loomise pikas perspektiivis.

Ärimudel ja strateegia mõistet kasutatakse tihtipeale samaväärselt. Siiski on jõutud konsensusele seisukohas, et ärimudel ei asenda äristrateegiat. Ettevõtte äristrateegia eesmärk on pidevalt
arendada ettevõtte dünnaamilisi võimekusi, mis on vajalikud ärimudeli uuendamiseks ning seeläbi tagades ettevõtte pikaajalise konkurentsivõime.

Erinevate ärimudelite kontseptsioonide keerukus varieerub oluliselt. Kuigi akadeemiline kirjandus tunnistab ärimudelite juhtimise olulisust, ei ole suudetud praktikutele luua konkreetseid raamistikke. Ärimudeli väga hea esituse tunnusteks on konkreetne struktuur, selgelt kirjeldatud seosed ning dünnaamikad mudeli komponentide vahel, ja selge visuaal. Kuigi ärimudeli mõiste osas puudub endiselt ühene konsensus, on Alexander Osterwalderi ja Yves Pigneuri loodud ärimudeli lõuendi kontseptsioon leidnud praktikute seas laialdast kasutamist.


Chocokoo asutaja Kristel Lankotsa sõnul seisnes tema jaoks kõige suurem väärus ärimudeli arendamise protsessis struktureeritud aruteludes, mille käigus selgitati välja ettevõtte üldine äriloogika (tervikpilt) ning identifitseeriti konkreetsed ärimudeli parendamise vajadused. Kokku tuvastati kuus eelkäijatulevust, mille tulemusena oli võimalik koguda täpsemad andmed. Autor soovitab tegevusuuringu teemast välja tuua mõned esmaturu-lehed, mida võiks kasutada ettevõtte jaotamisel ja mida võiks kasutada ärimudeli arendamisel.

Tegevusuuringu läbiviija seisukohast seisnes ärimudeli lõuendi raamistikku eelis tema selges struktuuris ning ettevalmistatud küsimustes, mille abil oli suhteliselt lihtne teostada poolstruktureeritud süvaintervjuud. Ärimudeli loendi puudusena tuleb välja tuua tema nõueid, mille abil võiks ettevõtte ülesehitada ja arusaadavalt kirjeldada seoseid.
erinevate moodulite vahel. Selle probleemi lahendamiseks soovitab autor tegevusuuringu läbivijal kasutada spetsiaalset arvutitarkvara, mis võimaldab mudelisisesid seoseid analüüsida ja taasesitada. Paberlõuendi ja isekleepuvate märkmepaberite kasutamine ajurünnaku ajal on siiski oluline, sest selline tehnika stimuleerib loovust ja vastastikust diskussiooni.

Autor soovitab tegevusuuringu järgmistes tsüklites valideerida Chocokoo vääruspakkumise moodustamise aluseks olevad eeldused kliendiküsitleuste ja analüüsi kaudu. Täiendavalt tuleb Chocokoo ärimudelit analüüsida lähtuvalt konkurentsi kontekstist ja muudest väliskeskkonna teguritest. Samuti tuleks analüüsida esimeses tsüklis identifitseeritud parendustegevuste rakendamise mõju ettevõtte tulemustele ja seejärel otsustada edasised ärimudeli arendamisega seotud tegevused.

Autori jaoks oli tegevusuuringuprotsess väga positiivne kogemus ning konkreetsete teadmiste pealt jääkub Chocokoo ärimudeli arendamine ettevõtte igapäevatöö osana.
LIST OF REFERENCES


Adelakun, K. H. (2014). The Role of Business Model Innovation in the Commercialization Strategies in SMEs. OULU BUSINESS SCHOOL.


