Business valuation and fundamental analysis

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Business valuation requires adequate fundamental analysis. Fundamental analysis is often confined to the analysis of the firm's historical or current performance or to the analysis of the business plan (which, however, may have been produced for different purposes and with different strategic and sector analysis support).
The article aimed to illustrate the importance of two models of fundamental analysis (I/O and R/B), focused on the company's sector/strategic group and on the company's resources/skills/business model, respectively. The first model (I/O) takes on greater relevance in sectors at the extreme ends of the attractiveness scale (very attractive or unattractive). In all other sectors, the second model (R/B) is more relevant. The analyses carried out on the basis of the two models allow the valuer to form an opinion that includes information of a fundamental nature that traditional financial models tend to exclude.

1. Which fundamentals?

A business valuation is an opinion, not a fact. It is the result of professional judgement, not of a mathematical formula. Accordingly, a valuation must be transparent and substantiated. Fundamental analysis is the basis for business valuations, as it provides logical and rational support to the assumptions underlying them. A valuation should explain how the markets in which the company operates work, where the growth opportunities lie, how the company can fend off competitors (current and potential), what the main sources of risk are, etc. However, this is not always the case, due to the widespread belief that company performance (return on capital), market positioning (market share) and competitive positioning (competitive advantage) are always aligned. If a company has a high return on invested capital and stable market share, it means that it also enjoys a sustainable competitive advantage. From this standpoint, financial results, market positioning and competitive positioning are only alternative ways of describing the same thing. Consequently, it is sufficient to focus attention on financial results and on the business plan, also because they can be more easily integrated into valuation models than analyses of the competitive environment, the business model, the resources available to the company, etc.

However, value is a function of future performance. Future margins, overheads, capital expenditures will depend on the intensity of competition, the ability of the company to maintain or increase its market share, the obsolescence of sources of competitive advantage etc., i.e. variables that are left out altogether of fundamental analysis based only on historical or current performance. The consequence is that many valuations ignore crucial information of a fundamental nature. Often, the choice of researching fundamentals in financial results alone is due to the desire to make use of information that is more certain than the much more uncertain but economically more meaningful information represented by the evolutionary analysis of the sector and the company. However, a fundamental analysis based solely on (past, current and short-term prospective) accounting data and financial results provides a false idea of reliability, as it is rooted in an incomplete information base.

The limitations of this approach emerged in the wake of the Covid 19 pandemic, when many valuations, instead of looking at the next normal scenario, confined themselves to the duration and intensity of the crisis, on the assumption that in a timeframe varying from company to company and from sector to sector things would return to the old pre-Covid scenario. However, there are many signs of structural changes brought about by the pandemic (in purchasing habits, in supply chain organization, in sensitivity to ESG issues, etc.) that a good valuation should describe and acknowledge. If the narrative of what could change for the company and its sector is missing, it means that the valuation excludes a significant part of fundamental analysis. Damodaran calls this part of fundamental analysis more difficult to translate into numbers and to address in financial models – i.e. the story - and says[1] "*one of the most important lessons I have learned is that a valuation that is not backed up by a story is both soulless and untrustworthy* (...)".

Of course, the story that each valuer can tell about

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[1] Aswath Damodaran, *Narrative and Numbers. The value of stories in business*, Columbia Business School publishing, 2017, p. vii.

the same business varies in part, due to professional judgement, but incorporating in the valuation all those fundamentals - from the competitive landscape to business strategy - that financial models would be inclined to exclude is an important step forward in improving the quality of business valuation.

This article focuses on fundamental analysis other than financial analysis. It does not present new models or new analysis tools, but rather presents the process that should be followed to avoid falling into the trap of always considering historical or current profitability as a good proxy for future profitability.

