

Learning Module 7: Business Models

Q.4027 Which of the following is *least likely* an aspect of a business model?

- A. Pricing model.
- B. Method of service to customers.
- C. Management structure of a firm.

The correct answer is **C**.

The management structure of a firm is least likely to be considered an aspect of a business model. A business model primarily focuses on how a company creates, delivers, and captures value. It encompasses the strategies and practices a company employs to attract and serve its customers, how it positions and prices its products or services, and how it generates revenue and profits.

The management structure, while crucial for the operational execution of a business model, is more related to the internal organization and governance of the company rather than the outward-facing elements that define its interactions with the market and its customers.

A is incorrect. The pricing model is a fundamental component of a business model. It outlines how a company sets prices for its products or services, which directly impacts its revenue streams and market competitiveness.

The pricing model is closely tied to the value proposition, as it reflects the perceived value of the offering to the target customers. It also influences customer acquisition and retention strategies, making it integral to the overall business model.

B is incorrect. The method of service to customers is another critical aspect of a business model. This includes how a company delivers its products or services to its customers, which can range from direct sales to online platforms, and how it ensures customer satisfaction and engagement.

The service delivery model affects the customer experience, operational efficiency, and scalability of the business. It is essential for aligning the company's offerings with customer needs and preferences, thereby supporting the value proposition and contributing to competitive advantage.

CFA Level I, Topic 4 - Corporate Issuers, Learning Module 7: Business Models. LOS (a): Describe key features of business models.

Q.4029 Regarding target customers of a firm as outlined in the business model, which of the following is *least likely* considered?

- A. Type of price discrimination.
- B. Target demographic segments.
- C. The target customer segments that will be served.

The correct answer is **A**.

Type of price discrimination is least likely considered when outlining target customers in a firm's business model. Price discrimination involves charging different prices to different customers for the same product or service, based on factors such as willingness to pay, purchase quantity, or market segment. This strategy is more closely related to the pricing model of a firm, which is a component of the overall business model but not directly related to the identification of target customers.

B is incorrect. Target demographic segments are a crucial aspect of defining a firm's target customers. Demographic segments can include age, gender, income level, education, and more. Understanding these aspects of potential customers helps a firm tailor its products, marketing strategies, and services to meet the specific needs and preferences of its target market.

C is incorrect. Identifying the target customer segments that will be served is fundamental to a firm's business model. This involves specifying the particular groups of customers the firm aims to reach, which could be based on various criteria such as behavior, needs, or other characteristics. Knowing the target customer segments enables a firm to design and implement effective marketing strategies, develop products or services that meet specific needs, and ultimately achieve a competitive advantage in the market.

CFA Level I, Topic 4 - Corporate Issuers, Learning Module 7: Business Models. LOS b: Describe various types of business models.

Q.4030 One of the key features of a business model is a description of what a company offers. Which of the following key issues is *most likely* discussed here?

- A. What differentiates the products of a firm from those of its competitors.
- B. Description of how a firm will deliver its products to its customers.
- C. The types of assets that facilitate the delivery of products to the customers.

The correct answer is **A**.

Describing what a company offers within its business model primarily involves detailing the products or services provided and highlighting what sets these offerings apart from competitors. This differentiation is crucial as it directly impacts the company's value proposition to its target customers. A well-defined differentiation strategy can significantly influence customer preference and loyalty, thereby playing a pivotal role in the company's competitive advantage.

B is incorrect. The description of how a firm will deliver its products to its customers pertains to the logistics and distribution strategies of the company, which are indeed important components of a business model but are not the focus of this question. The delivery mechanisms are about the operational aspects of reaching the customers, which, while crucial, do not directly address the question of what the company offers and how those offerings are differentiated in the marketplace.

C is incorrect. The types of assets that facilitate the delivery of products to customers relate to the operational and infrastructural aspects of a business model. These assets, such as physical stores, warehouses, and online platforms, are essential for the execution of the company's channel strategy. However, this option does not directly address the question's focus on the description of the company's offerings and their differentiation from competitors.

