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Master Thesis

乳製產業之商業模式分析：以伊利集團為例

The Business Model Analysis of Dairy Industry: The Evidence of
Yili Corporation

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Letter of recommendation for ABT

準碩士推薦函

本校企業管理學系管理科學碩士班研究生 Oyunchimeg Amgalankham 君在本系修業 3 學期，已經完成本系碩士班規定之修業課程及論文研究之訓練。

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(1)碩士論文：乳製產業之商業模式分析：以伊利集團為例

(2)學術期刊：Academic and practical conference on Management and Management Strategy

本人認為 Oyunchimeg Amgalankham 君已完成南華大學企業管理學系管理科學碩士班之碩士養成教育，符合訓練水準，並具備本校碩士學位考試之申請資格，特向碩士資格審查小組推薦其初稿，名稱：乳製產業之商業模式分析：以伊利集團為例，以參加碩士論文口試。

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Sincerely

Amgalankham Oyunchimeg

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南華大學企業管理學系管理科學碩士班

106 學年度第 2 學期碩士論文摘要

論文題目：乳製產業之商業模式分析：以伊利集團為例

研究生：芸綺

指導教授：郭東昇 博士

論文摘要內容：

亞洲第一乳製品製造商伊利集團產業被選為案例公司。伊利集團是中國乳製品行業的國有企業。研究目的是找出影響案例公司成功的原因。商業模式是如何賺取利潤的形式。使用定性研究方法。案件公司的能力，數據都很強。研究過程涉及訪談深度，自我觀察，年度報告等。伊利的每個商業模式部門通常都很強大且同樣互動。作為伊利商業模式的研究員，使客戶群指標的亮點顯示出高回應。首先，他們提供對伊利感興趣的人，提供充分解釋的博物館，如果還有其他深層原因，也可以獲得另一個機會的許可。從這個角度來看，伊利的客戶群絕對是最強的。還有一個最強大的部分是。伊利在 2016 年吸引了全世界，可以達到兩位數的收入。毫無疑問，伊利的商業政策，領導力，企業視角，商業模式創新在世界上是最強的。

關鍵詞：商業模式分析、成功商業模式、效率同等、產品質量、乳品行業

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ABSTRACT

Asian number 1 dairy maker Yili group industry was chosen as case company. Yili Group is a state owned company of dairy industry in China. The research purpose is to find out the reasons that influence the success of a case company. The business model is the shape of how to earn the profit. The qualitative research method was used. The case company's ability, data were strong. The research process involves the interview depth, self-observation, annual report e.t.c. Yili's each business model sector is generally strong and equally interacting. As a researcher of a business model of Yili, make the highlight on customer segment indicator is shown high response. First, they provide people who interest about Yili, provide see a museum with full explanation, if there is some another deep reason, can get permission for another chance too. From this point of view, Yili's customer segment is definitely strongest. There is one more another the strongest segment is Revenue Streams. Yili has attracted the world through could reach double-digit revenue in 2016. There is no doubt, Yili's business politic, leadership, corporate perspective, business model innovations are strongest in the world.

Keywords: Business Model Analysis, Successful Business Model, Efficiency Equally, Product Quality, the dairy industry

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CHAPTER ONE

INTRODUCTION

1.1 Research background

Chinese economy growing day by day continuesly. For instance, Mr. Xing Zhihong said who charges National Statistic Bureau in news conference that Chinese government targets growth at around 6.5 percent in 2018, whereas 2017 average efforts to deleverage and contain debt and financial risks. China is fully capable of responding to Sino-US trade frictions, responding to challenges and maintaining sustained and healthy economic development," he added.

China has started to intent to be healthy in many fields. Since they support healthy economic development as sustain healthy food industry. Food is closely related to human life. So that, the country that supports healthy economic, in that country healthy food industry is essentially supported as well. The Asian number 1, one of the world the best company Yili was chosen for case company. According to 2018's Chinese government release, Yili ranked one the best brand product in China that included 18th in 100. This is big indicators in the business field. For milk and dairy product, the Chinese consumer is newer. But with the increases, the education level of Chinese consumers and the information on the internet, any other public release, announcement, consumers have increased their demand for dairy products especially the functional types. In the future, dairy product's market will have full of opportunities and challenges. The developed categories and prosperity into the whole sector while maintaining the rapid development.

1.1.1 Case company's background

Historically milk consume is not part of Chinese culture. For millions of years Chinese main activity is farmer. There is a special reason why Yili's head office is in Inner Mongolia. Inner Mongolia is the north part of the country bordered with Mongolia. Inner Mongolia was belonging to Mongolia until 1947. Since 1947, Inner Mongolia became part of China, interestingly, Inner Mongolians have been keeping their herder's culture, still use Mongolian language. Nomadic culture's specialist is huge different from farmer, people who live under nomadic culture they feed cattle, and use what they get from herders. Originality milk consume is related to Mongolian life style, the land of Mongolia is most suitable land for feed herders from them. So that Yili's main office locates in Inner Mongolia. As location of land in Inner Mongolia was chosen due to raw materials produced within province.

In recent years, milk consume is part of daily life, according to world health standards milk consume is significant usage of life. Unfortunately no limit on demand, only a limit for resources. So that milk is still considered as luxury usage in some part of the world.

For instance: In China herd numbers are getting lower whereas continued low milk prices in EU and New Zealand. Preliminary estimate fluid milk imports at 900,000 metric tons-38 percent increase in 2017 from 2016. The high satisfaction assessment of US original food and beverage products among Chinese consumers, US dairy imports are still hindered by China food standards requirements.

China's 2017 milk production at 35 million tons and there is not big difference in between 2016 and 2017. Chinese consumer's milk consumption is still very low if compared with world food standards ratio. It is about 33 kg per capita, on the other way less than one third from the

world average. There is an interesting thing, its Chinese consumer's as consume is still not high as UE, Why Yili, the case dairy company ranked one of best brand in China, also its 1st level of Asian company. It means dairy business has still huge potential of prosperity in the future. Yili is the largest dairy and beverage producer with the most complete product lines. Yili reported a double digit growth in 2016. This indicates the company achieved a main operating turnover of 60.609 billion RMB that has 5.669 billion RMB as net profit. Yili continues to lead in Asian dairy industry. The company has carried out comprehensive cooperation with enterprises, universities and research institutes in the United States in multiple fields.

1.2 Yili principle

Yili has strong business perspectives which can deal company to reach success. Yili's beliefs are first represents the highest quality, second quality is as precious as life itself, then quality represents 100 percent devotion, 100 percent attention to safety, 100 percent health-enhancing dedication there is more everyone is a creator of quality.

Yili's general vision is becoming the most trusted health-food provider around the world, and delivering the finest products and services to the world, advocating a healthy lifestyle for the benefit of everyone, leading the industry's development on the world stage, fulfilling social responsibilities with diligence and devotion. As a researcher's opinion, the Spirit of Yili should be mentioned on these. Yili spirit proclaims to be loyal, trustworthy, grateful, and value emotions and courageous in meeting challenges, diligent in overcoming them also extremely disciplined, highly efficient in execution, be vigilant, ever-innovative be self-disciplined and self-reflective, fostering a virtuous atmosphere. The core of our purpose is to nourish people's lives. With top quality products and services we are

committed to bringing nutrition, health, and vitality to the world. We are dedicated to supporting healthy lifestyles, championing industry best practices and leading the industry's development worldwide.

With its focus on dairy and other healthy food products as well as services, Yili is solidly rooted in China while looking toward the world. We pursue a strategy of innovation and internationalization and honor our core values of quality and accountability as we develop world-class core competitive capabilities. We harvest the wisdom of the world where we observe it, and use quality resources where we find them, to better serve our customers and build one of the world's most influential Chinese brands.