## APPENDICES

### Appendix 1. A selection of business model definitions

<table>
<thead>
<tr>
<th>Authors</th>
<th>Definition of business model</th>
<th>Business model elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timmers (1998, p. 4)</td>
<td>“an architecture for the product, service and information flows, including the various business actors and a description of the sources of revenues”</td>
<td>not available (n.a.)</td>
</tr>
<tr>
<td>Mahadevan (2000, p. 59)</td>
<td>“a unique blend of three streams that are critical to the business. These include the value stream for the business partners and the buyers, the revenue stream, and the logistical stream”</td>
<td>n.a.</td>
</tr>
<tr>
<td>Linder and Cantrell (2000, p. 1)</td>
<td>“the organization’s core logic for creating value. The business model for a profit-oriented enterprise explains how it makes money.”</td>
<td>n.a.</td>
</tr>
</tbody>
</table>
| Amit and Zott (2001, p. 4)      | “A business model depicts the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities.”                                                                    | • Content of transactions  
• Structure of transactions  
• Governance of transactions  
• Value creation design |
| Chesbrough and Rosenbloom (2002, p. 532) | “The business model provides a coherent framework that takes technological characteristics and potentials as inputs, and converts them through customers and markets into economic inputs. The business model is thus conceived as a focusing device that mediates between technology development and economic value creation.” | • Value proposition  
• Market segment  
• Structure of value chain  
• Cost structure and profit potential  
• Position within value network  
• Competitive strategy |
| Magretta, (2002, p. 4)          | “The business model tells a logical story explaining who your customers are, what they value, and how you will make money in providing them that value.”                                                                              | • Customer definition  
• Value to customer  
• Revenue logic  
• Economic logi |
<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Definition / Key Components</th>
</tr>
</thead>
<tbody>
<tr>
<td>Osterwalder et al. (2005, p. 17)</td>
<td>“A business model is a conceptual tool that contains a set of elements and their relationships and allows expressing the business logic of a specific firm. It is a description of the value a company offers to one or several segments of customers and of the architecture of the firm and its network of partners for creating, marketing, and delivering this value and relationship capital, to generate profitable and sustainable revenue streams.” • Value proposition • Target customer • Distribution channel • Relationship • Value configuration • Core competency • Partner network • Cost structure • Revenue model</td>
</tr>
<tr>
<td>Shafer, Smith, and Linder (2005, p. 202)</td>
<td>“Business is fundamentally concerned with creating value and capturing returns from that value, and a model is simply a representation of reality. We define a business model as a representation of a firm’s underlying core logic and strategic choices for creating and capturing value within a value network.” • Strategic choices (e.g. customer, value proposition, capabilities, pricing, competitors, offering, strategy) • Create value (incl. resources/assets, processes/activities) • Capture value (incl. cost, financial aspects, profit) • Value network</td>
</tr>
<tr>
<td>Tikkanen, Lamberg, Parvinen, and Kallunki (2005, p. 792)</td>
<td>“We define the business model of a firm as a system manifested in the components and related material and cognitive aspects. Key components of the business model include the company’s network of relationships, operations embodied in the company’s business processes and resource base, and the finance and accounting concepts of the company.” • Material aspects: strategy and structure, network, operations, finance and accounting • Belief system: reputational rankings, industry recipe, boundary beliefs, products</td>
</tr>
<tr>
<td>Voelpel, Leibold, Tekie, and von Krogh (2005, pp. 261–262)</td>
<td>“The particular business concept (or way of doing business) as reflected by the business’s core value proposition(s) for customers; its configurated value network(s) to provide that value, consisting of own strategic capabilities as well as other (e.g. outsourced/allianced) value networks and capabilities; and its leadership and governance enabling capabilities to continually sustain and reinvent itself and satisfy the multiple objectives of its various stakeholders (including shareholders).” • Customer value propositions • Value network configuration • Sustainable returns for stakeholders</td>
</tr>
<tr>
<td>Source</td>
<td>Definition</td>
</tr>
<tr>
<td>--------</td>
<td>------------</td>
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</tbody>
</table>
| Chesbrough (2007, p. 12) | “The business model performs two important functions: value creation and value capture. First, it defines a series of activities, from procuring raw materials to satisfying the final consumer, which will yield a new product or service in such a way that there is net value created throughout the various activities. Second, a business model captures value from a portion of those activities for the firm developing and operating it.” | • Value proposition  
• Target market  
• Value chain  
• Revenue mechanism  
• Value network or ecosystem  
• Competitive strategy |
| Johnson, Christensen, and Kagermann (2008, p. 52) | “A business model consists of four interlocking elements (customer value proposition, profit formula, key resources, key processes) that taken together create and deliver value.” | • Customer value proposition (incl. target customer, job to be done, offering)  
• Profit formula (incl. revenue model, cost structure, margin model, resource velocity)  
• Key resources  
• Key processes (incl. metrics, rules and norms) |
| Zott and Amit (2010, p. 219) | “We have defined the business model as depicting the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities.” | • Structure of transactions  
• Content of transactions  
• Governance of transactions |
| Santos et al. (2009, p. 11) | “A business model is a configuration of activities and of the organizational units that perform those activities both within and outside the firm designed to create value in the production (and delivery) of a specific product/market set.” | • A set of elemental activities  
• A set of organizational units performing the activities  
• A set of linkages between the activities  
• A set of governance mechanisms for controlling the organizational units and the linkages between the units |

Source: Saebi & Foss (2015, p. 203)
## Appendix 2. Nine Building Blocks of Business Model Canvas