CFA Level I, Topic 4 - Corporate Issuers, Learning Module 7: Business Models. LOS (a): Describe key features of business models.

Q.4032 Which of the following *most likely* describes a channel strategy that involves both physical and digital methods of completing a sale?

- A. Direct sales strategy.
- B. Omnichannel strategy.
- C. Traditional channel strategy.

The correct answer is **B**.

An omnichannel strategy effectively integrates multiple methods of shopping available to consumers, such as online, in a physical store, or through a phone, to provide a seamless customer experience. This approach allows customers to engage with a company in a physical store, on an online website or mobile app, through a catalog, or through social media. A key component of the omnichannel strategy is the ability of customers to complete transactions through both physical and digital channels.

A is incorrect. Direct sales strategy refers to a model where the product or service moves directly from the manufacturer to the consumer without involving intermediaries like retailers, wholesalers, or agents. This strategy focuses on personal selling and direct marketing to engage customers, often bypassing the traditional retail environment. While direct sales can incorporate digital methods, such as online ordering, it does not inherently involve a blend of both physical and digital sales channels in the way an omnichannel strategy does.

C is incorrect. Traditional channel strategy typically involves a linear sequence of product distribution from manufacturers to wholesalers and then to retailers before reaching the end consumer. This strategy focuses on distributing products through conventional physical channels and does not inherently incorporate digital methods.

CFA Level I, Topic 4 - Corporate Issuers, Learning Module 7: Business Models. LOS (a): Describe key features of business models.

Q.4033 A student wishes to buy a laptop. He places an order on an online platform. While placing his order, he enters the preferred pick-up location, among other information. The channel strategy used in this business model is *most likely*:

- A. Direct sales strategy.
- B. Omnichannel strategy.
- C. Traditional channel strategy.

The correct answer is **B**.

The omnichannel strategy involves integrating multiple methods of shopping available to consumers (e.g., online, in a physical store) to provide a seamless shopping experience. In the scenario described, the student uses an online platform to purchase a laptop and specifies a preferred pick-up location.

This approach combines the convenience of online shopping with the physical aspect of picking up the product at a designated location. The omnichannel strategy is characterized by its focus on providing a cohesive customer experience across different channels and touchpoints.

A is incorrect. Direct sales strategy refers to a method where companies sell their products directly to consumers without the involvement of intermediaries like retailers or wholesalers. In the scenario provided, the student orders a laptop online and chooses a pick-up location, which does not necessarily imply a direct sale from the manufacturer to the consumer.

The involvement of an online platform and a pick-up location suggests a more complex distribution model than a straightforward direct sales strategy. Without clear evidence that the sale is happening directly from the manufacturer to the consumer, it is not accurate to classify this as a direct sales strategy.

C is incorrect. Traditional channel strategy typically involves selling products through conventional distribution channels, such as through physical retail stores, without the integration of digital platforms. In the given scenario, the student's ability to order online and choose a pick-up location indicates the use of digital technology to facilitate the sale, which moves beyond the scope of traditional channel strategies.

Traditional strategies do not typically encompass the digital elements or the flexibility in customer interaction and fulfillment options that are evident in this scenario.

CFA Level I, Topic 4 - Corporate Issuers, Learning Module 7: Business Models. LOS (a): Describe key features of business models.

Q.4038 Which of the following is *most likely* true regarding the value chain of a firm? Value chain:

- A. describes how a business model creates value for the owners of a firm.
- B. refers to a sequence of firm internal and external processes involved in creating the products.
- C. only involves functions that customers value and are executed by a single firm. Such functions, however, do not involve the physical handling of the product.

The correct answer is C.

The value chain of a firm encompasses all the activities and processes that a company undertakes to deliver a valuable product or service to its customers. It is a concept that highlights how each step from the conception of a product or service to its delivery to the end customer adds value.

The value chain involves not just the functions that directly contribute to the final product or service but also the support functions that enable these activities to be carried out effectively.

