

Financial Valuation of a Business Model as an Intangible Asset

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ABSTRACT

Knowledge-based economies rely greatly on intangible assets. Based on its features, a business model can be an intangible asset; by posing barriers to imitation, it can create competitive advantage and increase a company's value. Hence, a business model's financial valuation is of great importance. Accordingly, the main objective of the present study is to design a process to value business models, using income approach and the concept of competitive advantage. An active corporation engaged in daily deal business was chosen as a case study. Its business model is identified and then valued using the proposed process. The results revealed that the process has reasonable accuracy. Financial valuation of business models is useful for bridging the gap between book value and market value, increasing a firm's ability to raise capital from venture capitalists, improving bargaining power in M&A contracts and providing support in the case of litigation.

Keywords: Business Model, Competitive Advantage, Daily Deal Business, Financial Valuation, Income Approach, Intangible Asset

1. INTRODUCTION

In the late twentieth century, the pattern of economic growth changed drastically and knowledge is now considered as an invaluable asset. In this situation, companies strive to gain competitive advantage by producing, preserving and improving knowledge and intellectual capital (Chen, Zhu, Yuan, 2004). Thus, the market value of companies has risen beyond their book value and, according to many relevant studies, the reason is a considerable emphasis on intellectual capital and intangible assets.

Managers and shareholders demand a better understanding of the real value creation potential of companies. This new concept is achievable through the identification of intangible elements in their companies (Andriessen, 2004). An effective management of intangible benefits and intellectual capital can create specific competitive advantages (Cohen, Kaimenakis, 2007).

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