

NEE 0004
BUSINESS MODELLING

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UNIT 1 BUSINESS MODEL CANVAS

Unit structure

- 1.1 Introduction
- 1.2 Learning Outcomes
- 1.3 The basics of the Business Model Canvas
- 1.4 Visual framework for developing, describing, and analyzing a business model canvas
- 1.5 Key components of the Business Model canvas
- 1.6 Summary
- 1.7 Tutor-Marked Assignment
- 1.8 References/Further Reading
- 1.9 Possible Answers to Self-Assessment Exercises



1.1 Introduction

A business model describes how an organization creates, delivers, and captures value in economic, social, cultural or other contexts. The process of business model construction and modification is also called business model innovation and forms a part of business strategy. In this unit you are going to learn about the basics of the Business Model Canvas, the visual framework for developing, describing, and analysing a business model as well as the Key components of a business model canvas.



1.2 Learning Outcomes

At the end of this unit, you will be able to:

- Highlight the basics of the Business Model Canvas
- Visualize the framework for developing, describing, and analyzing a business model
- State and explain the key components of the business model canvas



1.3. The basics of the Business Model Canvas:

The Business Model Canvas is a strategic management tool that serves as a visual framework for developing, describing, and analyzing a business model. It was developed by Alexander Osterwalder and Yves Pigneur and has become a popular tool for entrepreneurs and businesses to map out their key elements and components.

SELF-ASSESSMENT EXERCISE (SAEs) 1

What is a business model canvas?

1.4. Visual framework for developing, describing, and analyzing a business model canvas:

The Business Model Canvas provides a structured way to depict and understand how a business operates. It is a one-page template that helps entrepreneurs and business leaders outline their business model, making it easier to communicate and refine their strategies. It is used to visually represent how a company creates, delivers, and captures value.

SELF-ASSESSMENT EXERCISE (SAEs) 2

Why is a business model important?

1.5. Key components of the canvas, including:

- i. **Customer Segments:** Identifying the specific groups of customers a business aims to serve.
- ii. **Value Proposition:** Defining the unique value and benefits the business offers to its customers.
- iii. **Channels:** Describing the various ways the business reaches and communicates with its customers.
- iv. **Customer Relationships:** Detailing how the business interacts with and maintains relationships with its customers.
- v. **Revenue Streams:** Identifying the sources of revenue and how the business will earn money.
- vi. **Key Resources:** Listing the critical assets, infrastructure, and resources required to operate the business.
- vii. **Key Activities:** Outlining the essential actions and processes the business needs to carry out to deliver its value proposition.
- viii. **Key Partnerships:** Identifying key external collaborators, suppliers, or alliances that are crucial to the business's success.
- ix. **Cost Structure:** Specifying the expenses and costs associated with running the business.

SELF-ASSESSMENT EXERCISE (SAEs) 3

State the nine key components of a business model canvas.



1.6 Summary

In this unit, we have learnt about the definition of business model canvas, the business model important as well as the nine key components of a business model canvas.

1.7 Tutor-Marked Assignment

State and explain the nine key components of a business model canvas.



1.8 References/Further Reading

<https://creately.com/guides/business-model-canvas-explained/>



1.9 Possible Answers To Self-Assessment Exercises

SELF-ASSESSMENT EXERCISE (SAEs) 1

Answer:

The Business Model Canvas is a strategic management tool that serves as a visual framework for developing, describing, and analyzing a business model.

SELF-ASSESSMENT EXERCISE (SAEs) 2

Answer

- The Business Model Canvas provides a structured way to depict and understand how a business operates.
- Business Model Canvas help entrepreneurs design a customized business model.
- It is a visual representation of how a company creates, delivers, and captures value.

SELF-ASSESSMENT EXERCISE (SAEs) 3**Answer**

Key components of the canvas, includes the following:

Component	Description
Customer Segments	Identifying the specific groups of customers a business aims to serve.
Value Proposition	Defining the unique value and benefits the business offers to its customers.
Channels	Describing the various ways the business reaches and communicates with its customers.
Customer Relationships	Detailing how the business interacts with and maintains relationships with its customers.
Revenue Streams	Identifying the sources of revenue and how the business will earn money.
Key Resources	Listing the critical assets, infrastructure, and resources required to operate the business.
Key Activities	Outlining the essential actions and processes the business needs to carry out to deliver its value proposition.
Key Partnerships	Identifying key external collaborators, suppliers, or alliances that are crucial to the business's success.
Cost Structure	Specifying the expenses and costs associated with running the business.