A is incorrect. Option A incorrectly limits the scope of the value chain to only creating value for the owners of a firm. In reality, the value chain framework is designed to understand how value is created for customers through various activities and processes within the firm. It encompasses a broader perspective, including how these activities contribute to competitive advantage and customer satisfaction, not just owner value.

B is incorrect. This option confuses the value chain with the supply chain. While both concepts are related to the processes and activities involved in delivering a product or service, the supply chain specifically focuses on the sequence of processes involved in the production and distribution of a product.

It includes both internal and external processes, such as sourcing raw materials, manufacturing, and logistics. The value chain includes these aspects but also encompasses a wider range of activities such as design, marketing, and after-sales services that add value to the product or service from the customer's perspective.

CFA Level I, Topic 4 - Corporate Issuers, Learning Module 7: Business Models. LOS (a): Describe key features of business models.

Q.4039 Which of the following is *least likely* involved in a firm's value chain analysis?

- A. Developing efficient customer service and support.
- B. Identifying opportunities for competitive advantage.
- C. Identifying the key activities a firm undertakes.

The correct answer is **A**.

Developing efficient customer service and support, while crucial for maintaining customer satisfaction and loyalty, is not directly involved in a firm's value chain analysis to the same extent as the other options. The value chain analysis primarily focuses on the internal activities a firm undertakes to create and deliver products or services to the market.

It examines how each step of the business process adds value to the product or service, with the aim of enhancing competitive advantage and customer value. The value chain analysis is more concerned with the activities related to the production, marketing, delivery, and support of a product or service before it reaches the customer.

B is incorrect. Identifying opportunities for competitive advantage is a central aspect of the value chain analysis. By analyzing each step of the value chain, a firm can identify areas where it can differentiate itself from competitors, reduce costs, or improve efficiency. The goal is to leverage these opportunities to create a competitive edge in the market, making this option an integral part of the value chain analysis.

C is incorrect. Identifying the key activities a firm undertakes is the foundation of the value chain analysis. The analysis of these activities helps in understanding how each contributes to the firm's overall value creation and cost structure. This understanding is crucial for optimizing and strategizing around these activities to enhance the firm's competitive position and profitability.

CFA Level I, Topic 4 - Corporate Issuers, Learning Module 7: Business Models. LOS (b): Describe various types of business models.

Q.4042 Which of the following business models is *most likely* used by an online gaming platform?

- A. Aggregators.
- B. Crowdsourcing.
- C. Hybrid business model.

The correct answer is **B**.

Online gaming platforms often leverage the power of their user base to enhance and expand their content, making the crowdsourcing business model a fitting choice. Crowdsourcing allows users to contribute directly to the game's development, whether through content creation, bug reporting, or other forms of feedback. This approach contrasts with traditional development models by leveraging the collective creativity and expertise of the user base, leading to innovative and user-driven content.

A is incorrect. Aggregators function by collecting and presenting information or products from various sources under one brand. While this model is prevalent in sectors like e-commerce or news websites, where a single platform offers products or content from different providers, it does not align with the core operations of an online gaming platform.

Gaming platforms typically focus on providing a cohesive and immersive experience rather than acting as a marketplace for third-party offerings. Therefore, the aggregator model does not capture the interactive and participatory nature of online gaming platforms.

C is incorrect. The hybrid business model combines elements of both linear and platform-based models, aiming to offer a versatile approach to value creation and delivery. Online gaming platforms thrive on user engagement and content creation, aspects that are more directly supported by a crowdsourcing model. Although a hybrid model could theoretically include elements of crowdsourcing, the question specifically highlights the importance of user contribution, making crowdsourcing the most accurate answer.

CFA Level I, Topic 4 - Corporate Issuers, Learning Module 7: Business Models. LOS (b): Describe various types of business models.

Q.4043 Which of the following statements regarding platform business models is *most likely* true?

- A. Platform business is created from network effects.
- B. Platform businesses are solely based on technology.
- C. It is easy to attract customers at the initial stages of the business.

