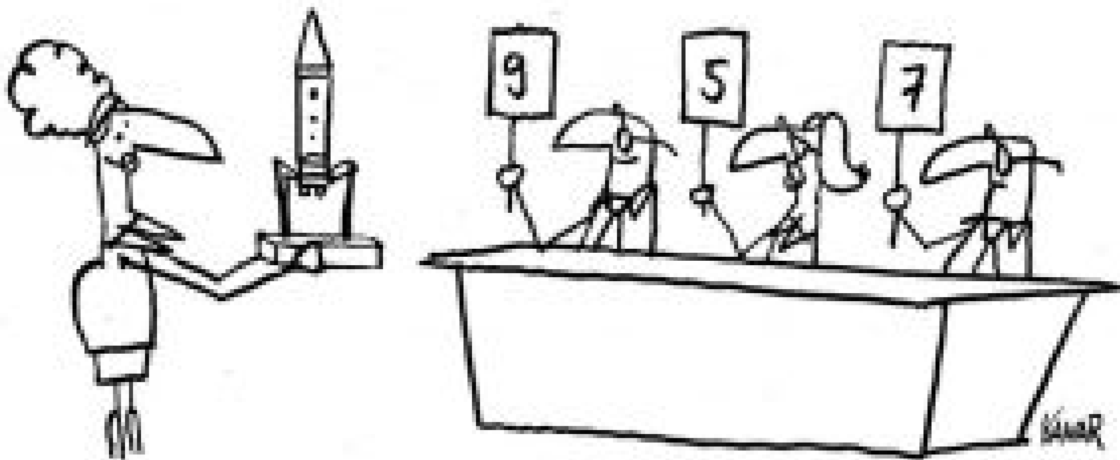
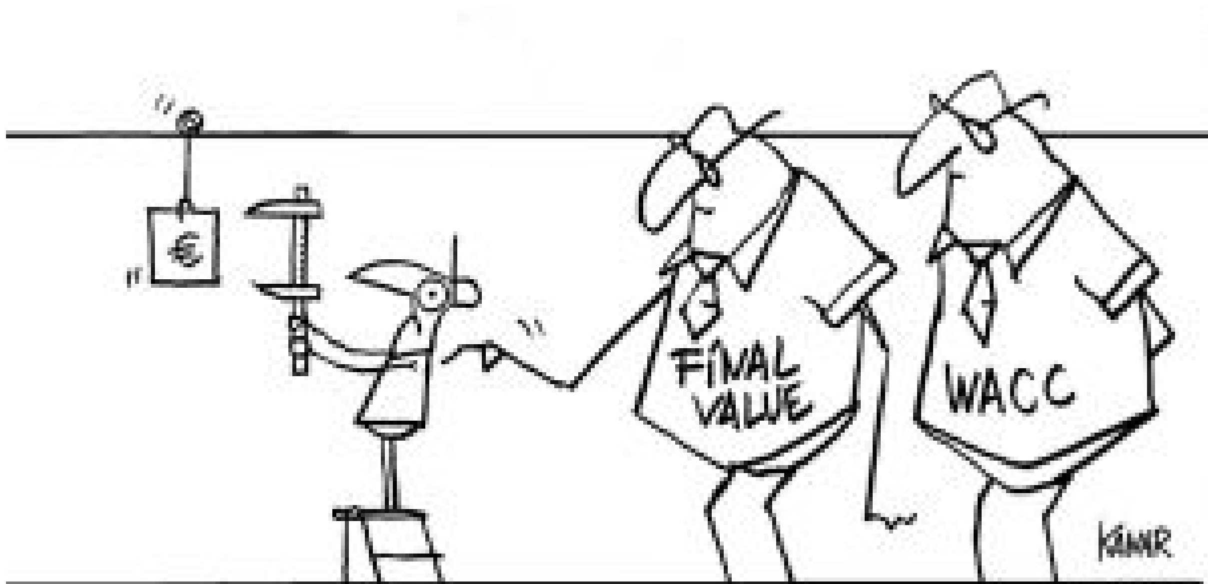
By Benoît Gailly, 17 January 2018

Valuating innovative business models: quantifying the unquantifiable



Valuation is a decision-making process aimed at **making smart bets** on the “least bad” way to “put a number” on a business model, taking into account what is known, what is believed and the remaining ambiguities and uncertainties. Numbers are a necessary evil.



The **net present value (NPV)** method is a very powerful but also very dangerous technique for valuing a business model based on its expected riskiness and potential cash flows. It can in particular be effectively used to compare multiple business models under similar cost of capital and terminal value assumptions.

Sensitivity analysis and scenario planning approaches can be used to **integrate known risks and potential uncertainties** and to reduce the scope of managerial ignorance, provided they are based on challenging business conversations regarding "what you need to believe" rather than black box models and/or blind number-crunching.

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