UNIT 2 MARKET RESEARCH AND CUSTOMER SEGMENTATION

Unit structure

- 2.1 Introduction
- 2.2 Learning Outcomes
- 2.3 How to conduct market research and identify target customer segments
- 2.4 Techniques for gathering and analyzing data on customer needs, preferences, and behavior
- 2.5 Importance of segmenting the market to tailor products and services to specific customer groups
- 2.6 Summary
- 2.7 Tutor-Marked Assignment
- 2.8 References/Further Reading
- 2.9 Possible Answers to Self-Assessment Exercises



2.1 Introduction

In this unit you will learn about how to conduct market research and identify target customer segments. You will learn the techniques for gathering and analyzing data on customer needs, preferences, and behavior. You will also be thought the importance of segmenting the market to tailor products and services to specific customer groups.



2.2 Learning Outcomes

At the end of this unit, you will be able to:

- Conduct market research and identify target customer segments.
- State techniques for gathering and analyzing data on customer needs, preferences, and behaviour.
- Highlight the importance of segmenting the market to tailor products and services to specific customer groups.



2.3 How To Conduct Market Research And Identify Target Customer Segments

Market research is the process of gathering and analysing information about your target market to make informed business decisions. To identify target customer segments:

- i. Begin by defining your overall market and then narrow it down to specific segments based on demographics, psychographics, or other relevant criteria.

- ii. Use techniques like surveys, interviews, and data analysis to understand the needs and characteristics of potential customers.
- iii. Identify common pain points or problems shared by members of the target segments.

SELF-ASSESSMENT EXERCISE (SAEs) 1

What is market research?

2.4 Techniques for gathering and analysing data on customer needs, preferences, and behaviour:

Understanding customer needs and behaviour is crucial for delivering value. Techniques for gathering and analysing this data include:

- i. **Surveys:** Collect structured information from customers through questionnaires.
- ii. **Interviews:** Conduct one-on-one discussions to gain deeper insights into customer preferences and motivations.
- iii. **Observations:** Study customer behavior in real-life situations to identify patterns and preferences.
- iv. **Data analytics:** Analyse data from sources like website traffic, sales records, and social media to identify trends and preferences.

SELF-ASSESSMENT EXERCISE (SAEs) 2

State the techniques for gathering and analysing data from market research

2.5 Importance of segmenting the market to tailor products and services to specific customer groups:

Market segmentation is the process of dividing a broad target market into smaller, more manageable segments. It's important because:

- i. Different customer segments have unique needs and preferences. Tailoring products and services to specific segments increases their relevance and appeal.
- ii. It allows businesses to focus their marketing efforts and resources more effectively on the most profitable segments.
- iii. Segmentation can lead to improved customer satisfaction, as customers receive offerings that align closely with their requirements.

By conducting market research and effectively segmenting the market, businesses can better meet the needs of their customers and create strategies that are more likely to succeed in the marketplace.



2.6 Summary

In unit 2, you have been able to learn about how to conduct market research and identify target customer segments and the techniques for gathering and analyzing data on customer needs, preferences, and behavior. You have also learnt the importance of segmenting the market to tailor products and services to specific customer groups.

2.7 Tutor-Marked Assignment

What are the importance of segmenting the market to tailor products and services to specific customer groups?



2.8 References/Further Reading

[https://abmatic.ai/blog/role-of-customer-segmentation-in-market-research#:~:text=improve%20business%20outcomes.-,Why%20customer%20segmentation%20is%20important%20in%20mar,Why%20customer%20segmentation%20is%20important%20in%20mar](https://abmatic.ai/blog/role-of-customer-segmentation-in-market-research#:~:text=improve%20business%20outcomes.-,Why%20customer%20segmentation%20is%20important%20in%20mar,Why%20customer%20segmentation%20is%20important%20in%20mar,Why%20customer%20segmentation%20is%20important%20in%20mar)ket%20research,they%20interact%20with%20the%20business.



2.9 Possible Answers to Self-Assessment Exercises

SELF-ASSESSMENT EXERCISE (SAEs) 1

Answer:

Market research is the process of gathering and analysing information about your target market to make informed business decisions.