1.3 Research motivation

China's rise to economic superpower surely ranks among the most extraordinary stories in history. In barely three decades, this once backward, insular country has moved hundreds of millions of people out of poverty while turning itself into the world's second-biggest economy. I can think of no country that has grown so much so quickly. The U.S.'s rise to industrial supremacy after the Civil war comes to mind, but may Chinese have already outstripped our great run, and they are not done yet. In the not too-distant future they are likely to surpass us as the world's biggest economy, knocking us off a perch we've occupied for nearly 150 years. The sentences were written by Henry M. Paulson in book *Dealing with China* who was former Treasury secretary of USA. Why it has chosen, there are 2 main some reason. The most important is naturally majority studies and focus on the countries that have stronger business model, strategic and growth. The another one is belongs geopolitics, my citizenship is Mongolia that country is eternal neighbor. Absolutely necessary to learn about Chinese body, Chinese model. There is a fact, interestingly, China and

Mongolia is neighbor country, but there is no good knowledge about each other. May there are some geopolitics reason, historical conflict. But modernization asks humanity to have more greater communication than ever previous time. There is one more the last a few decades Chinese economic has been turn to world superpower. People who live is society their life directly depends on economic situation, economic power. So in order to catch business, economic change, possibilities that time requires us to learn about Chinese economic power and business abilities, business modules.

Currently China is becoming a land of superlatives. It is home to the world's fastest supercomputer, the biggest wind-power super base, the longest sea bridge. It produces and uses nearly half of the world's coal, cement, iron, and steel it consumes 40 percent of the aluminum and copper. By one estimate, China will soon account for nearly half of all the new buildings under construction on earth.

1.4 Research objectives

Chinese Yili company is number one state owned dairy industry in Asia. It was chosen as case company for this research. The case company ranked in an Asia number and 8th in World. According to business research perspective the company will growing permanently due to Chinese economic growth. In addition there are some research China will be 1st ranked consumers of milk, and dairy product by 2022. We make deep research about case company. Their products advantage aspects, example: international cooperation, involve future plan, world position. Second big part is the case company's business innovation, try to find what is the reason of success. Which kind of leverage influence their business model achievement. We intent to find their specialist of business model in management science. We will use the 9 building blocks of business model

innovation system on our research also depth interview, personal observation. In addition, as interestingly we will make a research on Chinese dairy industry's business environment. Will focus on economic situation, growth and decline.

1.5 Scope of the study

The study focus on an Asian number 1 dairy industry Yili's business model. In order to reveal Yili's business model we need to have some knowledge about Chinese business behavior, dairy products consumer rate e.t.c.

Business model research is a comparatively young field of study – within management science. But all we have already have 'a formula' to research business model of any case company. There is the 9 building blocks that including key activities, key partners, key Resources, cost structure, customer relationship, customer segments, value propositions, channels, revenue streams.

In addition, we chose a qualitative approach in order to make research on case company's business model.

1.6 Research procedure

At first, research objectives, scope and the question was settled. Then, the relevant literature was emerged and reviewed for understanding the main concepts, determining the construct. Next step is the conceptual framework was made up on the literature review. After developing the interview questions, it was given to the interviewee one week before the interview to give them time to understand, analyze and prepare. The interview is a face-to-face interview conducted by appointment, some of interviewer had contacted with Wechat video call. Secondary data is collected by the

companies' website, social media page and some data provided by the company itself, annual reports, annual reports of nationwide. After collecting all the relevant primary and secondary data it is analyzed by pattern-matching approach.

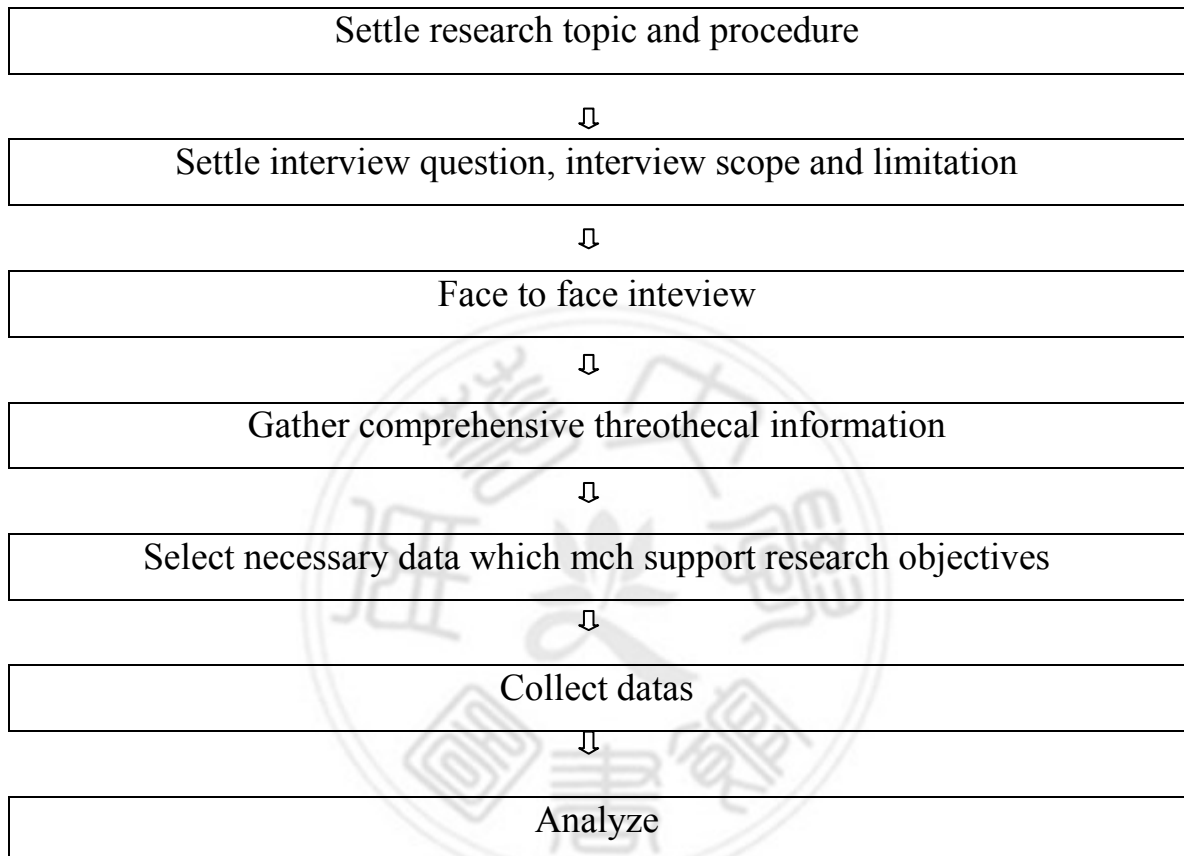


Figure 1: Flow chart of research procedure

CHAPTER TWO

LITERATURE REVIEW

2.1 Definition of Business Model

Although, there are a many numerous of literature on the concept of business model fiels and issues. Also there are many variations on definitions; but generally understanding, business modeling is a way to experiment, create, capture value and reduce risk; is the way how enterprises make money and earn as much as possible. I would like to suppose some explanation of scholar who makes a research in business model field. Rosenbloom indicated in 2002 that a business model relate the value created for users. To identify a market segment, specify the revenue generation stages, explain the structure of the value chain required to built and distribute the offering and complementary assets needed to support position in the chain, details the revenue mechanisms by firm will be paid for the offering, estimates by the power increase the cost structure and profit potential, describes the position of the firm within the value network linking suppliers and customers. The competitive strategy by which the innovating firm will gain and hold advantage over rivals. Whereas Magretta stated in 2002 that the overall objective of a firm's business model is to company can sustain itself, that generates revenue.

The business model spells-out how a company makes money by specifying where it is positioned in the value chain. Rappa and Wujec paid attention on that issue from 2001-2015 that simple but powerful acts such as autonomy, learning and feedback emphasizes collaborative thinking and team building to involve people and make their ideas visible to reveal specific details that solve difficult challenges clarifying actionable goals for

companies. Critical and complex issues for organizations force them to explore new growth opportunities and compare innovative strategies to optimize supply chains into different options and effective action plans.