2. Fundamentals and business plan

The value of a business is a function of the profitability and growth that the business is (or is not) able to achieve over the long term in the competitive environment in which it operates. Fundamental analysis is the logical framework needed to understand the drivers of such growth and profitability. Fundamentals are very often confused with the business plan and any valuation based on the DCF model is defined as "based on fundamentals". However, this is not the case. The fundamentals of a company are the determinants of its prospective earning power, its foreseeable development and its risk profile and may (or may not) be reflected in the plan in relation to the different purposes for which the plan has been drawn up (management incentive, loan application, new share issue, etc.).

Confusing the business plan with the fundamentals of the business will lead to major errors, because:

- plans are always designed to improve results over time, and confusing the fundamentals with the plan leads to an enterprise value that increases with the length of the forecast horizon. Applying the DCF model to a five-year plan yields a higher value than that which would be obtained by basing the valuation on a three-year plan. It is as though the enterprise value were a function of the extension of the plan horizon;
- current results are the result of the company's market positioning, which does not necessarily coincide with its strategic positioning[2]. A company may in fact enjoy a large market share as a result of correct choices made in the past, but lag far behind the competition in terms of its ability to introduce new products, innovate its offering, etc. (= weak strategic positioning). Or, on the contrary, the company may be characterized by a market positioning that is still marginal, but have laid the foundations for a strong strategic positioning capable of achieving significant prospective growth.

Plans should not be confused with fundamentals. Fundamentals are the drivers of expected economic benefits and of the sustainability of current results over time.

The value of any enterprise is based on three main variables:

(i) earning power (and necessary capital base);
(ii) growth prospects (and capital requirements);
(iii) risk.

Fundamentals are nothing more than the determinants of the firm's earning power, growth prospects, risk profiles and capital requirements. Necessarily, fundamentals vary from firm to firm as they depend on the sector, the sources of competitive advantage, the business model, the size of the company, the stage of the life cycle, etc...: in short, they are entity specific.

This means, by way of example only, that two firms - one with a highly concentrated customer base and the other with a more evenly distributed customer base, but equal in all other respects - cannot have the same value. The firm with the more concentrated customer base must be worth less, because it is exposed to greater risks. Again, two firms - one with a pipeline of new products ready to be launched on the market and the other without a pipeline of new products, but equal in all other respects - cannot have the same value. The firm with the pipeline of new products ready to be launched on the market must be more valuable, because it has a better chance of preserving its future earning power.

3. The models

Fundamental analysis does not only concern the company, but also the environment in which it operates. This is due to the fact that company performance is rarely a function of managerial skills alone; more often it is conditioned (and sometimes predominantly so) by the competitive environment. No firm operates in a 'vacuum'.

Business performance depends both on choices under the firm's control (market selection, pricing, investment, execution, etc.) and on factors outside its control (macroeconomic trends, consumer reactions, technological change, etc.). More specifically, the performance of any company is a function of the degree of competition in the sector/market/segment in which it operates and the degree of success (or failure) of its strategy.

[2] In the long term, market positioning (market share) cannot evolve with the strategic positioning of the company (innovation capacity), but in the short term, significant misalignments can occur. Strong market positioning often leads management to err on the side of overconfidence in its ability to maintain its dominant position and to overlook signs of strategic weakening.

The size of the market, the growth rate of demand, profit margins, the type of products/services offered, the distribution channels, the capital needed to carry out the business, the cost structure, etc. all depend on the combined effects of these two factors (competitive environment and strategy).

This is why fundamental analysis concerns two main areas:

(a) the competitive environment;

(b) the competitive advantage (or disadvantage) and the business model of the company.

The most frequent models of analysis are derived from strategic analysis and refer to:

a) the industrial organization model (I/O), which focuses the analysis on the environment in which the company operates and then identifies the main performance fundamentals outside the company;

b) the resource based model (R/B), which focuses on the sources of competitive advantage and the business model and therefore identifies the main performance fundamentals within the company.

The choice of one model or the other depends on the attractiveness of the sector/market/segment in which the company operates. The level of attractiveness defines the degree of relative uniformity of performance of the companies operating in it. However, the relationship is not linear, but takes the shape of an inverted "U".