<table>
<thead>
<tr>
<th>Building Block</th>
<th>Description</th>
<th>Critical questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer segments</td>
<td>Defines the different groups of people or organizations an enterprise aims to reach and serve. An organization serves one or several Customer Segments.</td>
<td>For whom are we creating value? Who are our most important customers?</td>
</tr>
<tr>
<td>Value proposition</td>
<td>Describes the bundle of products and services that create value for a specific Customer Segment. It seeks to solve customer problems and satisfy customer needs with value propositions.</td>
<td>What value do we deliver to the customer? Which one of our customer’s problems are we helping to solve? Which customer needs are we satisfying? What bundles of products and services are we offering to each Customer Segment?</td>
</tr>
<tr>
<td>Channels</td>
<td>Describes how a company communicates with and reaches its Customer Segments to deliver a Value Proposition. Value propositions are delivered to customers through communication, distribution, and sales Channels.</td>
<td>Through which Channels do our Customer Segments want to be reached? How are we reaching them now? How are our Channels integrated? Which ones work best? Which ones are most cost-efficient? How are we integrating them with customer routines?</td>
</tr>
<tr>
<td>Customer Relationships</td>
<td>Describes the types of relationships a company establishes with specific Customer Segments. Customer relationships are established and maintained with each Customer Segment.</td>
<td>What type of relationship does each of our Customer Segments expect us to establish and maintain with them? Which ones have we established? How costly are they? How are they integrated with the rest of our business model?</td>
</tr>
<tr>
<td></td>
<td>Description</td>
<td>Questions</td>
</tr>
<tr>
<td>----------------</td>
<td>-----------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Revenue Streams</td>
<td>Represents the cash a company generates from each Customer Segment (costs must be subtracted from revenues to create earnings). Revenue streams result from value propositions successfully offered to customers.</td>
<td>For what value are our customers really willing to pay? For what do they currently pay? How are they currently paying? How would they prefer to pay? How much does each Revenue Stream contribute to overall revenues?</td>
</tr>
<tr>
<td>Key Resources</td>
<td>Describes the most important assets required to make a business model work. Key resources are the assets required to offer and deliver the previously described elements.</td>
<td>What Key Resources do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue Streams?</td>
</tr>
<tr>
<td>Key Activities</td>
<td>Describes the most important things a company must do to make its business model work. These are the most important actions a company must take to operate successfully.</td>
<td>What Key Activities do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue Streams?</td>
</tr>
<tr>
<td>Key Partnerships</td>
<td>Describes the network of suppliers and partners that make the business model work. Some activities are outsourced and some resources are acquired outside the enterprise.</td>
<td>Who are our Key Partners? Who are our key suppliers? Which Key Resources are we acquiring from partners? Which Key Activities do partners perform?</td>
</tr>
<tr>
<td>Cost Structure</td>
<td>Describes all costs incurred to operate a business model. The business model elements result in the cost structure.</td>
<td>What are the most important costs inherent in our business model? Which Key Resources are most expensive? Which Key Activities are most expensive?</td>
</tr>
</tbody>
</table>

Source: Osterwalder & Pigneur, 2010
# Appendix 3. Research Journal

<table>
<thead>
<tr>
<th>Research journal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thesis title: BUSINESS MODEL MAPPING: ACTION RESEARCH APPROACH FOR CHOCOKOO CHOCOLATERIE</td>
</tr>
<tr>
<td>Researcher: Asso Lankots</td>
</tr>
<tr>
<td>Customer: Kristel Lankots (Chocokoo Chocolaterie)</td>
</tr>
</tbody>
</table>

**PLANNED SCHEDULE (add rows)**

<table>
<thead>
<tr>
<th>Phases (What, when)</th>
<th>Activities, objectives</th>
<th>Milestones (dd/mm/yyyy)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase #1</td>
<td></td>
<td></td>
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<tr>
<td>Phase #2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Phase #3</td>
<td></td>
<td></td>
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</tbody>
</table>

**RESEARCH PROCESS**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Description, notes, learnings, elapsed time</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Researcher’s signature: 

Customer’s signature: 

Date: 

Source: the author
Appendix 4. Structured notes on business model canvases

Source: the author
Appendix 5. Customer segments to portfolio relationships

Source: the author
Appendix 6. Customer “pains” of Chocokoo customers

Source: the author
Appendix 7. Customer “gains” of Chocokoo customers

Source: the author
Appendix 8. Clustering of “pains” and gains

Source: the author
Appendix 9. Chocokoo brand

Source: Chocokoo Chocolaterie
Appendix 10. Relationships between key resources and value proposition elements

Source: the author