Business model is architecture of the product, service and information flows and the sources of revenues. A business model is the method of doing business by the organization's core logic for creating value. Also, stated that a company's business model is a system of interconnected and interdependent activities. As well as resources and capabilities performed that determine the way the company does business with its customers, partners and vendors by satisfying the perceived needs of the market.

A business changes by creating value for the parties involved escalat customers needs and create customer surplus value and generate profit; all of these are reflected in the customer value proposition proofed by Amit and Zott (2012) Further, Teece (2009)Due to Linder explanation. There is a one more, that is a business model can be conceptualized as an activity system made up of components, linkages between the components, and dynamics. Business model is the set of that activities a firm performs, how it performs them, and when it performs them Afuah and Tucci (2003). The business model defines how the enterprise creates and delivers value to customers; to later convert payments received into profits. He recognized that equilibrium models and perfect competition are a caricature of the real world where customers don't just want products; they want solutions to their perceived needs that was affirmed (Afuah, 2003).(Timmers, 1998).

Mitchell and Coles (2009) emphasized that the business model addresses how a company provides customers and end-users with products and services. Chesborough (2007) defined business model as the set of activities from raw materials to final consumers with value added

throughout the various activities. Addressing the underlying logic of how the firm delivers value to its customers at an appropriate cost; he considered business model as a focusing device that mediates between technological development and economic value creation. He explored the consulting firm KM Lab, Inc. which defined it as a description of how a company intends to create value in the marketplace, including a unique combination of products, services, image and distribution that the company carries forward. (KMLab, 2000).

2.2 Components of Business Model

Business models make to liberate potential new opportunities and enable things which were not an available or possible. Diverse range researchers and authors confirmed that basic elements define a business model, stated that the concept of business model offers four comprehension skills:

1. Manager has to know their core competencies, activities
2. Any kind of business models cannot be fully followed; they must be learnt time to time .
3. Organizations should appreciate the strategy of creating and exploiting the sustainable competitive advantage because markets have changed and they need to overcome competitors.
4. Business models involve and matured body, adopting the notion suggests a developing understandable that strategy

Table 2. 2. 1 Business Model Elements

Component of Business Model	Definition
Profit site	Location of customers, suppliers, potential new entrants , rivals , complements and substitutes.
Value of customer	Difference perceived by customers when firms offer products that competitors do not.
Scope	Geographic or market areas where value should be offered. Also versions of this value must be sold.
Pricing	Profit amount of the value which company offers to customer.
Revenue sources	Profit received from selling products and services.
Connected activities	Set of tasks performed to underpin the value offered by firms.
Implementation	A firm's decision to carry out activities concerning the value offered to customers.
Capabilities	Mix of resources and competencies to perform activities that help gaining profitsto the firm.
Sustainability	The ability to maintain competitive advantages depending on firm's capabilities, environment and technology.
Cost structure	The relationship in between revenue and money that spent on generating those revenues and expenses

Data source: Student paper, National Chung Hua university "How does an innovate business model reach sustainability a case study of Mongolian organic business" by Zambaga Baigalmaa page number at 13, In January 2016

Headman and Kalling (2003) made a research that business model should include a value network of supplier, activities, resource, competitors, competencies, offerings and management. Chesbrough (2003) also proposed important to have suppliers, customers, value propositions and strategies for pricing and costs. As Shafer (2004) cited, a model is simply a representation of the reality; components of business models should be classified into four primary categories: strategic choices, value network, creating value and capturing returns from that value due to many different perspectives that e-business, strategy, technology, and information systems.

Hamel (2000) explained that business models should include a network of suppliers, target markets, assets, capabilities, processes, resources, revenues, strategies, customers' information, customers' relationship, differentiation, mission, support and customers interface. There is also one more determination. The Basic components of business models, considering its main characteristics as follows: By /Applegate (2003) /

1. People and the partner. Including employees and partnerships, companies should determine the cost of acquiring them, executing hiring strategies, developing training skills and retaining individual expertise.
2. Advertising and marketing sales. An organization have to calculate all costs of promoting and selling their products to the market; those are all the expenditures needed to make brands, need to being recognized.
3. Business development. Considering expenses derived by design and launching a new business, developing alliances and acquiring partners.
4. Materials and supplies. All materials which can be hold by hand used in the manufacture process of products and delivery of services.
5. Specialized equipment. Special cost of capital equipment used in design, production and delivery and distribution processes.

6. Research and development. Designed and developed products and services.
7. Physical facilities and infrastructure. Cost of corporate and regional headquarters, factories, distribution centers, offices, warehouses, retail stores and service centers.
8. Information technology infrastructure. Operation, maintenance and an implementation of computer, an equipment, software, data centers, voice networks and a video network.

Wujec (2015), explained that business visionaries possess powerful and energetic approaches to help the leadership team its share and absorb information through innovative practices using a design and technology in order to solve problems and understand ideas. To put into practice business, is important to consider experts facilitation, prototyping and collaborative decision-making; combining all these abilities would foster clarity, an engagement and an alignment. Wujec (2015) revealed outstanding elements for creating business including:

1. Set clear an individual objective and convert them into a shared goal.
2. Explores implications derived from a society, a technology, an economy, Also, environment and politics.
3. Identify the most important external and internal factors that drive an affects on the organization and a highlight priorities to operate.
4. Formulate a draft vision for success by creating target groups that provides a benefit and receive opportunities.
5. Produce a work flow including a intent, outputs, tools and a challenge.
6. Identifying initiatives, budget, metrics, risks, resources and outcomes.
7. to develop projects into a tangible prototype.

Table 2. 2. 2 Definitions of Business Model

Definition	Defined by
A business model describes the rationale of how an organization creates, delivers, and captures value.	Osterwalder & Pigneur, 2010
The business model depicts ‘the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities’	Amit & Zott, 2001
It represents the firm’s money-earning logic.	Osterwalder & Pigneur,
The meaning of business models underwent strong changes; from a technological to an organizational, and then to a strategic approach.	Wirtz, 2011
A business model is ‘a description of the roles and relationships among a firm’s consumers, customers, allies, and suppliers that identifies the major flows of product, information, and money, and the major benefits for participants’.	Weill & Vitale, 2001
Representation of how a business creates and delivers value, both for the customer and the company.	Johnson, 2010
Business models are ‘stories that explain how enterprises work. A good business model answers Peter Drucker’s age old questions: Who is the customer? And what does the customer value? It also answers the fundamental questions every manager must ask: How do we make money in business? What is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost?’	Magretta, 2002
A business model is a concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets.	Morris, Schindehutte & Allen, 2002

Data source: From “Internet business models and strategies: Text and Cases,” by A. Afuah and C.Tucci, 2003, Avenue of the Americas, NY: McGraw Hill, (2nd ed.), p.54.

2.3 The 9 building blocks – Business model Canvas

The Business Model Canvas has been proposed by Alexander Osterwalder based on his earlier book which was business Model Ontology. It showed several prescriptions which form the building blocks for the business activities. It connects both new and existing businesses to focus on operational. As well as strategic management and marketing plan. Blocks are created by 9 part. Those all parts were made to explain and find business model innovation.

Finally, after research of many different method for business models, this case study strongly supports the author Alexander Osterwalder who creates Canvas model specifying and explaining all variables included on it in order to bring up important elements that divide the topic into 9 blocks. The Business Model Canvas is a strategic management and entrepreneurial instrument that allows companies to describe, design, challenge, invent, and pivot a business model. Is discussed as the way to draw pictures, map out plans and convert ideas into business to make them tangible (Osterwalder, 2009).

