

The Problem Approach & Revenues

PRACTICAL CLASS #2

Spring 2025

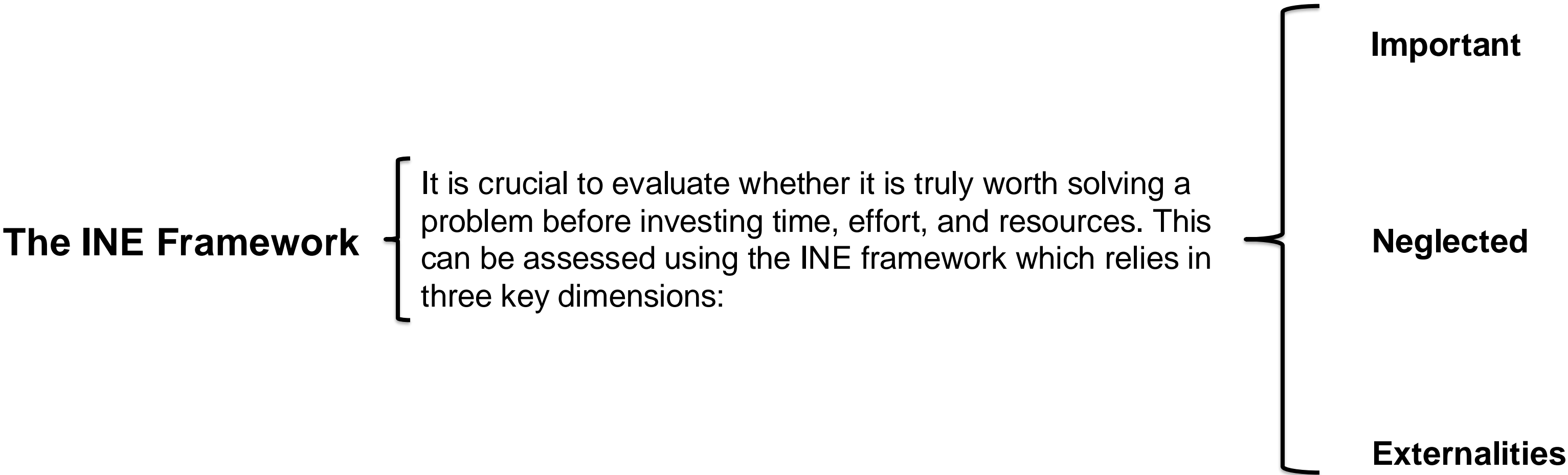


Agenda

1. The Problem Approach
2. Revenues
3. Exercise - Group Time



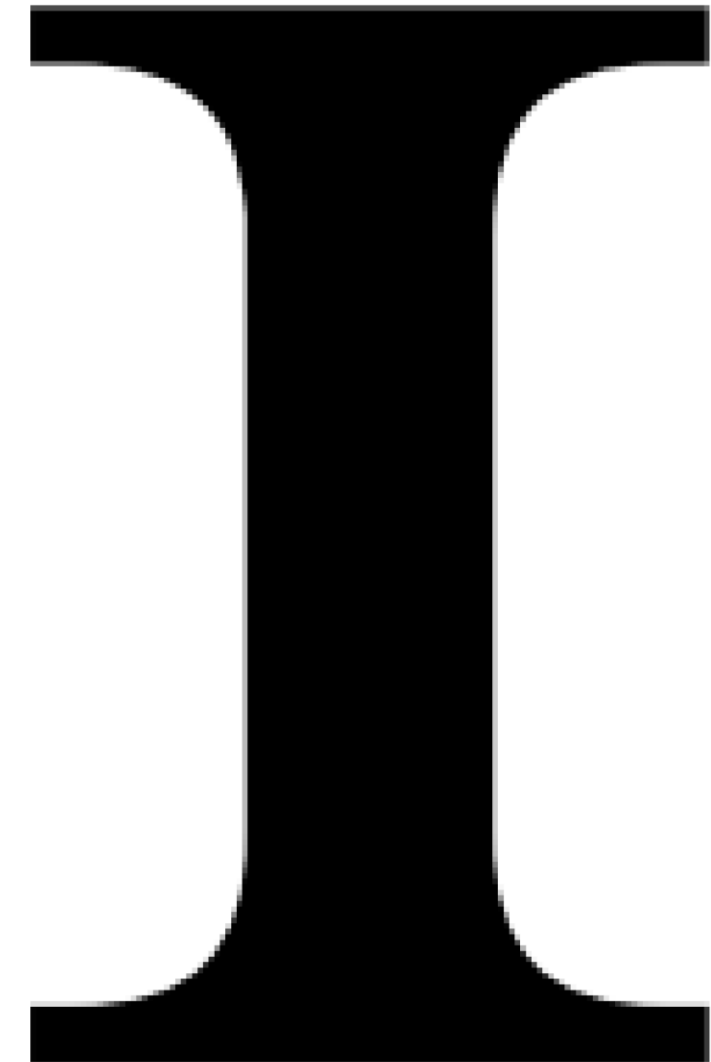
The Problem Approach & Analysis



The Problem Approach & Analysis

The **INE Framework** covers:

- **Important:** A problem is important when it affects negatively a great number of people or when it has extremely negative consequences to a small segment of the society. A critical problem affects very negatively a great number of people.
- **Examples:**
Climate change affects the entire planet causing rising sea levels, extreme weather, and biodiversity loss.



The Problem Approach & Analysis

The **INE Framework** covers:

- **Neglected:** A problem is neglected when it is not being solved by the different social agents (public or private – governments, markets or civil society). This happens or because the problem is ignored by the society, or because of its solution is not effective or very expensive.
- **Examples:**
 1. It is not neglected in developed countries. There is High public awareness and global policies (Paris Agreement)
 2. It is moderate neglected in developing countries. These countries struggle to implement climate solutions due to lack of resources.

A large, bold, black serif font graphic of the letters 'IN'. The 'I' is a simple vertical bar with a small serif at the top and bottom. The 'N' is composed of a vertical bar on the right and a diagonal bar connecting the top of the 'I' to the bottom of the 'N'.

The Problem Approach & Analysis

The **INE Framework** covers:

- **Externalities:** Problems whose solutions have positive externalities or spillovers are the ones whose resolution creates more value to society, when compared to the one considered by the usual market mechanisms. These are the most common areas where the social entrepreneurs work because they are frequently neglected and important!
- **Examples:**
 1. Investing in renewables creates jobs
 2. Climate action helps prevent natural disasters and economic disruptions.



Problem Tree

A Problem Tree is a tool used in problem analysis to visually map out the causes and effects of a central issue. It helps identify the root causes and consequences of a problem