SELF-ASSESSMENT EXERCISE (SAEs) 2

Answer:

Techniques for gathering and analysing this data include:

- i. Surveys
- ii. Interviews
- iii. Observations and
- iv. Data analytics

UNIT 3 VALUE PROPOSITION DESIGN

Unit structure

- 3.1 Introduction
- 3.2 Learning Outcomes
- 3.3 The concept of a value proposition and how to create a compelling one for a business.
- 3.4 The importance of solving customer problems or fulfilling their needs.
- 3.5 How to communicate the unique value their business offers.
- 3.6 Summary
- 3.7 Tutor-Marked Assignment
- 3.8 References/Further Reading
- 3.9 Possible Answers to Self-Assessment Exercises.



3.1 Introduction

Welcome to unit 3 of Business Modelling. During our lesson in this unit, you will be exposed to the concept of a value proposition and how to create a compelling one for a business. You will also learn the importance of solving customer problems or fulfilling their needs and how to communicate the unique value their business offers.



3.2 Learning Outcomes

At the end of this unit, you will be able to:

- Explain the concept of a value proposition and how to create a compelling one for a business.
- State the importance of solving customer problems or fulfilling their needs.
- Explain how to communicate the unique value the business offers.



3.3 The Concept of a Value Proposition and How to Create a Compelling One for a Business:

A value proposition is a statement that communicates the unique value and benefits your business offers to your target customers. To create a compelling value proposition:

- i. Understand your target customers and their needs, desires, and pain points.

- ii. Identify what makes your product or service distinct from competitors.
- iii. Craft a clear and concise message that highlights the specific benefits customers will receive.
- iv. Ensure that your value proposition resonates with your audience and is easy to understand.

SELF-ASSESSMENT EXERCISE (SAEs) 1

What do you understand by value proposition?

3.4 The Importance of Solving Customer Problems or Fulfilling Their Needs:

Solving customer problems or fulfilling their needs is at the core of a successful business. It's crucial because:

- i. Customers are more likely to engage with and purchase from businesses that address their pain points or fulfill their desires.
- ii. Meeting customer needs builds trust and loyalty, leading to repeat business and positive word-of-mouth referrals.
- iii. Understanding and solving customer problems is the foundation for creating a sustainable and valuable business.

SELF-ASSESSMENT EXERCISE (SAEs) 2

Why do think that fulfilling your customers' needs is the core of a successful business?

3.5 How To Communicate The Unique Value Your Business Offers:

Effectively communicating your business's unique value is key to attracting and retaining customers:

- i. Use your value proposition to clearly convey what sets your business apart from competitors.
- ii. Highlight the specific features, benefits, or advantages that customers will experience.
- iii. Incorporate your unique selling points into your marketing materials, website, and other communication channels.
- iv. Consistently reinforce your unique value through branding and messaging to make it memorable and recognizable.

By creating a strong value proposition and effectively communicating your business's unique value, you can capture the attention of potential customers and build lasting relationships based on meeting their needs and expectations.



3.6 Summary

During our lesson in this unit, we have discussed on the concept of value proposition and how to create a compelling one for a business. You have also learnt about the importance of solving customer problems or fulfilling their needs and how to communicate the unique value their business offers.

3.7 Tutor-Marked Assignment

Why is effective communication in business a key to attracting and retaining customers?



3.8 References/Further Reading

<https://www.amazon.com/Value-Proposition-Design-Customers-Strategyzer/dp/1118968050>



3.9 Possible Answers To Self-Assessment Exercises.

SELF-ASSESSMENT EXERCISE (SAEs) 1

Answer:

A value proposition is a statement that communicates the unique value and benefits your business offers to your target customers.

SELF-ASSESSMENT EXERCISE (SAEs) 2

Answer

Fulfilling one's customers' needs is the core of a successful business because:

- i. Customers are more likely to engage with and purchase from businesses that address their pain points or fulfill their desires.
- ii. Meeting customer needs builds trust and loyalty, leading to repeat business and positive word-of-mouth referrals.
- iii. Understanding and solving customer problems is the foundation for creating a sustainable and valuable business.