Due to Osterwalder's theory (2009) business models describe rationale of the study of how an organization creates, delivers, and capture values. Business model is as same as a heart for a strategy to be implemented by organizational structures, processes, and systems. Scholar has tried to proof that a business model can be described by 9 basic building blocks which can show the logic of how a company contemplates to make money. This procedure covers the four main edge of a business 1st customers, 2nd offer, 3th infrastructure, 4th financial viability. As illustrated in Figure 3, these nine blocks are summarized:

Customer Segments

Customer consider as heart of any business model. All company can not without customer exist for long. In order to give more and more good satisfaction on customers. Defines who are the most important groups of people an business organization service and create value for whom. It requires a strong understanding of specific customer needed to distinguished segments with common behaviors or attributes. Customer segments are separated into differences on specific requirements, distribution channels, types of relationships or prices that clients are willing to pay for. Customer segment divided into 3 main blocks, that niche market, segmented market, diversified market.

Value Propositions

Describes the group of services that creates value for specific customer segments. It solves customer problems and satisfies customer needs. Benefits are the reason why customers turn to one company over another. Some elements can contribute to customer value creation, such as performance, design, brand, price, cost and accessibility. Some Value Propositions may be innovative and present a new or disruptive offer. Others may be same as to existing market offers but important is with added features and attributes.

Channels

Channel describes how a company delivers value propositions and how to reach customer segments through distribution, communication, and sales channels and more. Business model channel distribute to raise awareness among customers about services, help customers to evaluate value propositions, admit customers to purchase specific products and

provide post-purchase customer support. Companies must find the best and most efficient channels in a way to create a more well customer experience, make extend revenue edge, satisfy clients, expand benefits and reach partner strengths, additionally, It could be through direct, indirect, owned or partner channels.

Customer Relationships

Describes ways of relationships, how company establishes with effective customer segments. They apply from personal to automated relations according to acquisition cost strategies, customer retention or sales. This block deeply influences the customer experience. To distinguish relationships, depending on the level of human interaction between organizations and costumers that they are divided in different categories such as personal assistance, self-service and communities.

Revenue Streams. If noted, the case company generates from each customer segment due to value propositions successfully offered to customers, it results by subtracting costs from revenues to create earnings, also considering the post-purchase customer support provided. Some method to generate revenue flows by offering products or services are assets sale, renting, franchising and advertising. Depending on the type of payment, that could be transactional revenues or recurring revenues with different pricing mechanisms, as well as fixed list prices or bargaining.

Key Resources

It characterized by the most important property that required to create a business model, allow business people or may investors to create a value proposition, how to reach market core approach maintain relationships with customer segments and earn revenues. Resources can be categorized

as physical, financial, and intellectual or human, as well as they can be owned, acquired as well as to be rented.

Key Activities

Key activities demonstrate the most important things a company needs to do to manage successfully, like software development or supply chain management. The activities can be differentiated by production process, problem solving or platform network; all related to the type of business, value proposition offered to customers, knowledge, service provisioning, promotion and training needed.

Key Partnerships

Company's suppliers list and partners line create to optimize their business model, how to reduce risk, or acquire resources also keep standard, official relation in between partners even in competitors. Some activities are on outsourced process. Some resources are acquired outside the enterprise in order to develop new businesses. Furthermore it can be also used assure reliable supplies, decrease competition, optimize allocation of resources, reduce costs, share infrastructure, acquire knowledge, access to customers and reduce uncertainty; they can be differentiated by strategic federation, joint organization or buyer-supplier relationships.

Cost Structure

The building block describes the requirement cost incurred while operating under a particular business model. Business model elements result in the cost structure that defines all costs expose while operating a company. Business model elements can be adjusted or variable; and organizations should select if their business models are cost-driven or value-driven according to products or services they are offering to customers

2.4 Previous research on business model

In recent decades business model has been considered one of the main objectives of business research field both academics and practitioners. 1,177 papers have been published so far since 1995. Business model innovation is a comparatively young field of management study. Before, business people thought the strategy is business model. But in recently, business researchers work on business model innovation, adaptation, to develop new business model, create business model, Business models outside the core e.t.c I would like to take an example of Harvard business model perspective. Second, I want to highlight some more scholars' papers more than others. For example: Ryanair, which switched in the early 1990's early from a traditional business model to a low cost one. The Irish airline eliminated all frills. Cut costs and slashed prices to unheard-of levels. Ryanair's Business Model Then and Now.”)

In addition, (How Business Models Generate Virtuous Cycles) Not all business models work equally well, of course. Good ones share certain characteristics: They align with the company's goals, are self-reinforcing, and are robust. (See the sidebar “Three Characteristics of a Good Business Model.”) There is one more, (Business Model Prototyping – Using the Morphological Analysis to Develop New Business Models) This means that a business model can be determined and designed by the description of the six business model elements. The framework is characterized by its structure according to system theory and the structure of the content based on the EFQM model.

2.5 The dairy industry in china

2016 milk production at 35.7 million tons which is basically 5 percent less than 2015 production and the main cause is low domestic and international prices. In 2017's production at 35 million tons and the production figures is unchanged since 2016 because of stable domestic consumption patterns, low-priced imports and whole milk powder substitution.

Source: China's Ministry of Agriculture

In 2016 China's dairy cattle group was decreased by 10 percent and many small dairy farms closed and many large dairy operations slaughtered their cattle. In 2016 more than half of China's dairy farms operated at a loss. In china most of fluid milk production comes from large scale dairy farms which is 60 to 70 percent, while 30 to 40 percent from middle and small diary farms.

Its estimate that in 2017 the group size will not fully recover, causing fluid milk production to possibly decrease slightly or remain flat. If the milk price return to normal state in 2017, the production numbers may be increased slightly, but output for domestically produced fluid milk will significant increase in production. International prices are expected to remain low and domestic demand remain flat, especially in the New Zealand and Europe which together occupy 97 percent of Chinese fluid milk imports.

Whole milk powder (WMP) is widespread use for reconstituted as constraint on increased production. China is one of the only countries that restore whole milk powder back into fluid milk for retail sale. As long as the price of imported whole milk powder (WMP) is significantly cheaper than the domestic fluid milk price, dairy processors will continue to use whole milk powder (WMP) to produce milk and other dairy products

2.5.1 Trade

In 2017 flow of imported fluid milk will continue to increase.

Its estimate that in 2017 fluid milk imports will increase about 38 percent, 900,000 tons higher than 2016. Recently the price of the imported Ultra High Temperature milk is lower than the domestic fresh milk price. The imported Ultra High Temperature milk products are shelf-stable product, so it be a convenient beverage for urban consumers. The European and New Zealand started to check their production because raising the costs of imported milk, imported milk prices is expected to fall slowly. The past food safety scandals make still cautious for Chinese consumers and so they now prefer imported fluid milk.

In the investment like dairy processing facilities and dairy herds significant help by Chinese overseas investment to the European and New Zealand to expand their market share in China. Mostly the production is exported back to China as mainly obtained many facilities by Chinese investors.

The stocks has still need to be released back into the market by government as overall production may be slightly reduced in European. It's estimate that from the European to China the exports will remain stable. New Zealand remains a popular source for Chinese investment. The Chinese investors is attracting towards recognized safety factor and lower price to continue invest in New Zealand's dairy industry. The role United States in the Chinese fluid milk market is less than one percent or a minor player of market share. U.S. compel a new food safety regulations for exports that stop U.S. exports to China. In China's while awaiting for regulatory approval is the main reason as a new registration rule require which for many years keep new exporters out of the market. It's be expect the high quality and safety of U.S. food products in China once the hold-up of

regulatory has been resolved and the imports of fluid milk are expected to increase.

2.5.2 Production

In 2017 the production of whole milk powder (WMP) will be balance at about 1.4 million tons. In China the approximate milk price will begin to recover in 2017, but it will continue to slow down the rate of recovery. In China the beginning of 2016 almost every dairy company was converting fluid milk into whole milk powder (WMP) to deal with the low milk prices and excess production. The whole milk powder (WMP) utilization will likely increase and the production will be back to normal in 2017 which is filled by imports versus domestic production. The whole milk powder (WMP) production is also affected by imports.