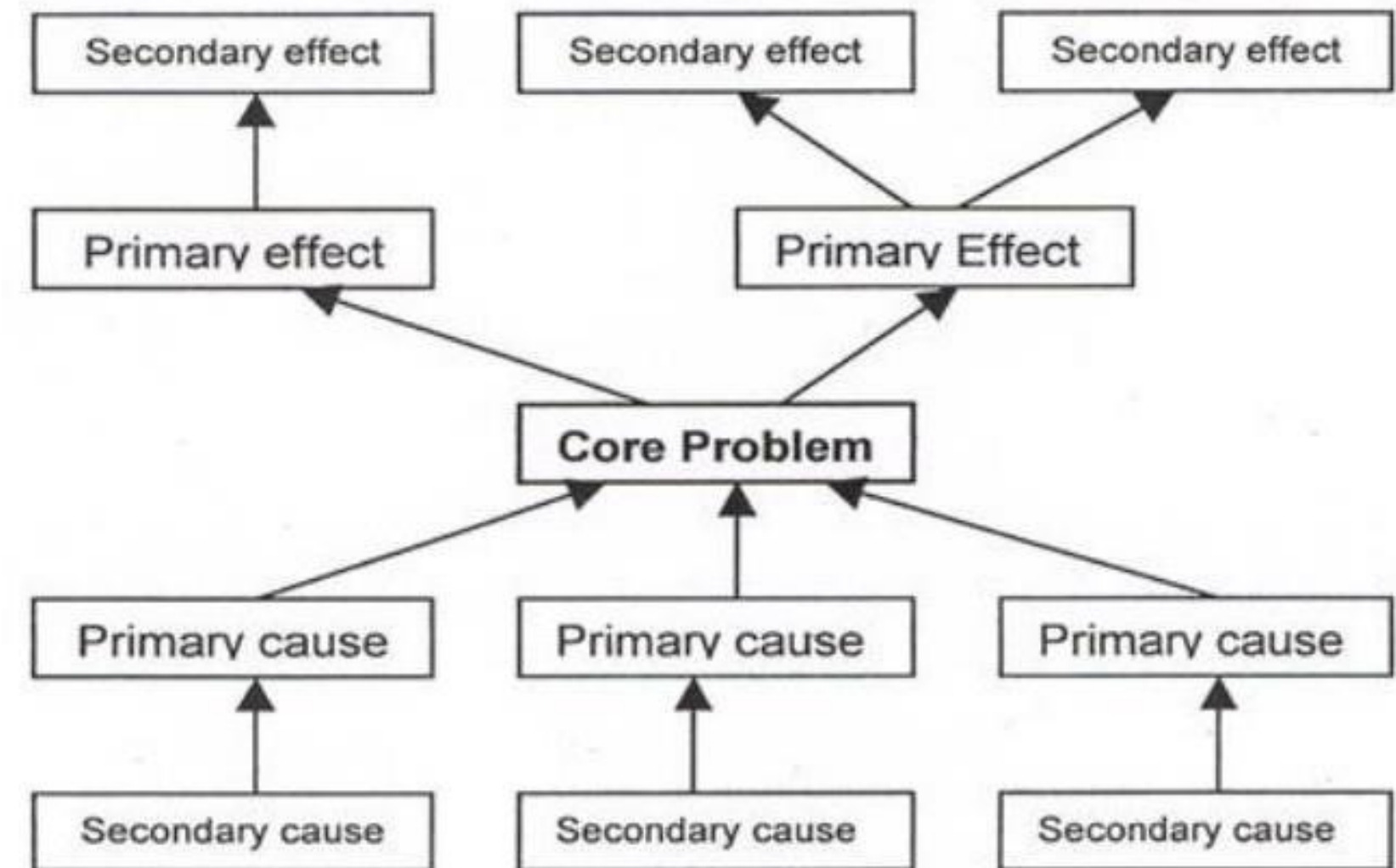
Core Problem: Represents the central issue that needs to be addressed

Causes: Are the reasons why the problem exists

Effect: These illustrate the outcomes or consequences of the core problem.

Benefits:

- Clarifies the complexity of an issue
- Helps prioritize interventions
- Facilitates stakeholder discussions



Revenue is the total income generated by the sale of goods and services related to the operations of the business



Revenue Essentials

- In short and simplified fashion, revenue is the product between the **quantity** of goods or services sold by a company and the **price** at which it was sold
- They are traditionally generated by **sales** and are also called **turnover**

$$TR = P \times Q$$

$$TR = (P_1 \times Q_1) + (P_2 \times Q_2) + \dots + (P_n \times Q_n)$$

- Finally, and while there are plenty of different types of revenues, they may generally be divided by whether they are **operating revenue**, related to the company's main business, or **non-operating** if that's not the case.
- They may also be considered recurring or **non-recurring**, depending if it is expected to continue in the future.

Types of Revenues

NON-EXHAUSTIVE

- **Sales** refers to providing goods and services in exchange for a sales price
- **Subscriptions** are recurring revenue exchanging regular payments for providing goods/services over a specific period
- **Licenses** refer to recurring revenue authorising a customer to use software/intellectual property over a certain period
- **Rents** refers to recurring revenue authorising a tenant to use a property/land over a specific period
- Other financial revenues include **interest**, **dividends**, or **royalties**



Pricing Strategies

- **Value-based** pricing consists of targeting consumers' willingness to pay (WTP) on the pricing decision
- **Cost-plus pricing** means adding an ideal profit margin to cost
- **Competitive pricing** refers to setting prices based on those practiced by the competition
- **Penetration pricing** is based on setting a lower price point when entering a market, to raise it once a company is more established
- **Price skimming**, on the contrary, starts by setting the highest price and gradually going down
- **Dynamic pricing**, popularised by ridesharing companies, consists of adjusting price based on demand and supply at a certain time
- **Two part tariff**, involves charging a customer in two parts: a fixed fee and a variable fee-based consumption

Group Time!

