Changing Business Model
Traditional X Gourmet Bakeries

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Abstract: Focusing on the Business Model Canvas (Osterwalder & Pigneur, 2010), this paper presents an analysis of the bakery industry in Sao Paulo, Brazil, based on the 9 blocks that support the model proposed by the authors. In Sao Paulo, two distinct models of bakeries have recently been identified: traditional and gourmet. Interviews were conducted with representatives of both models, with questions directed to each of the 9 building blocks of the Business Model Canvas. Subsequently, a survey was applied to the customers of the researched bakeries in order to validate the perception of value delivered. After analysis, differences between Value Proposition (bakeries), and perceived value (customers) have been found in these bakeries. Then we made a triangulation of market information x analysis x theories of business model to bring to light the current market scenario.

Key-words: bakery. Business Model Canvas. reshaping industry. strategy

Introduction

According to a survey conducted by ECD Food Service (Donna, 2011), the consumption in bakeries in big Brazilian capitals, specifically in Sao Paulo, showed an expressive increase in the last few years due to the integration in the value delivery based on three pillars - bakery; cakeshop; & resale food service - that represent what is currently known in Brazil as “gourmet bakery”. The concept of “gourmet”, according to the Dicionário Aurélio da Língua Portuguesa, a reputable Brazilian-Portuguese dictionary, is associated to the high quality of the product intended for cooking. In the case of bakeries, the idea is of a premium environment that goes beyond a simple cup of coffee with milk and some bread and butter, a traditional meal amongst Sao Paulo residents.

As Veja Sao Paulo Magazine (2010) pointed out in a special edition about the best bakeries, “super bakeries are beginning to reign supreme in the city”. However, the ECD Food Services Research (2011) research shows that there is still a huge market to be exploited beyond the traditional French rolls. With the increasing demand for differential services, a new business model emerges based not only in a superior service, but in the presentation of a cleaner and well lit environment, a product that suits best to...
the new taste, but that still remits to the “old times” of coffee with milk and bread and butter of the old bakeries.

The goal of this study was to compare traditional and gourmet businesses models from the bakeries of São Paulo using Osterwalder & Pigneur’s Canvas (2010). The matter that led this research was to discover the main differences between the business model of traditional and gourmet bakeries about the value delivered according to Osterwalder & Pigneur’s model (2010).

**Business Model**

After the 90's, studies about business models began to gain strength with the expansion of the internet use and the explosion of the “companies.com”, when many companies were created with completely different operation models than the traditional ones (Zott, Amit & Massa, 2011).

Baden-Fuller & Morgan (2010) suggest that the business model is a way to distinguish each company modus operandi in their market, or even something that can differentiate one from another at some important stage of the production process, even using the same resources that competitors use.

The question raised by the studies that followed is related to the search for the ideal definition of businesses models, given the intrinsic connection among business model, strategy and tactics. (Casadesus-Masanell & Ricart, 2010). Business models are directly connected to the company’s strategy and its positioning in the market, target public, cost structure and value proposition. Having a clear business model, however, does not ensure the success of a business. There needs to be an alignment with the company's strategy and a constant market analysis, monitoring the product acceptance by customers and the competitors movement to sustain the competitive advantage. “Coupling strategy analysis with business model analysis is substantial in order to protect whatever competitive advantage you have” (Teece, 2010). When successful, a business model generates more revenue and enables a better cost control and sector impact, regardless of being a new proposition or not.

There are some points of the business model that can be copied more easily, therefore they can not be the focus of company’s competitive advantage. Amongst them, new technologies can become viable to others, overthrowing the conquered advantage very easily (Chesbrough, 2009). Therefore, it is important for the company to have the design of its architecture so that the processes are executed in a specialized, efficient and effective way, making it as hard to copy (Teece, 2010). The valuing of knowledge, therefore, straightens the business model, making it hard to be replicated (Zott & Amit, 2012).

**Business Model Canvas by Osterwalder & Pigneur**

Osterwalder & Pigneur (2010) present the Business Model Generation, a 9-block structure that describes the creation and delivery of value to customers through a “canvas”. This method facilitates the understanding and exploitation of market metrics
and shows how the business model would fit the proposed innovations (Osterwalder; Pigneur, 2010).

