

Is There a Need for a Cooperative Business Model Canvas?

Mohammad Noorizzuddin Nooh

Faculty of Economics and Muamalat, Universiti Sains Islam Malaysia (USIM), Bandar Baru Nilai, 71800 Nilai, Negeri Sembilan Malaysia

Abstract: As of June 2019, there are 14,094 cooperatives that are registered under the Malaysian Cooperative Commission with a total membership of 6,068,570. The contribution of the cooperative towards the community development is significant especially in the socio-economic impact. The cooperatives are operated based on the values and principles that revolve around the economic well-being of the society. A high percentage of businesses has failed during their startup period but this phenomenon can be reduced to a minimum if the can understand their business model. In Malaysia, one of the most common strategic tools used to gauge the business model of a company is Business Model Canvas (BMC) by Alexander Osterwalder. Although its use is widespread among startup businesses, the concept of BMC strategic tools in the context of cooperative business in Malaysia has not been thoroughly evaluated especially when it comes to the application by the cooperatives. This paper will examine the 9 buildings block in BMC and evaluate their compatibility towards the cooperative sector in Malaysia. The author will give suggestions on improving the current BMC to best suit the cooperative sector.

Keywords: Business Model Canvas; Social Enterprise; Cooperative,

I. Introduction

I.1. Cooperative

Cooperative movement is not a new phenomenon. In fact, in developed countries, the cooperative movement has contributed significantly in the GDP of their respective countries, both competing in the local and international market and is recognized as the engine of economic growth. Hillbom (1997) proclaims that cooperatives could play a major role in the process of EU enlargement. According to International Co-operative Alliance, "A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise" (ICA, 2019). In practice, the cooperative movement is characterized by uncertainty and by multiole interdependent agent's with different short and long-term interests (Chlopkova, 2002).

The cooperative sector in Malaysia has a wide array of economic involvement in the society and it covers credit, agriculture, consumer, banking, services, construction, transportation and housing industries. The first cooperative was set up in Malaysia back in 1922 is Syarikat Bekerjasama Jimat Cermat dan Pinjaman Wang Pekerja-pekerja Jabatan Pos dan Telekom Berhad with 175 members (Zohdi & Salleh, 2016, p. 19).

According to the National Cooperative Policy 2010-2020, the policy gives new structure to the cooperative movement by drawing the cooperative out of the comfort zone trap. The previous National Cooperative Policy 2002-2010 was focusing on redeveloping the cooperative in Malaysia (Othman, Mohamad, & Abdullah, 2013). The cooperative should not expect government grants and awards but are able to engage in activities on a larger scale, expanding the value chain, applying modern technology and dare to explore new areas of high value (Suruhanjaya Koperasi Malaysia, 2010). The cooperative

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sector is placed as the third crucial economic driving force in Malaysia by the government (Othman, Mohamad, & Abdullah, 2013).

1.2 Business Models

In order to have a sustainable business, entrepreneurs have to have a business model a guidance. Business models can play a role in explaining the firms performance (Polakava, Kolackova, & Ticha, 2015). Joseph et. al. (2011) argued that a business model includes all aspects of a company's approach to developing a profitable offering and delivering it to target customers. This includes identifying the target customers, understanding the customers' need, identifying products or services to be offered to the customers, delivering the products or services to the customers, and finding way to earn profits.

Timmers (1998) on the other hand describes a business model as an architecture for product and service flows including a description of the business activities and its source of income. The similarity between these two definitions of business model is that both covers the whole supply chain of the business. On the other hand, Drucker (1989), Hitt, Ireland and Hoskisson (2002), and Tid, Bessent and Pavitt (2005) have a different perspective in defining a business model. In defining a business model, all of them include innovation and invention as a medium to satisfy customers' needs. Chesbrough (2003) defines a business model a way to promote ideas, thoughts, processes and research in order to improve product development, provide better services to customers, increase efficiency and enhance the value added from external partnerships. The effectiveness of a business model is defined by the internal configuration fit between provider's and customer's business models (Nenonen & Storbacka, 2010). All in all, it can be concluded that all of the definitions emphasize on the importance to achieve customers' satisfaction by using both internal and external resources. All models directly or indirectly imply that the company's competitive advantage which is created through a series of unique competencies is the imperative measure of evaluating the company's business model (Cleverism, 2019). Osterwalder (2005) concluded that researches in business model as a whole advances more slowly than it could and often remains at a superficial level.