Currently with twice the shelf life, the imported whole milk powder (WMP) is two-thirds the price of domestic whole milk powder (WMPP). In 2017 may the whole milk powder (WMP) cost advantage may narrow but on domestic production it is expected to continue maintain a terrifying effect.

2.5.3 Consumption

Estimation consumption in 2017, whole milk powder (WMP) is 2.1 million tons, more than two percent since 2016. In 2017 it's expected to increase whole milk powder (WMP) usage in bakery and yogurt products but reconstituted milk and milk beverages is expected to decrease due to lack of consumer awareness of reconstituted milk and innovative milk beverage products. So minimize the reduction on these two categories will reconstituted milk and milk beverage usage. In addition, the large Chinese companies is looking towards overseas company to establish infant formula plants and then exporting product back to China. These usage is expected to

decrease slightly in 2017.

Table 2.5 Whole milk powder (WMP) in China

Estimate Whole Milk Powder Usage in China (2016)	
Infant formula	35% market share
Reconstituted milk	28% market share
Milk beverage	20% market share
Bakery products	10% market share
Yogurt	7% market share

Data source: the company cite, Yili.com

2.5.4 Exports

China exports a small amount of whole milk powder (WMP). In 2017 it's estimating that exports will remain at 2,000 Million ton, with most exports to Hong Kong, Myanmar and North Korea.

2.6 Yili's market condition

Table 2.6 Global Dairy Top 20 list in 2015

#	Last year	Company	Country of headquarters	Dairy turnover, 2014 (USD billion)
1	1	Nestlé	Switzerland	27.8
2	3	Lactalis	France	19.5
3	2	Danone	France	19.5
4	4	Fonterra	New Zealand	18.5
5	6	Dairy Farmers of America	USA	17.9
6	5	FrieslandCampina	Netherlands	14.8
7	7	Arla Foods	Denmark/Sweden	13.6
8	8	Saputo	Canada	9.8
9	9	Dean Foods	USA	9
10	10	Yili	China	8.6
11	14	Mengniu	China	8.1
12	11	Unilever	Netherlands/UK	7.7*
13	15	Sodiaal	France	7.2
14	13	DMK	Germany	7.1
15	16	Savencia (formerly Bongrain)	France	6.1
16	17	Kraft Foods	USA	6
17	12	Meiji	Japan	5.6
18	19	Schreiber Foods	USA	5.6*
19	--	Land O'Lakes	USA	5.1
20	18	Müller	Germany	5.1*

Data source: Tim Hunt and Saskia van Battum, "Rabobank Global Dairy Top 20, July 2015," accessed July 31, 2015.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 The concept of qualitative research

Qualitative researchers aim to gain an in-depth understanding of human and organizational behaviors and the reasons that drive these behaviors and their differences. In qualitative studies, this is often done through the contextualization of the research setting, where findings are explained in light of the research context and environment although the reasoning behind qualitative research is inductive and deductive processes are at work when one conducts qualitative research. The process of qualitative research is often an emergent one as the research work gets adjusted and other discoveries emerge during the research process. This is in contrast to a typical quantitative research where the process follows a script. An example of the questions in a qualitative study may be refined in the process of research as the researcher learns more about additional questions to ask study participants after the initiation process, or a general pattern of understanding may emerge from some initial data collected, which then develops into broader themes that require adjustments to the research commonly used in qualitative. In addition, qualitative research methods provide the opportunity for the researcher to record and interpret non-verbal communications such as body and micro expressions.

3.2 What is case study

Case study allows researchers to collect wide research data. Case study is one of the biggest types in qualitative research. Case study is not only based on surveys, it gives the opportunity to collect multiple sources and apply

multiple level of analysis of the dynamics in research setting. Some of well known methods of data collection which are used in case studies are: documents, archival records, direct observations, participant observation and artefacts. Case study is more similar with correction if there are many resource of information what apply for triangulation.

On the one way, case study is easy way to make understable concept as compare theriotical approach. Flyvbjerg (2006) established five such common misunderstandings:

Theoretical knowledge is consider as more valuable knowledge than practical. Case study cannot support sceintific development as individually, it must be involve sceintific knowledge and proofs. The case study is used a lot for creating hypotheses more than other methods are more suitable for hypothesis testing and theory building.

It is common phenonemon, the case study's hyphotheses the usually match scholar's prior expectations.

Summarize and develop general plan is generally difficult by theories on the basis of specific case studies. Some researcher argued case study can be a kind of philosophy sceince Eisenhardt and Graebner (2007) and Lee et al.(2007) discuss about case study more specific, they find out a revelation. According to (Yin, 1989) even a single case studies can create, or find out huge elements, may make great value, also mutiple case studies provide nessesary soil for theory building.

3.3 Research structure

Grounded on literature review and set focus on an innovation of business model that company ranked number 1 in China business field. My research method fundamental is the business model Canvas. In other words I interested in how a company can grow too quickly in short term like the

case company. We tried to find out what is the most stronger influencer of business success in business management field. (the business model 9 building blocks) This includes the process and elements of business model innovation. Qualitative approach was chosen as the form of a case study in this research. The research design expresses the currently dominant form in the business model innovation process literature due to the fact that the focus of this nascent stage flows of the business model literature /Alexander Osterwalder and Yves

3.4 Research setting

Chinese dairy industry manufacturer was analyzed on this thesis which is one of the important growing markets in China. According to the latest news, the crucial branch of the Chinese dairy industry, it provides a rich context with special characteristics which help us in drawing theoretical insights from one case (Siggelkow, 2007). The Chinese dairy industry has a long history of consuming for consumers as the most sensitive product in business. (Because food goods required a lot of treatment on all stages of business activities) But China's milk and dairy products consumption is comparatively newer than some other developed countries. Dairy product usage is relatively new for the Chinese population, based on their knowledge of milk and milk goods. Dairy industry consumption is steadily growing in China due to economic growth. Although companies in this industry are characterized by the domestic market and have developed capabilities and key business models in China, especially in the food and beverage field. Today, emerging markets, economic growth play a key role in the business development of the Chinese dairy industry. The research setting of this article focuses on the dairy industry growth rate, the best company's business model innovation, the amount of usage in dairy goods of the future.

China has 448.000 enterprises engaged food stuff production and processing.

China is the first most populated country with over 1.6 billion population and the largest socialism on earth. One of the biggest economic superpower in Asia, China must be reach the world's first ranked economic growth country in a few years. According to government annual reports also internal annual of case company dairy industry is the one of the fastest growing field in China recently. China's economy will keep a steady increase and consumers will continue upgrading their spending in near future. The per capita dairy consumption of China still has a large space to develop, especially in the vast majority rural areas where the consumers' consumption and drinking frequency is still in a low level.

Chinese government policies have also been pitch toward promoting local production and supporting investment and to encourage the use of local resources, trying to approve within consume last a few decades. In addition, Even dough Chine is not full democratic country but they have been trying to more open, looking for new partners, giving and taking opportunities in World market. Due to this, they also adapt world business behavior, innovate more 'democratic' business model.

3.5 Research design

Some numerous of datas collected with combining some more dependent datas. Our second part of data consist of about 25 documents containing press releases, annual reports, newspaper articles, industry studies, company manual book, and websites which contains information about Yili and business model innovation process. These are a accompany by 3 earliest data sources: (1) 3 formal interviews with two Yili's managers, stuff of public relation section. After interview, while working on finding result process , got 15 pages, arranged interview notes (2) three formal talks

with, those who are responsible on Yili’s marketing, public relation section, and got interview of a total of 3 hour. (3) Observing by self was big influence on this case study research process. After interview question was sent. I went to factory as researcher and made keen self observation. Fundamental data collection effort divided into two major parts. The first part was fact finding with a focus on the performing of Yili in the domestic market. The second part was specific to the business model which they comply in business procedure and activities. Yili’s managers those who took Interview were provided by structured of questions before met and the face-to-face interview. All data were organized, studied, and then coded by researchers similar with the business model literature.