Referring to a hypothetical scale of attractiveness of sectors, defined, on one end, by extremely attractive sectors (high growth, high entry barriers) and, on the other, by unattractive sectors (declining sectors, high exit barriers), it is intuitive to assume that, in the highly attractive sectors, firms operate with profitability above the cost of capital; in the unattractive sectors, firms with profitability below the cost of capital prevail while, in the intermediate sectors (stable sectors with normal attractiveness), firm performance is much more dispersed (some firms have profitability above the cost of capital, others profitability in line with the cost of capital, and still others profitability below the cost of capital). Thus, the explanation of the performance of firms operating in sectors/markets/segments at both ends of the spectrum (very attractive and unattractive) is mainly external to the firms themselves, that is in the environment in which they operate (favourable and unfavourable, respectively = industry is destiny), while the explanation of the performance of firms operating in intermediate sectors is mainly internal, i.e. their strategy, business model, etc. (industry is not destiny).

The industrial organization model is based on four assumptions:

1) the environment (sector, phase of the economic cycle, etc.) represents the main conditioning factor for firm performance;

2) within each sector, strategic groups can be identified as composed of competing firms with similar strategic resources and strategies;

3) the mobility of resources between firms in the same strategic group means that any distinctive advantage developed by a firm in the group cannot be long-lasting. This fosters the alignment of performance in terms of return on capital (not market share) of firms belonging to the same strategic group;

4) the performance of firms belonging to the same strategic group is to a large extent determined by the attractiveness, or lack thereof, of the sector/segment and the market positioning (market share) of the firm.

The I/O model therefore ties the company's fundamentals to the sector (or more generally to the external environment) and to the company's market positioning (market share) within the strategic group of reference.

On the other hand, the resource-based model is based on four very different assumptions:

1) the resources available to the firm, the capabilities developed for their exploitation and the uniqueness of the key competencies determine the competitive advantage of the firm and thus constitute the main drivers of its performance;

2) only part of the resources at the firm's disposal translates into capabilities and only part of the capabilities translates into key competencies and, hence, into competitive advantage; meanwhile without resources one cannot develop capabilities and without capabilities one cannot develop key competencies;

3) competitive rivalry in a sector/segment is an inverse function of market communality (= frequency of markets/segments in which the same firms compete with each other) and a direct function of the resource similarity of the firms operating in it;

4) the duration of the firm's competitive advantage is an inverse function of its imitability (in terms of time and costs).

Thus, the resource-based model attributes the fundamentals of the firm to the key competencies that it has developed, to competitive rivalry and to the imitability of the sources of competitive advantage. It generally emphasizes the strategic positioning of the firm over its market positioning (market share) in explaining the prospective performance of firms.

Each of the two models (I/O and R/B) provides an initial point of reference for identifying firms in decline. Both the firm operating in an unattractive sector (I/O model) and the firm that - regardless of the sector to which it belongs - lacks key competencies (R/B model) achieve returns below their cost of capital. As is well known, the inability to achieve a return in the medium term that is at least equal to the normal return (cost of capital) leads to progressive decline as the company has difficulty in satisfying all the different

categories of stakeholders (lenders, customers, suppliers, local community, employees, etc.), thereby increasing the costs of failure as stakeholder confidence in the company wanes. A first category of firms in decline is therefore that of firms operating in unattractive sectors or vice versa firms lacking key competencies.

The choice of the analysis model better suited to identify the fundamentals of the specific company to be valued (I/O or R/B) requires a preliminary analysis of the sector/market/segment in which the company operates. In fact:

- the industrial organization model is more appropriate when the firms operating in the sector/market/segment are very similar to one another or the differences among them are not only such as to allow them to achieve significantly different performances, and they are almost equally affected by changes in demand, the bargaining power of customers and suppliers, the threat of substitutes and/or new entrants. These are often markets/sectors that have benefited or undergone value migrations from (or to) upstream or downstream or neighbouring sectors with converging technologies or delivery modes. The industrial organization model is very effective in identifying the fundamentals in all those sectors/segments that are positioned at the two extremes of the attractiveness scale (based on the sector's lifecycle stage and the analysis framework of Porter's five forces). These are either very attractive sectors/segments (developing and/or with: high barriers to entry, suppliers and customers with low bargaining power, no threat of substitutes, low competitive rivalry within the sector) or unattractive sectors/segments (declining and/or with: low barriers to entry, suppliers and customers with high bargaining power, significant threats of substitutes, fierce competitive rivalry within the sector due to high barriers to exit). This is because, normally, within these sectors, firms show returns that are relatively insensitive to the strategy adopted by the firm, since external forces are the main driver of firm performance;
- in sectors that are not at the extremes of the attractiveness scale, the most effective model for identifying fundamentals is the resource-based model, since the ability of the firm to generate returns that are higher, lower or aligned with the cost of capital (= normal return) depends mainly on the business model and the sources of competitive advantage (i.e. the characteristics of the specific firm). The identification of the fundamentals in these cases requires the analysis, on the one hand, of the resources, distinctive capabilities and key competencies that contribute to forming the competitive advantage (or disadvantage) and, on the other hand, of the degree of imitability by competitors of the competitive advantage that defines the competitive landscape - and therefore the sustainability over time of the factors of success (and failure) of the firm. This analysis makes it possible to understand:
  - the sustainability of the competitive advantage held by the firm. In fact, only evidence that competitors' attempts to imitate the competitive advantage accumulated by the firm have ceased or failed can be considered sustainable;
  - the speed with which competitors are able to acquire the skills necessary to duplicate the sources of competitive advantage and therefore how long the competitive advantage can last.

4. The Industrial Organization (I/O) model

The I/O model identifies the external environment as the main driver of the performance of firms operating in the same sector/market/segment. The sector/market/segment in fact defines the barriers to entry, economies of scale, the degree of diversification, product/service differentiation, the degree of concentration (or the tendency to concentrate) and the presence of any market frictions that may hinder the orderly unfolding of competitive forces (imperfect and asymmetric information, resources that are not fungible due to sunk costs, specificity of assets, difficulties in protecting intangible resources with intellectual property rights, etc.).

The importance of the sector in influencing the performance of firms does not only concern the so-called "commodity markets", i.e. sectors with no barriers to entry, where companies have equal access to customers, technology and other cost advantages and are thus characterized by almost equal competitive positioning and where - therefore - any strategy companies adopt can be easily imitated by competitors.

The importance of the sector also concerns areas where companies are seeking differentiation but are unable to achieve returns in excess of the cost of capital. These are sectors where firms have strong brands but are unable to achieve returns in excess of the cost of capital because fixed costs are too high or the market size is shrinking. Differentiation in many sectors cannot generate a competitive advantage because it requires investment in advertising, product development, investment in distribution channels, after-sales services and the volume-price sales mix does not necessarily cover all the costs, and generate a return on the investments, of the firms.

The degree of attractiveness of the sector/market/segment is a function of three elements whose interaction affects - more so for sectors at the extremes of

the attractiveness scale and less so for other sectors - the performance that firms in the sector are able to achieve:

A. the five forces of Porter's model (suppliers, customers, competitive rivalry, substitute products and potential entrants);

B. the stage of the industry's life cycle (growth, expansion, maturity, decline);

C. the strategic group to which the company belongs.

When the analysis of the three factors described shows that the sector/market/segment in which the firm operates is very attractive or, at the other extreme, unattractive, the fundamentals of the firm's profitability, growth and risk are to be sought mainly in the external environment (the dynamics of the sector/segment/market) and in the firm's market positioning, since normally firms operating in sectors at the extremes of the attractiveness scale have returns that are higher than the cost of capital and returns that are lower than the cost of capital, respectively, regardless of the business model adopted.