1.3 Cooperative and Business Model

When a business is having a problem, one of the immediate response is to look to its business model (Ovans, 2015). The same is true when it comes to cooperatives. Budiman and Hayati (2016) listed eight critical success factors of cooperatives in Malaysia which include good leadership, resources management, internal control system, sensitive to opportunity, clear vision and mission, involvement and support from the members, enterprising culture, and good communication. Currently, the contribution of the cooperatives towards the GDP calculation is relatively low and this weak performance has raised concerns about the factors affecting the cooperatives ability to overcome their shortcoming through effective policy implementation (Hammad, Mahazril, Yacob, Abdullah, & Ah, 2016). In 2008, the contribution of the cooperative sector towards the GDP was 1.4 percent (Noordin, Rajaratnam, Said, Juhan, & Hanif, 2011).

Cooperative management should be regarded as a team consisting of four elements; members, board of directors, the manager and other responsible employees (USDA, 1994). The members of the board of directors in cooperatives come from different background but share the same inspirations. Sometimes this diversity will cause a bleak future for the cooperative. A strong management tied with a strong leadership, when paired with a good business model will produce a good economic result for the cooperative.

In Malaysia, the Malaysia Institute of Cooperatives (MIC) has been given the responsibility to conduct and monitor the training aspect of the Malaysia cooperatives (Institut Koperasi Malaysia, 2019). In conducting trainings on business models for cooperative, MIC is using the Business Model Canvas (BMC) as a template. MIC has slotted three BMC training sessions in its 2019 training calendar and the sessions have been listed as advanced trainings for the board of directors and the management team (Institut Koperasi Malaysia, 2019).

1.4 The Business Model Canvas

Business Model Canvas is a method of analyzing, designing, strategizing and testing a business model based on nine business areas (Ariffin & Hamidon, 2017). It describes the rationale of how an organization creates, delivers and captures value. This model is preferred by the practitioners especially in the developing countries because the examples are illustrated pictorially supplemented by exercises and workshop scenarios (Oliveira & Ferreira, 2011). There are nine buildings blocks in a Business Model Canvas as described in Figure 1; Customer Segment, Value Propositions, Channels, Customer Relationships, Revenue Streams, Key Resources, Key Activities, Key Partnerships and Cost Structure (Martin, 2019). One of the reasons BMC was created was due to the need of a business model concept that

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everybody understands: one that facilitates descriptions and discussion (Ching & Fauvel, 2013). BMC has been developed within the paradigm of lean production where it is a special management approach focused on the regular identification and elimination of losses, setting the production processes of the client-oriented equality (Dudin, Lyasnikov, Leont'eva, Reshetov, & Sidorenko, 2015).



Figure 1: Business Model Canvas (downloaded from <https://www.thestrategroup.com.au/business-model-canvas/>)

Table 1 summarizes the 9 BMC building blocks. BMC starts from identifying the customer segment. It emphasizes on the notion that an organization should be able to identify one or several customer segments. This exercise will help the organization to understand which customer segments bring the most revenue to the organization. From the customer segments, then it moves to value propositions where an organization should seek to solve customer problems and satisfy the customer needs through providing values bundled with its products or services. After the value propositions have been identified, organizations have to focus on ways to deliver the values to the customers. Values can be delivered through communication, distribution and sales channels. After identifying the right channels for the right customers, organization can start building and maintaining relationship with each customer segment.

Sometimes organization do not have a clue on types of resources they have or need in order to satisfy their customer needs. Identifying key resources is one of the important elements in BMC. In addition, by identifying key activities involved, resources can be utilized at an optimum level. Realizing that some activities are outsourced and some resources are acquired outside of the organization, BMC has included the element of Key Partnership to specifically address these issues. The last building block in BMC is Cost Structure. It calculates all the cost involved in the organization.

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Buildings Blocks	Descriptions	Questions
Customer Segments	Different groups of people or organizations an enterprise aims to reach and serve	<ol style="list-style-type: none"> 1. Which classes are you creating values for? 2. Who are your most important customers?
Value Propositions	The bunde of products and services that create value for a specific Customer Segments	<ol style="list-style-type: none"> 1. What core values do you deliver to the customers? 2. Which customers needs are you satisying?
Channels	How a company communicates with and reaches its Customer Segments to deliver a Value Proposition	<ol style="list-style-type: none"> 1. Through which channels do your customers want to be reached? 2. Which channels work best? 3. How much do they cost? 4. How can they be integrated into your and your customers' routine?
Customer Relationships	The types of relationships a company establishes with specific Customer Segments	<ol style="list-style-type: none"> 1. What kind of relationship does the target customers expect you to establish? 2. How can you integrate that into your business in terms of cost and format?
Key Partnerships	The network of supliers and partners that make thebusiness model work	<ol style="list-style-type: none"> 1. Who are the key partners/suppliers? 2. What are the mtivations for the partnership?
Key Activities	The most important things a company must do to make its business model work	<ol style="list-style-type: none"> 1. What key activities does your value proposition require? 2. What activities are the most important in distribution channels, customer relationship dan revenue streams?
Key Resources	The most important assets required to make a businessmodel work	<ol style="list-style-type: none"> 1. What key resouces does your value proposition require? 2. What resources are the most important in distribution channels, customer relationship and revenue stream?
Cost Structure	All costs incurred to operate a business model	<ol style="list-style-type: none"> 1. What costs the most in your business? 2. Which key resources/activities are the most expensive?
Revenue Stream	The cash a company generates from each Customer Segment	<ol style="list-style-type: none"> 1. What is the value that your customers are willing to pay? 2. What and how do they recently pay? 3. How would they prefer to pay? 4. Wha kind of activities and services that you offer that generate income for your company?

