Introduction

2B (or not 2B) Consulting is pleased to present a comprehensive valuation framework to the Board of Directors of Investors-R-Us. This framework, known as the *eValuation* model, takes into account the fast-moving nature of electronic business. It recognizes the new forms of business models and the new metrics for business in the information economy. We are confident that by leveraging this powerful new model, the stakeholders in Investors-R-Us will enjoy many profitable investments in the near future.

Background

Traditional business valuation techniques are not viewed as being fully effective when applied to today's E-Commerce companies. Many such companies hold few tangible assets and they have high marketing costs during the start-up period.

E-Commerce is Unique

- Pace of change is faster than legislation and regulation
- Technological infrastructure at zero cost
- Traditional valuation models do not fully capture the value of e-businesses
- Continuos evolution in terms of customer value is required
- Large marketing costs are required at customer acquisition and retention

Customer Focus

The first step in any e-business transformation or start-up is knowledge of customer priorities. Performance viability of future e-businesses depend on a clear vision of what customer needs will be addresses. The way new e-businesses do customer analysis and segmentation will determine the true value proposition the business offers. Entrepreneurs will have to consider the following key questions every detail-oriented investor is likely to ask:

- who are the business's customers ?
- how are customer's preferences changing and what do they value most ?

- is the business proposing to carve out a niche or to address unmet market needs ?
- how effective is the value proposition in acquiring and retaining new or existing customers ?

Understanding customer needs really means being able to categorize customers and segment their needs into distinct groups of 'Intangible' indicators. Intangibles can then be systematically and continually analyzed.

Importance of Intangibles

When evaluating an e-business proposal Investors are recognizing the importance of a strong direct relationship between the 'Intangible' and the 'Tangible' or financial indicators of a new e-business proposal. In fact according to numerous professional studies, it is the detailed analysis of the intangibles and developing sound links with the financial information that will enable future business growth. The basic idea is that financial measures alone will undermine the strategies new e-businesses must pursue to survive long term.

An Integrative Approach

Our view is that how skillfully companies manage key non-financial areas of performance will have a significant impact on how they are valued. Therefore, smart companies will have to look at strategically viable ways in which to incorporate intangibles into their regular performance evaluation. The business model we present here is a framework that entrepreneurs can use to integrate intangibles with financial performance measures. On the same note, investors can use this model to identify key variables to measure and value the overall viability and sustainability of potentially successful e-businesses.

Our Intangible *eValuation* model hinges on the basic premise that future long-term profitability is driven by enhanced customer experience. We offer here a comprehensive customer analysis framework which will enable entrepreneurs to pin-point key challenge areas and develop solutions to overcome them. On the other hand the framework also highlights core competency areas and therefore opportunities of leveraging strengths. From the investor's perspective, our model offers a checklist of key areas to undertake detailed analysis before investment decisions can be made.

We have bifurcated Intangible assets into two main segments – the ‘Value Proposition’ and ‘Sustainable Competitive Advantage’. These two segments are further sub-divided as follows, however the Value Proposition basically highlights the product or service that offers value to end customer, whereas, Sustainable Competitive Advantage determines how a company differentiates itself in capabilities and assets that will allow it long-term competitiveness.

Value Proposition	**Sustainable Competitive Advantage**
- Product/ Service	- Management
- Marketing	- Alliances
- Strategy	- Legal/ Tax
- CRM	- Technology
	- Processes

The Formula

$$\left\{ \frac{\dfrac{\text{Gross Revenue}}{\text{\# of Customers}} + \dfrac{\text{Earnings}}{\text{\# of Customers}}}{\text{Risk Free Rate} + \text{WACC} + \text{Market Return}} \right\} * [\ \text{\# of Customers} + (1 + \text{Growth})\ ] + [\ \text{Intangibles}\ ]$$

Our eValuation formula can be categorized into two main areas: Tangibles – revenue per customer, earnings per customer, no. Of customers and customer growth, appropriate discount rates. The second area is the Intangibles.

Some risks to consider

- Customization (Overlapping Businesses - e.g. AOL)
- Growth is Constant and based on Current Economic Situation (No Seasonality or Recession Market)\
- Subjective Attribution of Weights to Intangibles by Venture Evaluators
- Hurdle eValuation Figure needs to be established based on appropriate eBusiness model

Customization

Under the eValuation model all e-businesses models can be analyzed. For example, it is easier to establish the number of customers and growth for E-Auction houses. Similarly, the eValuation model would allow for a heavier weight to be placed on the technological infrastructure of E-brokerage firms.

Case Study

The effectiveness of the *eValuation* model can be illustrated through a case study of Lycos and Yahoo!, two public search engines. After having calculated the Composite Index based on the Intangible indicators of both firms as well as the Tangible indicators, a ratio of approximately 12:1 was found for Yahoo!:Lycos. The importance of this figure is its relativity to the ratio of the market capitalization of both firms, which is very similar. The figures $123.4 million and $1,468.2 million were the derived through our eValuation model. These figures will be able to provide a “Go” or “No Go” decision to Venture Capital firms based on Hurdle Rates established for various business models.

Implementation

The implementation process is carried out in four phases:

Phase I

Framework questions specification
Training

Phase II

Industry templates specification
Web publication preparation

Phase III

Web publication
Traffic generation

Phase IV

Feedback
Maintenance& Support

Conclusion

Our eValuation model takes into account both tangible and intangible business factors. It is comprehensive and possible to customize for many e-business applications.