**Ostwalder & Pigneur’s Canvas (2010)**

**Illustration 1 - Canvas**

![Canvas Diagram](source: Osterwalder; Pigneur, 2010, p. 44)

From the definition of these nine blocks that build the company’s canvas (key activities, key partners, value proposition, relationship with clients, channels, customer segments, cost structure and revenue stream), Osterwalder & Pigneur (2010) describe and explore concepts like creation, deliver and value capturing through the process of analysis and design of the model of business with canvas.

**Bakery Market in Sao Paulo (Brazil)**

According to a research conducted in 2012 by ABIP (The Brazilian Association of the Bakery and Confectionery Industry), over 63 thousand bakeries that serve over 40 million customers a day were computed across Brazil, being Sao Paulo the state with the largest number of bakeries, which are, altogether, 12,764, a much higher number than other states like Rio de Janeiro, there has approximately 7,400, and Rio Grande do Norte, with 6,058.

Amongst the factors that have contributed the most to the evolution of the industry is the ascension of the C class in Brazil. This class represented 44.9% of the Brazilian population in 2006, and this number has been increasing significantly over the last years, reaching 50.5% in 2009.

**Methodology**
This paper aimed to understand the differences between the business model of traditional and gourmet bakeries in Sao Paulo concerning the delivered value. To achieve this goal, a mixed methods research strategy has been used. The first phase – qualitative – was conducted through in-depth interviews with managers of both bakeries’ models – 6 from traditional bakeries and 6 from gourmet bakeries – where they showed their perspectives about the 9 blocks (Osterwalder & Pigneur, 2010). The second phase, a simple survey was applied to 30 customers of each one of the 12 bakeries.

The analysis of data from the interviews was conducted using content analysis technique (Gil Flores, 1994). For this purpose, we followed the three steps suggested by the author: data reduction; data disposition; conclusions obtaining and verification.

The crossing of the information extracted from the content analysis (Gil Flores, 1994) with the questionnaire data (Modesto, 2001) gave a vision about the alignment of the value proposition of the owners of bakeries with the perception of importance given by the customer using mixed methods (Creswell & Clark, 2011), this information posteiromentes were confronted with the latest research on the Brazilian bakery sector to expose more broadly scenario autal sector, so that it is possible to infer about the current market and its prospects.

Data Analysis

Traditional Bakery
Based on Osterwalder and Pigneur (2010)

There is evidence pointing to the interviewee’s concern with maintaining the bakery’s traditionalism, since it has been in the same spot for several years with its excellent quality fresh bread as a differential. Although the focus of the traditional bakery is in the traditional bread, customer service has not been ignored in the daily care, and the concern with the customers is still a very important factor for the bakeries’ owners to pay attention to. This fact is proven when they say: “The relationship with customers is the main key that we have to build customer loyalty”. This shows the need perceived by the bakery representative to provide the client with the best possible care.

The research also indicates that workers and particularly the flour (raw material) are quite costly for the business if considering they are the basis to the major part of the products. There is also a huge difficulty with payment deadlines. The bakery’s tradition and the bread’s quality were the main factors in the interviewees’ evaluations, who have reported their relationships to their clients several times, and continue bringing them to a perception that good bread is a success factor. This relation that appears many times in the interview shows the covariance that reveals that despite their different directions, the concern for the bread, the main product of the establishment, reverses itself several times as a factor complete customer delivering, either in the supply of quality flour, or in the preparation, or even in the desire to keep the bread always fresh, at all times.
The answers given by the interviewees and their circumstances revealed a much different scenario of what was thought at first. Even though the questions were directed in nine blocks, some answers followed different directions and related to the blocks.

Another important aspect, repeated several times during the interviews, was the relation of the value proposition from the gourmet bakery representative perspective, mentioned in 3 answers. To them, the bakery environment must be organized, clean, comfortable and updated with the trends, gaining a prominent position in relation to other items.

“the value proposition is, basically, in the cleanliness of the environment”

Based in the information collected through interviews, the gourmet bakery’s canvas was assembled, showing the nuances of this business model more objectively, its
innovation epicenter - the value proposition - and its links among the blocks (Osterwalder; Pigneur, 2010).

In order to strengthen the analysis, a questionnaire was administered to customers of both bakeries models, as follows.