The correct answer is **A**.

Network effects occur when the value of a product or service increases as more people use it. This phenomenon is central to the success of platform businesses, which often operate by facilitating interactions between different user groups, such as buyers and sellers, service providers, and consumers. The more participants on the platform, the more valuable the platform becomes to each user.

Examples include online marketplaces, social media networks, and ride-sharing services, where the utility and attractiveness of the platform increase with the number of active users, thereby creating a competitive advantage.

B is incorrect. While technology plays a significant role in enabling platform businesses, especially in terms of scalability, efficiency, and reach, it is not the sole basis of their existence. Platform businesses can exist in non-technological forms, such as marketplaces, where the primary value comes from connecting different groups of users. The essence of a platform business lies in its ability to facilitate interactions and transactions among users, which can be achieved with or without advanced technology.

C is incorrect. Attracting customers at the initial stages of a platform business is often challenging due to the chicken-and-egg problem, where the platform needs users to attract more users. The value of the platform is directly tied to its user base; hence, when starting, the lack of an established user network makes it difficult to demonstrate immediate value to potential new users.

CFA Level I, Topic 4 - Corporate Issuers, Learning Module 7: Business Models. LOS (b): Describe various types of business models.

Q.4044 Which of the following is *least likely* an external factor influencing the financial need of a company?

- A. Competitive position.
- B. Sector demand.
- C. Economic conditions

The correct answer is **A**.

The competitive position of a company is considered an internal factor rather than an external one. This is because a company's competitive position is largely determined by its own strategies, operational efficiencies, product or service quality, and market share relative to its competitors. A strong competitive position can provide a company with significant advantages, such as increased bargaining power, higher customer loyalty, and the ability to command premium pricing.

B is incorrect. Sector demand is indeed an external factor that significantly influences a company's financial needs. Changes in sector demand can affect sales volumes, pricing strategies, and revenue generation capabilities. For instance, a surge in demand within a sector can lead to increased sales and profitability, potentially reducing the immediate financial needs for external financing. Therefore, sector demand is a critical external factor that companies must monitor and adapt to in their financial planning.

C is incorrect. Economic conditions are a quintessential external factor affecting a company's financial needs. Economic downturns, inflation rates, interest rate changes, and overall economic growth can all have profound impacts on a company's financial performance and requirements. For example, during economic downturns, companies may face decreased consumer spending, leading to lower sales and increased financial strain.

CFA Level I, Topic 4 - Corporate Issuers, Learning Module 7: Business Models. LOS (b): Describe various types of business models.

Q.4045 Which of the following statements *best* describes macro risk?

- A. Originates from political, economic, legal, and other institutional factors in an economy, country, or region.
- B. Arises when a company's operating results diverge from expectations, independently of the financing methodology of the firm.
- C. Refers to a risk that a company may lose market share or pricing power to other competitors.

The correct answer is **A**.

Macro risk originates from wide-ranging political, economic, legal, and other institutional factors that affect an entire economy, country, or region. These factors can significantly impact investment returns and market dynamics. For example, political instability can lead to uncertainty and volatility in markets, deterring investment. Understanding macro risk is crucial for investors and financial analysts as it helps in making informed decisions by considering the broader economic and political environment.

B is incorrect. Business risk, in fact, pertains to the potential for a company's operations and performance to diverge from plans or expectations due to factors like changes in demand, production costs, or management decisions. While important, this type of risk is distinct from macro risk, which encompasses broader, external factors that can affect all companies within an economy or sector.

C is incorrect. Competitive risk involves the potential for a company to lose market share, revenue, or profitability due to the actions and performance of its competitors. Factors such as innovation, pricing strategies, and marketing efforts by competitors can influence a company's competitive position. Unlike macro risk, which is external and affects entire economies or regions, competitive risk is specific to individual companies and their industry context.

CFA Level I, Topic 4 - Corporate Issuers, Learning Module 7: Business Models. LOS (b): Describe various types of business models.