In particular, if the firm operates in an unattractive market/industry/segment characterized by declining demand, high barriers to exit, low degree of product differentiation, absence of barriers to entry, etc., the causes of the decline are to be sought mainly outside the firm itself, i.e. in the contraction of demand, in the concentration of supply, in the mode of competition among firms. All too often, however, restructuring plans are drawn up that overemphasize the benefits expected from turnaround actions in a static perspective, disregarding both the dynamics of the external environment and the reaction that the restructuring strategy may trigger.

5. The Resource-Based (R/B) model

When the firm is not operating in a sector at the extreme end of the attractiveness scale, the fundamentals are to be sought primarily within the firm itself and not in the external environment. This is due to the fact that in sectors with normal attractiveness, the external environment, while generating threats and opportunities, is not characterized by a clear expansionary or contractionary trend. Industry analysis in these cases is useful to identify the main sources of competitive advantage of the best performing firms in the sector - i.e. proprietary technology, brand, customer captivity, economies of scale, etc. - but not to explain the performance of the specific firm.

In fact, the external environment influences "what the specific firm might do", but it is the internal environment (resources, capabilities, key competencies) that defines "what the firm can do". The resource-based model is predicated on the idea that the firm's performance is primarily attributable to its resources, capabilities and key competencies, which contribute to its competitive advantage.

In particular, resources and capabilities contribute to forming the key competencies (distinctive competencies) on which competitive advantage is based. On the other hand, the risk of losing competitive advantage is a function of:

- the rate of obsolescence of key competencies;
- the availability of substitutes for key competencies;
- the degree to which key competencies can be imitated.

Competitive advantage relates to a firm's ability to generate value (achieving returns in excess of the cost of capital = normal return). The ability to achieve returns in excess of the cost of capital normally means that the firm generates value for the customer and appropriates part of such value. The way in which the firm generates value for the customer and appropriates it defines the firm's business model. In particular, the business model defines how the enterprise makes use of its core competencies to generate value for the customer and for itself.

The ability to generate value in a dynamic environment implies the company's ability to continuously regenerate the key competencies that underpin its competitive advantage. There is no guarantee of permanent success even for dominant firms with a strong competitive advantage. The history of many sectors is littered with cases of dominant firms that have seen their performance deteriorate dramatically because they did not nurture the renewal of their core competencies in time due to an overconfidence that past success was a guarantee of future success.

Like the I/O model, the resource-based model is structured on several analysis profiles:

a) the identification of resources, capabilities and key competencies;

b) the imitability of the competitive advantage;

c) the business model.

Let us examine them separately.

A) Resources, capabilities and key competencies

What a firm can do is primarily a function of the resources at its disposal. These resources are tangible (financial, organizational, physical) and intangible (technology, marketing, relationships, human capital). Resources are not assets: all enterprises have plant, machinery, a logo or a name. In order to be assets, they must be potential sources of opportunities, irrespective of whether the enterprise knows how to exploit these opportunities.

The availability of resources is not in itself a source of competitive advantage, as the firm must have adequate capabilities to exploit the opportunities that a

good use of resources should potentially provide. However, the identification of the resources that the firm controls is a key step in the fundamental analysis as the lack of some key resources is a source of competitive disadvantage.

The identification of the resources available to the firm not only makes it possible to understand what the firm can actually do, but it also makes it possible to understand what resources the firm must have in order to compete in its sector/market/segment. Only few missing resources can be acquired on the market and most of them have to be developed internally; suffice it to think of the development of new customer relationships or the restoration of deteriorated relationships with suppliers, or even the rebuilding of the reputation for quality, durability and reliability of the product/service. The loss of such resources as trust and relationships is the most frequent form of manifestation of failure costs for companies in difficulty. This is why financial restructuring, changes in management and sometimes in ownership can enable the firm to quickly recover the wealth of resources that the costs of failure have helped to squander.