Group 1	Group 2	Group 3	Group 4	Group 5	Group 6	Group 7
69589	56597	69675	62409	62764	56918	62309
69749	66901	69631	62304	69780	69595	66861
69730	69661	69599	69421	68648	66857	56783
69774	69740	69577	69590	69588	56978	69645
				69758	69755	66856

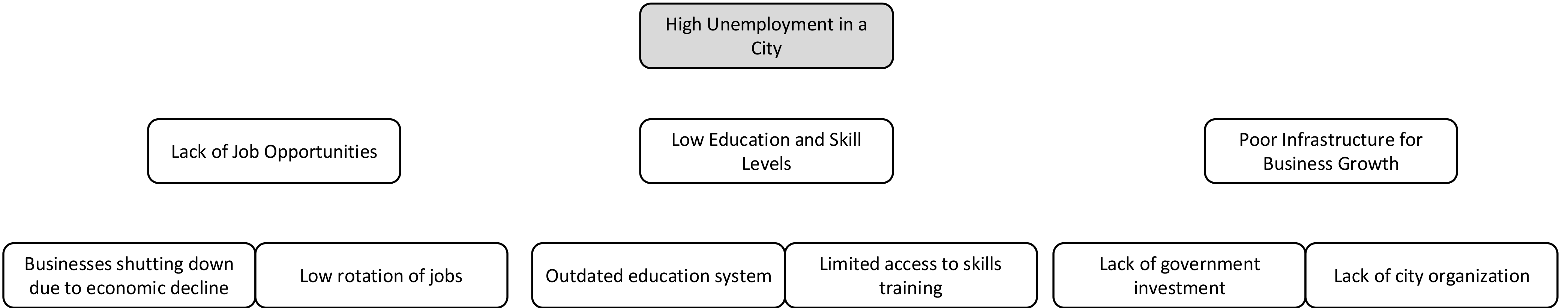
Problem Tree for High Unemployment in a City

High Unemployment in a
City

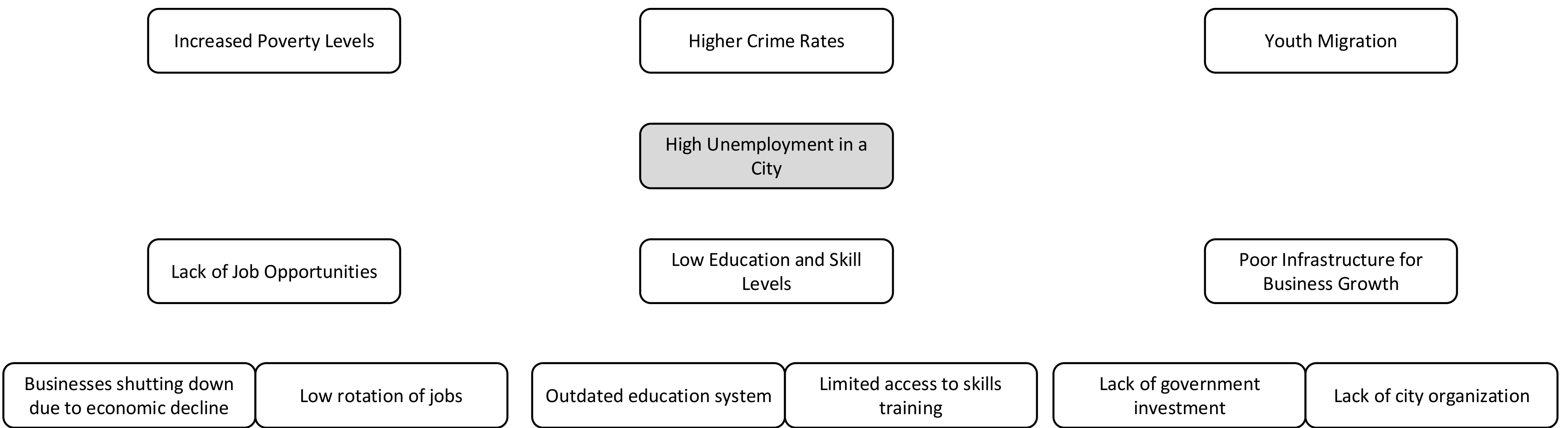
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