Unit 4 REVENUE MODELS

Unit structure

- 4.1 Introduction
- 4.2 Learning Outcomes
- 4.3 Different revenue models and pricing strategies
- 4.4 Factors to consider when setting prices
- 4.5 Summary
- 4.6 Tutor-Marked Assignment
- 4.7 References/Further Reading
- 4.8 Possible Answers to Self-Assessment Exercises



4.1 Introduction

I hope you enjoyed your lessons from units 1 to 3. In unit 4 we are going to treat the different revenue models and pricing strategies as well as factors to consider when setting prices.



4.2 Learning Outcomes

At the end of this unit, you will be able to:

- Explain the different revenue models and pricing strategies.
- Highlight the factors to consider when setting prices.



4.3 Different Revenue Models and Pricing Strategies

The different revenue models and pricing strategies are as follows:

1. **Subscription Models:** In a subscription model, customers pay a recurring fee at regular intervals (e.g., monthly or annually) to access a product or service. This model provides predictable revenue and builds customer loyalty. Examples include Netflix and Adobe Creative Cloud.
2. **One-Time Sales:** In this model, customers make a single payment for a product or service. It's straightforward and can be effective for products with a clear one-time value proposition, like a smartphone or a book.
3. **Freemium Models:** Freemium combines free and premium offerings. Basic features are available for free, while advanced or premium features are offered for a fee. This model helps attract a large user base and monetizes a portion of them. Examples include Dropbox and Spotify.

SELF-ASSESSMENT EXERCISE (SAEs) 1

Mention the three different revenue models and pricing strategies.

4.4 Factors To Consider When Setting Prices

1. **Costs:** Understand your production and operating costs. Ensure that your prices cover these costs while allowing for a profit margin.
2. **Competitive Analysis:** Research competitors' pricing strategies to determine how your prices compare. You can choose to undercut, match, or differentiate based on added value.
3. **Value Proposition:** Consider the unique value your product or service offers to customers. A strong value proposition can justify premium pricing.
4. **Customer Perception:** Take into account how customers perceive your brand and product quality. High-quality brands can often charge higher prices.
5. **Market Demand:** Assess the elasticity of demand. If demand is inelastic (not very responsive to price changes), you may have more flexibility in pricing.
6. **Customer Segmentation:** Segment your market and consider different pricing strategies for different customer segments based on their willingness to pay.
7. **Psychological Pricing:** Use pricing psychology, such as setting prices just below a round number (e.g., \$9.99 instead of \$10), to influence purchasing decisions.
8. **Promotions and Discounts:** Plan for occasional discounts or promotions to attract new customers or boost sales during specific periods.
9. **Dynamic Pricing:** Consider dynamic pricing strategies that adjust prices based on real-time factors like demand, time, or inventory levels.
10. **Testing and Feedback:** Continuously monitor and gather feedback on your pricing strategies to refine and adapt them based on customer responses and market conditions.

Setting the right price is a critical aspect of a business's success, as it directly impacts revenue and profitability. Consider these factors carefully to strike the right balance between attracting customers and generating profits.

SELF-ASSESSMENT EXERCISE (SAEs) 2

State at least five (5) factors to be considered when setting prices.



4.5 Summary

In unit 4 we learnt about the different revenue models and pricing strategies as well as factors to consider when setting prices.

4.6 Tutor-Marked Assignment

State and explain the factors to be considered when setting prices.



4.7 References/Further Reading

<https://www.indeed.com/career-advice/career-development/revenue-modeling>



4.8 Possible Answers to Self-Assessment Exercises

SELF-ASSESSMENT EXERCISE (SAEs) 1

Answer:

The different revenue models and pricing strategies are as follows:

- Subscription Models
- One-Time Sales and
- Freemium Models

SELF-ASSESSMENT EXERCISE (SAEs) 2

Answer:

Factors to be considered when setting prices are as follows:

1. Costs
2. Competitive Analysis
3. Value Proposition
4. Customer Perception
5. Market Demand
6. Customer Segmentation
7. Psychological Pricing
8. Promotions and Discounts
9. Dynamic Pricing
10. Testing and Feedback (Any **five factors are correct**)

UNIT 5 FINANCIAL PROJECTIONS AND FUNDING

Unit structure

- 5.1 Introduction
- 5.2 Learning Outcomes
- 5.3 How to create financial projections, including income statements, balance sheets, and cash flow statements.
- 5.4 The basics of startup funding options, such as bootstrapping, angel investors, venture capital, and crowdfunding.
- 5.5 How to prepare for funding pitches.
- 5.6 Summary
- 5.7 Tutor-Marked Assignment
- 5.8 References/Further Reading
- 5.9 Possible Answers to Self-Assessment Exercises



5.1 Introduction

Finally, we have come to the end of business modelling. We are going to dwell on the last unit, that is unit 5 during this lesson. We are going to discuss on how to create financial projections, the basics of startup funding options and how to prepare for funding pitches.