Table 3.5.1 Interview respondents position list

Number	Position	Sex	Age
1.	Marketing manager	male	36
2.	Public relation officer	female	25
3.	Operation and training manager	Male	45

Data source: an original study

Table 3.5.2 Interview questions

9 building blocks	Questions of depth interviews
Customer Segments	Whom do you provide value for? Who are your most important customers? How is your customer relationship?
Value Propositions	What value do you convey to your customer? What problems do you solve for your customer? What products and services do you provide to your customer?
Channels	What channels do you contact your customers? How do you contact them? What channels have best cost efficiency?
Customer Relationships	How do you build the relationship with your customer? What relationship have already build?
Revenue Streams	What value and product do you provide to let customer pay for it? How do customers pay? What proportion does each different revenue account for total revenue?
Key Resources	What core resources do value proposition need? What core resources do channel need?
Key Activities	What activities do value proposition need? What activities do channel need?
Key Partnerships	Who are our important partners? Who are our important suppliers? What activities do our partners do?
Cost Structure	What are the most important costs How much are the costs of core resources How much are the costs of key sales expenses

Data source: Alexander Osterwalder nine cannels businesss models

CHAPTER FOUR

RESEARCH RESULT

4.1 Business model 9 Canvas (Alexander Osterwalder)

Customer Segments-

1. Whom do you provide value for?

Employee 1

We work to deliver value and healthy new products to each client.

Employee 2

I would like to say that each of customer. In my perspective, Yili's strength is a relation, between customer and Yili's whole team

Employee 3

Although, Yili's brand value, evaluated about 5.09 billion yun. According to Yili's director perspective its quality is best mission of us. We try to estimate highest food quality over China, in future all world. We deliver best food quality for customer of Yili now.

2. Who are your most important customers?

Employee 1

Our company's valuable resource is human and their loyalty. The question is difficult to describe. I might say every person who uses Yili's product, and every child who will use Yili's natural, nutrition's dairy product

Employee 2

Chinese economic is growing. Due to economic growing people tend to use more nutrition health food. Nutrient food required for any generation

of children. For my private desire, children must be very important customer of Yili, because Yili well known as dairy good product

Employee 3

Everyday more than 100 million goods sold to customers. Yili produce dairy products for domestic users over China. China is most populated country, and economic is growing rapidly. Due to growing economic, dairy products consumer number is also increasing. Under this situation People who live in China are most important customer.

3. How is your customer relationship

Employee 1

I can say truly, our company's relation is enough good. For example we have museum for customer. First time in the world our company built museum that about milk history. This is just an example.

Employee 2

Before innovate any item, we focus on the innovation process. Example if we provide milk for children, we focus on ingredients also package design. Why we take a package design as important, because of customers desires. This is only an example. As if we see from this, we care anything as important issue.

Employee: 3

When new type of good creates we use some kind of advertisement to make information for customers. Yili already known as quality and reliability of goods. We still make advertisement for customers knowledge. It might be said as respect of customers. Generally, posters are used.

Findings: Yili's most important value is human. Customers satisfaction, customer healthy concept, Yili intend to make more qualified satisfaction on

customer segment more than building new branch, new factory.

Yili create over 1000 kind of product for customer needs. Not only that, in the world Yili built complex museum for knowledge about milk for customer. Tourist, researchers.

Value Propositions

1. What value do you convey to your customer?

Employee 1

Quality is the highest aspiration of us

Employee 2 .

Quality, Healthy, respect.

Employee 3

Also our company's administration team determine that Yili" represents the highest quality, quality is as precious as life itself

2. What problems do you solve for your customer?

Employee 1

Some of our product has /bifido bacter/ which is good for healthy, beauty. Also we have to trying to reduce sugar ingredients and choose a kind of natural material. So it means we can convey healthy, fresh, Nutrition good for customer

Employee 2

There is amount of food which was given by professional doctor's health association. If we follow those amount, size. Chinese milk consume is not enough. Although the last few decade dairy production and consume is growing continuously. But we are trying as much as we can focus on healthy ingredients, deliver it to as many people as possible. I can say what

we solve is health issue, give body required vitamins, nutrition through our product.

Employee 3

We provide Yili's customer with right ingredients, healthy food. May if person try to find and collect all nutrition from many things, may it can not meet the standard of food requirements. But we collect and put then only in box. I could say that is a kind of solution of costumers needs.

3. What products and services do you provide to your customer?

Employee 1

Dairy products consumer rapidly growing over nationwide. We provide 4 kinds of main products for customers.

- Liquid milk
- Milk powder
- Yoghourt
- Ice cream

Employee 2

We have many numerous of product for each sex, every age. Those products divide to 4 general type of product. Example liquid milk, milk powder, yogurt, an ice cream. So people can choose from them what they need or want.

Employee 3

Quality is the highest aspiration of us. Yili made products that based on milk, create for healthy, beauty. Also Their innovation center reduce sugar . So it means we can convey healthy, fresh, Nutrition good for customer Dairy products consumer rapidly growing over nationwide. We

provide 4 kinds of main products for customers.

- Liquid milk
- Milk powder
- Yoghourt
- Ice cream

Findings : Quality is the highest aspiration of us

Yili made products that based on milk, create for healthy, beauty. Also Their innovation center reduce sugar . So it means we can convey healthy, fresh, Nutrition good for customer . Dairy products consumer rapidly growing over nationwide

Channels

4. What channels do you contact your customers?

Employee 1

We have traditional way to distribute. As all we know. Make contact super markets. They sell our products. Also wholesalers take our products from our factory. The another one biggest channels is Toobao.com. Modern life asks us to ne busy with work, and project, duty. Toaboa is the biggest channel of trade in Chine. The most successful, wide business channel.

Employee 2

Deliver to supermarkets, selling from our warehouse. You know, Alibaba company. We have contract to deliver our goods to customer.

Employee 3

There are three types of communication channels in business environment. Formal, informal and unofficial. I would prefer to use formal communication way due to my position requirement. Making advertisement is also can be one kind of channel to communicate customers.

5. What channels have best cost efficiency?

Employee 1

Toaboa.com and some internet commercial service. It is enough to have seller and distributor.

Employee 2

We communicate with Yili's customer formal and informal way. Everything is like the world's standard, governed by agreement

Employee 3

Best cost efficiency way is the communication between Yili and distributor

Findings: Make a contact super markets. They sell our products. Also wholesalers take our products from our factory. The another one biggest channels is Toobao.com. Modern life asks us to ne busy with work, and project

Customer Relationships

1. How do you build the relationship with your customer?

Employee 1

Our company has tourism agency that owns Yili. The team duty is to introduce Yili company to customers, and foreign visitor's. Their duty is not easy also always has much work, from this Yili can contact with customers directly, this is one of our perspective.

Employee 2

Yili is well known for quality, product reliability. Our customer understand that need to pay a bit higher cost for quality. This is most strong and efficient business aspiration.

Employee 3

Mutual trust. This is most important relation with customer. In my private opinion, Yili built mutual trust already, that is also one of effective reason why Yili is getting success always.

2. What relationship have already build?

Employee 1

Our head an office locates in Hohhot, Inner Mongolia. But it does not mean that we products production only in Inner Mongolia. We have about 35 factory over China. Each factory based on customers consumer requirements.

Employee 2

In over whole world Yili has own museum that mention about only milk history, but whole history in a museum. This the biggest an example of how we contact with costumer. In the another hand, we have traditional communication ways with costumer. Example: introducing new products event, meeting with social responsibility activity.

Employee 3

We do survey on customers. According to survey result Yili already built best brand name in between customers and over world. Customer beleifs Yili brand name and quality. Most of customer has started Yili's quality after use products the appreciate brand name too.

Findings: Yili has tourism agency that owns Yili. Our head an office locates in Hohhot, Inner Mongolia. But it does not mean that we products production only in Inner Mongolia. We have about 35 factory over China

Revenue Streams

1. How do customers pay?

Employee 1

In China, people have been using Alipay, Wechat pay recently. People use Alipay more and cash.