Given the same resources, firms can develop different capabilities in different functional areas. There is no correspondence between resources and capabilities. A company may have an established brand name, but lack effective brand promotion; it may have talent in the technical-productive area, but lack the flexibility required by the market in terms of adapting products to customer needs; etc. If resources identify what the company can actually do (in terms of opportunities), capabilities relate to knowing how to do what the market requires with the available resources. Firms in decline may not lack key resources, but rather the necessary capabilities to exploit the available resources. This is the opposite of what happens to companies with great growth potential, where capabilities usually exceed the availability of resources (e.g. financial resources) and investors (typically private equity funds) leverage the scalability of the company's capabilities through the transfer of financial resources to achieve significant growth. When capabilities are inadequate, companies are unable to make the Highest and Best Use - HBU - of the available resources. This explains why two firms with the same resource pool but very different capabilities may show completely misaligned performance.

Not all the capabilities at the company's disposal are a source of competitive advantage (= they translate into higher-than-normal performance), as many of them are already common in the sector (the sector's best practices are not a source of competitive advantage, they are the so-called ordinary capabilities, i.e. the capabilities needed for the company to maintain its normal performance in the long term), or are easy to imitate, or are easily replaceable with others already available to competitors. Only certain specific (special) capabilities can generate a competitive advantage. Such (special) capabilities are referred to as core competencies. They are skills that are developed within the firm and can rarely be acquired from outside. Key competencies are capabilities that fulfil four requirements (usually referred to by the acronym VRIN, from their initials). In particular key competencies must be:

a) ***V****aluable* = able to generate value for the customer;
b) ***R****are* = not common among competitors;
c) ***I****mperfectly imitable* = difficult to imitate by competitors or imitable at a high cost;
d) ***N****on substitutable* = not substitutable with other, strategically equivalent, capabilities.

Capabilities that do not meet the four requirements (VRIN) are not key competencies and therefore not capable of generating returns in excess of the cost of capital (= normal return). The idea behind the resource-based model is that no competitive advantage can be built by producing undifferentiated goods, using undifferentiated components, undifferentiated processes and just following best practices. Therefore, while any key competency corresponds to a specific capability developed by the firm, not all capabilities developed by the firm are also key competencies, as they may be common to firms operating in the same sector (ordinary capabilities).

B) Imitability of competitive advantage

In a dynamic environment a firm's competitive advantage must be regenerated continuously, because competitors tend to imitate sources of competitive advantage, thus reducing their rarity. One of the main reasons for the decline of businesses is precisely the inability to regenerate sources of competitive advantage over time. The time and cost of imitating sources of competitive advantage contribute to defining the degree of dynamic competition in the sector; the more easily sources of competitive advantage can be imitated, the more dynamic the competitive environment. In this respect, there are three different types of sector:

- Slow cycle markets: these are sectors where firms are protected from imitation of competitive advantage, as competing firms find it difficult to reproduce it or have to bear significant costs, with risks of failure. In these markets, the firm's actions are aimed at protecting, maintaining and extending its competitive advantage;
- Fast cycle markets: these are sectors where the sources of competitive advantage change rapidly and/or are easily imitated. In these markets, firms must continually regenerate the sources of compe-

titive advantage and the speed with which they manage to replace them is an important factor in the firm's performance over time. Time is of strategic importance: in order to remain successful, firms must renew sources of competitive advantage before they are imitated by competitors;
- Standard cycle markets: these are sectors where the sources of competitive advantage are partially imitable and imitation is moderately expensive. In these markets, firms need to upgrade the sources of competitive advantage, through incremental rather than radical innovation. In the absence of upgrading sources of competitive advantage, the firm is bound to suffer performance erosion.

The identification of the type of market in which the firm operates provides insight into the risk profiles of the business. The greater the imitability of the sources of competitive advantage, the greater the importance of the company's ability to renew key competencies over time (so-called dynamic capabilities).

C) The business model

The term business model is much misused but not clearly defined. Often the term is used in lieu of the mere description of the activities carried out by the firm. In technical language, however, business model has a precise meaning: it represents the way in which a specific company generates value for the customer and appropriates part of that value. The business model defines the so-called "value creation, delivery and appropriation mechanism".