In the traditional bakeries researched, it had been revealed a strong tendency to the business model continuity, while retaining the quality of products to meet the bakery’s old customers, a loyal public who will not consume the product in the direct environment of the bakery, but in their homes. The gourmet bakery client has more time to appreciate the environment, to check and analyze the customer service. In that way, it is understandable that in traditional bakeries the quality of service, for example, is not an important factor for the company’s competitiveness. As opposed to gourmet bakeries customers, traditional bakeries customers are not as concerned about the extreme cleanliness. In fact, they do not spend much time in the bakery, which confirms that the environment is not a relevant factor for this group.

Finally, when analyzing the blocks of central business models from both types of bakeries, in contrast to the customer’s opinions, it is possible to identify a greater alignment in the case of traditional bakery. Product quality is identified by customers as a relevant factor, which is precisely where these bakeries focus their attention. The gourmet bakery, in turn, invests heavily in the quality of service, while the customer perceives a greater value in the bakery’s environment.

**Triangulation: market x recent researches**
According to the surveys results, the traditionalism matter of the industry, keeping the same bread recipe and even the same loyal clientele for many years, may be threatened. Recent researches conducted by ITPC/ABIP (2012) indicate that consumption of the traditional French roll, focus of the business model operated by the traditional bakery, is stagnant since 2009, with an average consumption of 33.5k of bread per capita a year. This information clashes by noting the growth in the industry, that has been increasing greatly over the last years with a daily transaction of R$60 million reais a day in 2009 and R$65.2 million reais in 2012 (Donna, 2011). This makes it possible to infer that the traditional French roll has been losing its importance in the customer’s perception, and that this is an important matter to be observed, because the main product of the business model having its growth stagnated in the face of such growth in the industry points out the discrepancy in the business model and the real need to adapt to this change. If, on the one hand, the business model, with all this focus with all this focus on the product as a competitive advantage, tends to be difficult to be copied by the competition by having its basis in people's expertise (Chesbrough, 2009), on the other hand it tends to keep the business model of the traditional bakery tied to a single product, difficulting its innovation that, in turn, hinders its response to the changes that are occurring in the market.

Gourmet bakeries have their own business model much more aligned to some trends pointed in recent researches, as exposed in the analyzes above. Of the meals made out of home, lunch and dinner have represented 62.7% throughout Brazil and 65.9% only in the southeast region, and the gourmet bakery has its dynamic structure so that it is able to better adapt to the strategic changes the market requests with this change in consumer profile.

There is also the concern about healthier foods and the variety of food, and one of the business model innovation basis of the gourmet bakery is to have a variety on its menu, hence, an advantage, because according to a research conducted by Donna (2011).

**Final Considerations, Managerial Implications and Future Researches**

This paper aimed to understand the main differences between the business models of traditional and gourmet bakeries concerning the delivery of value in accordance to the Business Model Canvas (Osterwalder and Pigneur, 2010).

Given the evidence presented by the interviews results, it was observed that the central focus of the gourmet bakery is delivering value plus giving a certain importance to agility in service and to the environment itself. The trend for innovation in the business model of the gourmet bakery in order to offer a value proposition more aligned to the customer seems to be reached at some point due to the dynamism of its structure to make changes in its business model. This trend for innovation also provides some evidences to better understand the phenomenon that occurs in the baking industry in Sao Paulo, Brazil.

This research has exposed, through scientific methods, some important matters about Sao Paulo’s bakery industry and its customers perception. In practical terms, this study highlights evidence that can improve the performance of both bakeries’ models. In one hand, gourmet bakeries have a more precise understanding of their clients: they identify exactly what are their desires in order to offer a more appropriated value proposition. Together with the triangulation of information, it is possible to infer that
the structure presented nowadays by the gourmet bakery is more apt to respond to market changes due to the fact that its innovation epicenter being the value proposition. This concept, according to the clients desire, may change in time, although an improvement in research towards listening to customers may already be a big step to be constantly updated with the value proposition. Data from market growth, increased consumption out of the house, and the rise of the “C” class in Brazil, in addition to the business models theories that bring to the fore the need to innovate to stay competitive, indicate a positive scenario for this business model to the city of Sao Paulo in the coming years.

The Business Model Canvas has proven to be a useful analysis tool for this kind of project. Researchers may try to discover the causes of the change that reshapes the industry, so this information would be valuable to ascertain the alteration in other industries. Finally, in a more interpretative study, researches could try to understand how - and when - entrepreneurs decide to change a business model in order to follow a market trend - or just to keep up with the competition.

References