Employee 2

Customers can be divided into 2 general ways. 1st one is just products users. Second one is our business partners. The people who are including first section, they can pay cash, and also use mobile, internet technology. The second parts customer, business partners paying method is organized by contract.

Employee 3

There are buyer and distributor. Also sometimes there are free users, it means Yili provide free for children and special contracted athletes. They pay for us by success and charity. Yili organize many events in order to implement social responsibility.

2. What proportion does each different revenue account for total revenue?

Employee 1

For instance, 3rd season of 2016. Yili's revenue growth was 13.6 percent, as a 2017 3rd season revenue growth was 18.0 percent. As we see from this indicator, Yili's revenue is growing steadily. This is just a single performance of Yili. According to 2016 report of world. Yili owns the success that could reach double digit growth in the shortest term

Employee 2

Every season Yili make economic annual reports for government,

also for analyze internal activities. There is one highlight. Specially make annual report for shareholders, entrepreneurs and release on public media.

Websites

Employee 3

According to 2016 report of world. Yili owns the success that could reach double digit growth in the shortest term.

Findings : For instance, 3th season of 2016. Yili's revenue growth was 13.6 percent , as a 2017 3-th season revenue growth was 18.0 percent. As we see from this indicator, Yili's revenue is growing steadily. This is just a single performance of Yili. According to 2016 report of world. Yili owns the success that could reach double digit growth in the shortest term. Every season Yili make economic annual reports for government, also for analyze internal activities. There is one highlight. Specially make annual report for shareholders, entrepreneurs and release on public media. Websites.

Key Resources

1. What core resources do value proposition need?

Employee 1

Yili Chilechuan Milk Resource base. This dairy farm covers an area of 2.7 million square meters with cattle stock of 15000. It is the dairy farm owned by Yili with largest scale and most advanced equipment and technology in Hohhot.

Employee 2

Yili owns 150.000 cows. And has over 2400 dairy farms, also more than 100 dairy factories all over China. Has factories in other country , example in New Zealand

Employee 3

Yili's main core resource is nature and grass, cows, weather

2. What core resources do channel need?

Employee 1

Although We have own milk farmers. Those milk is not enough for meet costumers needs. So that we have huge numerous of suppliers including farmers too.

Employee 2

Farm, Cattles, healthy grass for cows

Employee 3

Workers, farmers, Buyers, Distributer. And cows, rain snow, weather e.t.c Yili's resource depends nature. It doesn't follow human desire.

Findings : Yili dairy farm covers an area of 2.7 million square meters with cattle stock of 15000. It is the dairy farm owned by Yili with largest scale and most advanced equipment and technology in Hohhot.

Key Activities

1. What activities do value proposition need?

Employee 1

The goods pass through multiple stages from sterilizing milk to be handled by customers. We need to make value every stage of products even small details. If there small mistake... It will be damage our quality, product reputation.

Employee 2

Control, safety, reliability of product,

Employee 3

Have to keep adequate normative of any product. Food produc is the

most sensitive process.

2. What activities do channel need?

Employee 1

We produce more than 1000 kinds of product for customer. Each products based on innovation center's research. Liquid milk, Milk powder, Yoghourt, Ice cream is main activity of our company also production process leading by smart automatic technology.

Employee 2

Our business is food business, food business is hugely different from other sector business. Food business belongs human life. What does the meaning is the people who work in food industry, they always need to tend healthy ingredients, fresh, nutrition's, also have make innovation for customers' needs. Every innovation have to meet people's desire

Employee 3

Continuously innovation, permanently contact, accepting their comment.

Findings: Yili dairy farm covers an area of 2.7 million square meters with cattle stock of 15000. It is the dairy farm owned by Yili with largest scale and most advanced equipment and technology in Hohhot.

Key Partnerships

1. Who are our important partners?

Employee 1

Staff of Yili, Farmers. Milk factories.

Employee 2

For me designers, advertising agency and department, sellers. If I see

fundamental of Yili. The Most important suppliers are farmers.

Employee 3

Hong Kong Disney land is our biggest partner of product image. If we call name of partners companies, may it will reach thousands. It better to see the list.

2. Who are our important suppliers?

Employee 1

Milk factories, even a farmer. In 2017, we have built new farmer and factory in New Zealand. Future more we are approaching more qualified raw materials for products keenly. Tend to build new factory in places for domestic customers. We don't have suppliers limitation.

Employee 2

For me designers, advertising agency and department, sellers. If I see fundamental of Yili. The most important suppliers are farmers.

Employee 3

Yili has over thousand supplier. Including small supplier who give us chocolate and fruits e.t.c Yili has 5 main type of product. We also make ingredients revolution. I would like to call it 'revolution' Because we use everything with milk which can adapt with dairy product. Example guard with many kind of fruit, milk with chocolate also fruit e.t.c

3. What activities do our partners do?

Employee 1

Provide by raw materials, involving innovation process, delivery of goods, e.t.c Each supplies has special duty. All suppliers make Yili number one dairy company of China.

Employee 2

Everything has equally systematic. all business entities have similarities. They sell, they got, they return. I describe about general activity that exist in business world. Yili's partners are same. But I Am believe in our suppliers are most honest supplier, We ask requirements from then to be loyalty. Because of that our business based on love, loyalty, quality.

Employee 3

Provide by raw materials, involving innovation process, delivery of goods

Findings: Business organization has four kinds of partnership. Yili's biggest business partnership is Yili Shengda investment holdings in Hong Kong. Also Hong Kong Disney land is main partner for package design. Yili buys China's the largest organic milk producer that locates in Hong Kong. China Shengmu organic Milk as well as delute. It means Yili has attitude to emerge, and try to combine their compititors company into their organization, that in their business field.

Cost Structure

1. What are the most important cost

Employee 1

Dealing with farmers. Also dealing with grace dealer. Because Yili's main resource is milk that made by cows. In order to feed cows and get qualified and healthy milk, Yili needs fresh, safety animal nutrition.

Employee 2

Yili's root basis organized in 1949. But in 1993, Yili got name of now. According to annual report since 1996-2018 revenue is permanently increasing. Example Total revenue of Yili were 60.609 RMB billion, and

net profit attribute to owners of the company was 5.662 billion RMB. Both revenues and net profit maintained growth as compared with last year and continued to rank Number 1 Asian dairy industry.

Employee 3

New Zealand, where Yili had invested 3 million RMB (it is approximately 488 million USD) to build largest dairy production base in the world. This was the Yili's first leadership summit outside of China.

2.How much are the costs of key sales expenses

Employee 1

I would like to mention only a reason as Yili's expense on corporate governance activity. Shengmu is one of the a raw milk producer and the company was bought to Yili , by \$682 million in order to enhance raw milk supply of Yili.

Employee 2

It depends on season, the amount of supply on raw materials. We prefer quality, in order to produce qualified product, money spend some additional factor. Example: safe storage and distribution

Employee 3

Yili's e-business growth more than 800 percent. In the Statistics for Sales Results of Chinese Commodities for 2014 released by the China General Commerce Association and the Chinese National Commercial Information Center, Yili ranks No 1 in five markets in China, including the milk powder market, cool drink market, liquid milk market and children's milk market. This is release of Journal. Why I put that as example is this is indicator of Yili leadership how strong it is

Findings : Yili's selling cost is not cheaper than any other competitors and even small industries. Quality required refresh. Healthy, designed well, meet inner desire, have to touch taste standard. Also we focus on product with lactic acid bacteria. From the design day to the day use, Yili's each of product required high level of attention, quit higher cost for every stage. Even dough Yili can not sell production by lower price than other similar activities company. Customers prepare our product, and select for daily healthy living partner than other's.