5.2 Learning Outcomes

At the end of this unit, you will be able to:

- Create financial projections
- Highlight the basics of startup funding options
- Explain how to prepare for funding pitches



5.3 How to create financial projections, including income statements, Balance sheets, and cash flow statements

Financial projections are essential for planning and managing your business's finances.

To create these projections you have to do the following:

- **Income Statements:** Project your revenue, cost of goods sold (COGS), and operating expenses to estimate your net profit or loss over a specific period.
- **Balance Sheets:** Detail your assets, liabilities, and equity to provide a snapshot of your business's financial health at a given point in time.

- **Cash Flow Statements:** Forecast the movement of cash into and out of your business to ensure you have sufficient liquidity to cover expenses and investments.

Use historical data (if available) and make assumptions about future performance to create realistic projections. These documents are critical for budgeting, seeking funding, and making informed financial decisions.

SELF-ASSESSMENT EXERCISE (SAEs) 1

State the importance of financial projections.

5.4 The basics of startup funding options, such as bootstrapping, angel investors, venture capital, and crowdfunding:

Startup funding is crucial to support business growth. Common funding options include:

- **Bootstrapping:** Financing your business with personal savings, revenue, or profits without external investment. It provides full control but can limit growth.
- **Angel Investors:** High-net-worth individuals who provide capital to startups in exchange for equity. They often offer expertise and connections in addition to funds.
- **Venture Capital:** Institutional investors who provide larger sums of capital to startups in exchange for equity. They typically invest in high-growth, scalable businesses.
- **Crowdfunding:** Raising funds from a large number of people (the "crowd") through online platforms like Kickstarter or Indiegogo. Contributors may receive rewards or equity in return.

Each funding option has its pros and cons, and the choice depends on the business's stage, goals, and financing needs.

SELF-ASSESSMENT EXERCISE (SAEs) 2

State the four common startup funding options you have learnt.

5.5 How to Prepare For Funding Pitches:

Preparing for funding pitches is essential to make a compelling case to potential investors:

- **Business Plan:** Develop a comprehensive business plan that outlines your vision, market opportunity, competitive advantage, and financial projections.

- **Pitch Deck:** Create a concise, visually engaging presentation that highlights key aspects of your business, including the problem you're solving, your solution, market size, revenue model, team, and financials.
- **Practice and Refinement:** Rehearse your pitch to ensure you can confidently and clearly communicate your business idea. Seek feedback from mentors or advisors.
- **Know Your Numbers:** Be prepared to answer questions about your financial projections, including revenue, expenses, and profitability.

A well-prepared pitch can significantly improve your chances of securing funding from investors. It's crucial to present a compelling story and demonstrate a strong understanding of your business's financials and market opportunity

SELF-ASSESSMENT EXERCISE (SAEs) 3

Itemise the essential items needed to prepare funding pitches for potential investors.



5.5 Summary

In unit 5 we have discussed on how to create financial projections, the basics of startup funding options and how to prepare for funding pitches.

5.6 Tutor-Marked Assignment

State and explain the essential items needed to prepare funding pitches for potential investors.



5.7 References/Further Reading

<https://www.growthink.com/business-plan-financial-projections>

<https://www.startups.com/library/expert-advice/5-types-startup-funding>

<https://www2.fundsforngos.org/cat/steps-for-developing-the-perfect-pitch/>



5.8 Possible Answers To Self-Assessment Exercises

SELF-ASSESSMENT EXERCISE (SAEs) 1

Answer:

Financial projections are essential for planning and managing your business's finances.

SELF-ASSESSMENT EXERCISE (SAEs) 2

Answer:

The four common startup funding options are:

- Bootstrapping
- Angel Investors
- Venture Capital
- Crowdfunding

SELF-ASSESSMENT EXERCISE (SAEs) 3

Answer:

The essential items needed to prepare funding pitches for potential investors are:

- Business Plan
- Pitch Deck
- Practice and Refinement
- Know Your Numbers