The business model is not directly observable and therefore needs to be recreated through the analysis of five different and complementary profiles that allow us to answer three key questions:
- Why is the business model able to create value?
- What enables value creation?
- How is value created?

Let us consider them separately.

Why is the business model able to create value?

- Logic: any business model must be capable of being depicted through its operating logic, that is, how value is generated for the customer and how the firm appropriates part of that value. Typically, the operating logic concerns the link between the creation of value for the customer and the appropriation of value for the firm. In particular, it is a question of identifying the link between the variables that define the offering (the value proposition to the customer) and the returns for the firm. The logic on which a business model is based may be obsolete in the face of changes in lifestyles, consumption models, relations between companies and technology. Obsolescence manifests itself in a loss of value for customers and/or in the inability of the company to appropriate that value.
- Revenue model: any business model is based on a revenue model that defines the archetype of the model itself. It may be appropriate to provide some examples of revenue models. A typical revenue model is represented by the "razor and blade" model, whereby the sale of a razor at a price lower than its cost promotes its diffusion, which then feeds the demand for consumables (razorblades). Another typical revenue model, called 'freemium', consists of offering some basic services for free (to educate the customer in the use of the service) and simultaneously offering high value-added services for a fee, which, without customer education, would not otherwise be sold. Another model, called "no frills offering", is based on the breakdown of a complex service/product into separately priced elementary components starting from an essential basic configuration (no frills), so as to make it possible to offer such basic configuration at a significantly lower price (low-cost) than the product offered in its standard configuration by competitors. The types of revenue models are so numerous that the term revenue-model zoo has been coined to refer to all varieties of existing models.

What enables value creation?

- Key resources: each business model makes use of specific resources that define its constituent elements. For example, certain business models are capital intensive (i.e. they make use of substantial tangible resources), while others are based on minimizing the amount of invested capital. One example is UBER or FLIXBUS, which are companies that provide transport services without owning the means of transport (which remain the property of the drivers) and use the IT platform and the brand as their main resources to generate customer captivity. This is customer inertia fostered by habit (the UBER customer tends to repeat the purchase on the platform), high switching costs (e.g. related to UBER's once-a-month service billing system) or costs of searching for alternative services (in local markets where UBER's customer would not know where to turn);
- Alignment: value creation requires that the individual elements of the business model be combined in coherent ways that take advantage of their complementarities, interrelationships, and alignment to common goals defined by the underlying strategy of the business model. It would not be possible to adopt a business model like UBER's without a system of rating of the drivers by the customers and/or a system of choice of the car class

of reference (otherwise the drivers would have the incentive to minimize the investment in the car with a consequent reduction of the quality of the service for the customer).

How is value created?

- Activities: the operation of the business model concerns the set of activities put in place to implement a strategy. Often, the business model involves activities that go beyond the boundaries of the firm, permeating upstream and downstream markets.

The analysis of the described profiles should make it possible to identify the firm's business model and, through comparison with the business models of competitors, to understand the reasons for the firm's success/failure. The comparison makes it possible to understand whether the company's business model is obsolete compared to the competition's and the possible bottlenecks that prevent it from being updated (e.g. the absence of adequate skills or resources, the need to divest relevant assets, retraining and skill upgrading, etc.).

6. Conclusions

Business valuation requires adequate fundamental analysis. Fundamental analysis is often confined to the analysis of the firm's historical or current performance or to the analysis of the business plan (which, however, may have been produced for different purposes and with different strategic and sector analysis support).

The article aimed to illustrate the importance of two models of fundamental analysis (I/O and R/B), focused on the company's sector/strategic group and on the company's resources/skills/business model, respectively. The first model (I/O) takes on greater relevance in sectors at the extreme ends of the attractiveness scale (very attractive or unattractive). In all other sectors, the second model (R/B) is more relevant. The analyses carried out on the basis of the two models allow the valuer to form an opinion that includes information of a fundamental nature that traditional financial models tend to exclude.