4.2 Yili's business strategy and global sourcing

Yili's global plans takes a major steps in high-quality destinations, moving production to low-cost and establishing large new production facilities. Yili built up a database of about 150 companies and Strategic Development Department to increase the function in the global dairy supply chain. These development helps to identify targets for potential cooperation and asset. Sterilgarda, Italy's biggest dairy producer and main leading company in milk sourcing production. In 2013, Yili entered a strategic partnership with Sterilgarda. Then with combine Sterilgarda and in September 2014 to compete with imported milk products in China, Yili launched a brand of Perfectlands which is new high-end UHT milk product.

The relation between New Zealand and Yili started in 2010 when the shareholders of Oceania Dairy Limited (ODL) approached Yili.

In 2008, during the global financial crisis ODL left out of funding and had to look for a buyer after receiving business and land use permits.

Yili has chosen New Zealand as an important production base and had a clearer picture for global sourcing by 2012. In a discussions with ODL asked Yili to pay a deposit of RMB 500000 (\$79,100) in advance, but ODL dropped its demand for an advance deposit when Yili showed its production

facilities in China and tell that Yili can be planted to New Zealand.

The local farmers in New Zealand asked Yili to come to New Zealand instead of buying milk powder from Fonterra. A Yili executive replied that Yili can fulfil their promises like before Russian investor and what negative impact could have on them.

China has more demand for dairy products and it has strong economic growth than Russia. Yili give generous bonuses for high quality milk and have capabilities to achieve a global ranking in the industry. Yili factories applied the higher sewage discharge standard than New Zealand and air quality standard is highest than it required.

Global Quality Management

According to testing, inspection, verification and certification, Yili established a partnership with three international organizations: Intertek, SGS, and Lloyd's Register Quality Assurance. In 2014 it obtained Food Safety System Certification 22000 which is internationally recognized food safety certification for all products like yogurt, liquid milk, ice cream, and milk powder. Its all products allow in global market and Yili is the first dairy company in China which received this food safety certification in all of its products. However, it faced the challenge with the leading world companies towards the food safety and quality.

Global Market

Yili mainly focused on the international development and first chosen English-speaking countries so it is easier to know the culture and the language. While Yili also considers environmental friendly industry and sustainable development which expanded Yili as global presence.

According to global competition, Yili is developing its brand and international distributors. They planned to serve global resources in both Chinese market and global market.

4.3 Yili's business model

Key Partners

Business organization has four kinds of partnership. Yili's biggest business partnership is Yili Shengda investment holdings in Hong Kong. Also Hong Kong Disney land is main partner for package design. shares China's dairy business market with over 85 percent. With the increases of the education level of

Key Activities

Yili's key activity is produce milk and dairy good that based on milk. If Yili's product percentage show by percent. IHT milk 47 percent, milk beverage is 22, while Ice cream 13 percent, milk powder and others 18 percent. They produce UHT milk 141 tons, ice cream 30 tons, Yogurt 600 tons, milk beverage 6.6 tons, milk powder and soy 3.6m tons, others 1.2. m tons.

Value Propositions

Yili's core value is Excellence, Accountability, Innovation, Win-win. Yili's value proposition focus on customer needs. We try to meet customers needs by innovate, researching activity. We focus on healthy ingredients, deliver safety and qualified dairy product over nationwide

Customer Relationships

Yili has a big public relation department. This department manages relation between organization and customers. Even tourist, researchers. Yili has museum that exist over the world only once. This big building has a lot museum exhibits, its for customer knowledge also has built for well known of products special aspect.

Customer Segments

Customers should consider as the heart of any business model.

Result of interview, each customer satisfaction is more valuable than profit. Yili's the most strong strength is customer satisfaction and quality.

Key Resources

Different key resources are needed depending on the type of business model. Dairy business depends on farmers. Yili owns 150,000 cows that origin is from milk and has over 2400 farms. Not only that Yili has more than 100 factories over China.

Channel

China has 30 years advantage over United States with internet payment system. As like previous concept much more advantage on internet commerce. Alibaba, Taobao is one of the stronger brand on earth. Taobao is the biggest commercial channel of Yili as like other companies over the world.

Cost Structure

According to annual reports, Yili's revenue is continuously increasing since 1996. Let's see at Yili's revenue became 5.662 billion from 60.609 in 2016. It was indicator of double digit growth. Both revenues and net profit maintained growth as compared with last year and continued to reach the number 1 dairy industrial company in over Asia.

Revenue Streams

If customers consider as the heart of a business model, Revenue streams are its arteries. While 3th season of 2016. Yili's revenue growth was 13.6 percent, as a 2017 3-th season revenue growth was 18.0 percent. As we see from this indicator, Yili's revenue is growing steadily. This is just a single performance of Yili. According to 2016 report of world. Yili owns the success that could reach double digit growth in the shortest term.

The case company's business model is shown the following table

Table 4. 3. 1 The business model of Yili group

Key Partners	Key Activities	Value Propositions	Customer Relationships	Customer Segments
1. Hong Kong Disney land 2. Shingmu Raw milk distributor	1. Produce 2. Dairy products and sell over China	1. Control quality 2. Innovation	1. Wechat 2. Open system for share holders, and customer	1. Customer consider as heart of Yili 2. Quality required refresh. Healthy, designed well, meet inner desire, have to touch taste standard
	Key Resources 1. Yili owns 150.000 cows. 2. 2400 dairy farms, 3. 100 dairy factories all over China		Channel 1. Toaboa is the biggest commercial channel of Yili. 2. Distributer system	
Cost Structure 1.Yili’s revenue is continuously increasing since 1996. Let’s see at Yili’s revenue became 5.662 billion from 60.609 in 2016. It was indicator of double digit growth.		Revenue Streams 3th season of 2016. Yili’s revenue growth was 13.6 percent , as a 2017 3-th season revenue growth was 18.0 percent. As we see from this indicator, Yili’s revenue is growing steadily. This is just a single performance of Yili. According to 2016 report of world.		

Data source: an original study

CHAPTER FIVE

CONCLUSION

Yili is the largest dairy company in China, that owns over 100 type of product. The company owns factory also in abroad, its News Zealand at Glenavy on the east coast of New Zealand's South Island about 100km north of Dunedin. Yili is the fourth largest dairy processor in the world, with a sales turnover of A\$11.7 billion in 2016, has already reported an 11.3 percent improvement on last year for the first six months of this financial year.

In 2013, the company made its first overseas dairy factory investment outside China by buying Oceania Dairy from a group of investors who had nothing more than a shell of a company, a block of land on the South Island at Glenavy. Yili invested about A\$240 million in its stage one development of the green fields site, that included a 10 tonn an hour milk dryer, associated boilers and other equipment and a small laboratory for testing its products. Oceania dairy had 75 workers when Yili started own it, but today had risen to 225 today, mostly from the local community. Oceania Dairy has 73 dairy farmers supplying the processing plant, with average 600 milkers. All are within a 50km radius of the Oceana factory. Why I mention this example is Yili grown day by day. We can see permanent growth example of this small company. Business model Canvas proof this indicate so clear.

Yili's each business model sector is generally strong and equally interacting. As a researcher of a business model of Yili, make a highlight on customer segment indicator is shown high response. In my experience, it is difficult for a Chinese company, especially economic situation. But Yili has a big department of relation, also they know English fluently during visit one of the guide and introduce Yili. First, they provide people who interest about Yili, provide see the museum with full explanation, if there is some

another deep reason, can get permission for another chance too. From this point of view, Yili's customer segment is definitely strongest.

There is one more another the strongest segment is Revenue Streams. Yili has attracted the world through could reach double-digit revenue in 2016. There is no doubt, Yili's business politic, leadership, corporate perspective, business model innovations are strongest in the world. So that, Yili reach Asian number 1, ranked in the world from 4 to 8.

Yili is one of definitely proof of that China turns product to brand in the last a few years. The reason is Yili's Value Propositions focusing on costumer's needs, as well as take care of their health standards. Enhancing product quality is important than building new branch is evident proof Yili's value is the customer. So that customer has been chosen Yili over others. Even price Is higher that other dairy factory over China. This is Interactions in between constructor' and users.

It means Yili already create successfully, efficiency equally, mutual supported.



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