

A Unit Economics Model (UEM) of Your Organization

1. What is a UEM?

A UEM is an organization-wide strategy and management tool for the head of a government, a company or a non-profit. Developed in excel, the model aims to incorporate every measurable input that impacts your organization financially. These include capital, economic and organizational inputs, and their accompanying constraints. Any input can be varied individually or in tandem with others to create different business opportunities. The outputs include revenue, expenses, performance ratios, capital needs, and others representing the consolidated financial health of your organization. The model also reveals the sensitivity of any output to any input.

2. What purpose does a UEM serve?

The UEM's purpose is to help your organization increase revenue, efficiency and trust. It draws from and contributes to your budgeting, decision-making and forecasting processes. As with any model, its value depends on accurate historical inputs and sound projections. However the UEM is unique in several respects. Its broad scope incorporates the impacts of the market environment on your organization. Its user-friendly design presents and references every input clearly. And its automation formularizes all input relationships. The model is therefore contextual, unifying and dynamic. This combination makes it useful.

3. What are some specific uses of a UEM?

As a strategy tool, the UEM helps you to evaluate any business opportunity your organization might undertake. What is the best way to minimize the risks and maximize the risk-adjusted returns? The model helps you to assess in-house capabilities, master the market environment by understanding and anticipating the actions of other economic agents (especially competitors), and quantify the direct and indirect costs of pursuing the opportunity.

As a management tool, the UEM helps you improve your organization's performance over time or against chosen benchmarks. The ability to reconcile past market and financial data relationships with forward-looking assumptions strengthens budget rationales and helps achieve rational budgets. The UEM also measures the net present value of any business opportunity, over any time horizon. Multiple opportunities may be conceived and tested, each having different staffing, timelines, investments, asset acquisitions, debt financings, resource allocations, capital outlays, and so forth. Finally, the UEM enables your organization to interact more effectively with outside constituents by incorporating and reflecting its common values, terminology and data.

4. Why should your organization have a UEM?

The UEM becomes a roadmap for realizing your vision. Its creation relies on your inputs and assumptions. Its refinement relies on your usage and directives. It provides a quantitative rationale for everything that you want your organization to do, and ultimately be. It also provides your team with the benefits of using it.