Table 1: Business Model Canvas Building Blocks (Osterwalder & Pigneur, Business Model Generation, 2010)

II. Methodology

The objective of this paper is to evaluate the application and compatibility of BMC on the cooperatives in Malaysia. In order to answer the questions of compatibility and the applicability of BMC in the cooperative sector, this paper is exploratory in nature because it aims t obtain insight and knowledge about a particular phenomenon. A combination of document and online review is used to further explore a broader view on strengths and limitations of BMC. This is

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further supported by the author's experiences as a board member for Cooperative Institute of Malaysia (CIM) for two terms (2016-2017 and 2018-2019). One of CIM's functions is to advise the ministry on affairs pertaining the development of human talent in the Malaysian cooperative sector (Institut Koperasi Malaysia, 2019).

III. Discussions

III.1. Cooperative Members are Also Its Customers

For cooperatives, customers can come from external and internal sources. Cooperative members are examples of its internal customers. BMC only caters to external sources of customers. For cooperatives, apart from normal customers, their members also purchased or subscribed to their products and services. For example, credit cooperatives only give loans to its members. Loans are not given to external customers. In another example, cooperatives that are involved in retail industries sell their products to external customers and also their members. BMC also focuses on prioritizing the customers and in cooperative sector this will be a latent dilemma because as mentioned earlier, their members are also their customers. Questions such as, "Should we emphasize more on external customers because they bring in more revenue" or "Should we emphasize more on our member because they pay their membership fee?" will linger around the issue of customers' prioritization. To carefully handle this issue, the customers segment should be divided into two; internal customers (members) and external customers.

III.2. Value Propositions For Its Members

Value propositions should be developed based on the customer segment in mind, since one will continually develop the other throughout the BMC process. As mentioned earlier, cooperatives members are also their customers. A differentiation between types of values given to external and internal customers should be further look into. For an example, if the cooperative is classified as retail cooperative, low prices might be one of the values seek by the customers. On the other hand, cooperatives members might have a different perspectives on values that they required by joining the cooperatives. Values for them can come in the forms of high dividend yields or other perks specifically targeted for those who joined that particular cooperatives.

III.3. Building Relationships with Its Members

In BMC, Customer Relationship only focuses on the relationship between the business and its customers. Cooperative members play an integral part in a cooperative. BMC does not cater to building relationship between the cooperative and its members. Other than building relationship with members, cooperative should also focuses on maintaining relationships with existing members. Trust is a very important element in maintaining existing members. Members will feel secured if their interests are protected by the cooperative. One of the methods to protect the members' interest is through maintaining a steady stream of annual dividend. A cooperative that did not maintain a steady stream of annual dividend will begin to lose trust from its member and this will result in increasing numbers of members leaving the cooperative thus will hinder new recruitments of members into the cooperative. This phenomenon is true in a credit cooperative. When the fund used to give out loans dwindled, the numbers of members will reach its plateau and begin to decline substantively.

III.4. Types of Cooperatives

In the National Cooperative Policy 2010-2020, the government has laid out five key economic areas of the Malaysia cooperative; financial services, wholesale and retail, tourism, personal care and health, agriculture and agricultural-based industry, and farming (Suruhanjaya Koperasi Malaysia, 2010). Different types of cooperatives based on the different key economic areas will have different approaches to these nine buildings blocks. Inadvertently, an additional buildings block to cater type of businesses will help the cooperative to clearly chart their business model.

As a suggestion for future research, the author suggests that a new Business Model Canvas tailored for the cooperative sector to be developed by incorporating aspects such as value propositions for cooperative members and dissecting the

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customer segment into two parts; external (customers) and internal (members). It should also incorporate the elements of relationship buildings in the model. Due to the diverse nature of cooperatives in Malaysia, it should also include types of cooperatives in the model.

IV. Conclusions

This paper contributes to the practical applications on the ideal type of business model and corresponding business model tool specifically for the cooperatives. Furthermore, this research contributes to the awareness of limitations of BMC which in the future will optimize business model design process. All in all, it provides on the improvements of business model tools and in particular to the BMC.

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