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COMPANY EVALUATION SUGGESTED FACTORS

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Quick Summary: There are many factors that can be used to evaluate a company; here is one such list.

Abstract:

Once it is decided to formally evaluate a company, the next task is to decide what to evaluate and how to perform the evaluation. A practical method of starting the process is deciding which business categories should be evaluated and then developing a series of items to grade within each category. With a few iterations of this process, a series of meaningful items to be evaluated, and a method of analyzing the results will emerge.

The article in this series, 3.020504, "[A Framework for Evaluating a Company](#)," describes a technique that might be useful in evaluating a company's current state in terms of its progress, execution, and market position. The approach involves using a grading system as shown in the table below and described in the article referenced above, and applying it to a series of factors divided into several categories. After the grading of each item is complete, an average for each category can be calculated, and the results can be examined.

Grading Scale (Integers Only)	
5	Outstanding, best-in-class of similar companies
4	Well above average
3	Acceptable, meets expectations
2	Not up to PAR, detrimental but not fatal
1	Serious shortcoming that needs to be addressed
S	Potential Show Stopper that could be fatal
blank	Not enough information to grade or not applicable

Of course, there can be hundreds of factors that could be examined in the evaluation process. Below is a suggested list of the categories and factors that have proven effective and represent a reasonable balance between practicality and completeness. It comprises nine categories with seven to eleven factors or items. The total number of items that need to be graded (or left blank) is seventy-five. The grading exercise can be completed in a few minutes based on the grader's familiarity with the company and the market. Obviously, if research is required to grade some of the items fairly, the length of time associated with the grading process could be considerably longer.

No attempt has been made to weigh the relative importance of an item or category; each is considered to have the same importance. This assumption will not be correct in many instances. The grader needs

to make their own weightings considering the actual circumstances for a company. For example, consider the Traction category. For a pre-revenue company that has not launched a product or service offering, grading its market traction would not make sense. On the other hand, if a company has launched a product and is expecting customer orders, the Traction category may be the most important.

As another example, if a company is considering raising money or an investor is evaluating the company, the Investor category results need special attention. Conversely, the Investor category could be ignored if outside investors are not pursued.

The items defined in the table below were intended to be applicable to product or service companies, business-to-business companies, or business-to-consumer companies. With its attempt to appeal to all of these variations, some of the items may not be as applicable to one particular company as they are to another. Item changes can be made as desired.

The Company is...		
Market	1	is addressing a large and growing market
	2	with a unique and defensible solution
	3	that fits into a defined category
	4	that solves a serious and recognized problem
	5	that typically has reasonable sales cycles
	6	that does not require a "concept sell"
	7	and provides a readily identifiable ROI for the customer
Position	8	can describe its unique core competence and value to the marketplace in two or three sentences that can be understood and accepted by mortals
	9	can clearly and concisely differentiate itself from real and "paper" competitors
	10	is viewed as a thought leader with multiple attributes that appeal to prospects other than price
	11	has a high probability of becoming one of the top three companies in its targeted markets
	12	is unlikely to be "squashed" by large incumbent competitors with a large installed base and deep pockets
	13	has issued patents and unique trade secret "know-how"
	14	has a clear plan for the introduction of new products to enhance their market position and revenue (not a one-trick pony)
Traction	15	offers an obvious and accepted compelling reason to buy now from the company
	16	is viewed as a safe choice that will have minimal detrimental effects on the customer's current business or methods
	17	will provide a superior experience to the customer's customer
	18	has a proven and solid distribution strategy with the proper level of contacts and market presence
	19	has a large and credible sales funnel with first-tier prospects
	20	has successfully conducted field trials
	21	has referencable customers that have paid for systems and are using them in "production" environments and are likely to buy more
	22	probably has/will have high customer retention rate (sticky/unique or high conversion \$)

	23	has/will have high visibility to future revenue (multi-year contracts, SaaS, etc.)
Mngmnt	24	has a complete management team that
	25	can grow with the business
	26	understands customer needs
	27	is not hung up on technical elegance
	28	is frugal
	29	is willing to make tough business decisions
	30	has filled critical roles and has a low turnover of employees
	31	has a customer-driven culture and is committed to Delighting Customers
CEO	32	has built a strong and cohesive senior management TEAM
	33	is an open minded, listener that solicits opinions and can adapt to ever-changing environments
	34	has the proper balance between tactical and strategic activities
	35	is an effective leader
	36	is an effective manager
	37	can or has "right-sized" the company as required by market and business conditions
	38	is customer oriented and sensitive
	39	has internal and external credibility
	40	can take the company to the next level
Engrg	41	has a mature development organization that is scalable and has the correct emphasis on process, quality, and delivery commitments
	42	product requirements are driven by customers not Engineering's pursuit of elegance
	43	follows detailed, written product requirements that are also the basis of SQA testing
	44	the quality assurance organization is highly effective
	45	products meet the Fitness for Use criteria at reasonable levels with no serious shortcomings
	46	is not hung up on "Not Invented Here"
	47	product costs are in line with market requirements
Ops	48	has implemented the appropriate level of internal processes
	49	has demonstrated a willingness to outsource not critical portions of the business
	50	is able to focus on specific opportunities and can say "no" when necessary
	51	has the appropriate balance between filling and flushing the sales funnel and realistically tracks its progress
	52	understands how to provide all elements of the customer's end-to-end solution to allow successful deployments of their offering
	53	has a scalable distribution model with required collateral material
	54	has the ability to support customers after the sale with a scalable approach including RMAs, upgrades, defect management
	55	has demonstrated that "mere mortals" can install and operate their offering with minimal start-up "pain"
Business	56	is on plan for bookings, revenue, and expenses
	57	has analyzed the potential internal and external risks and understands what they will need to do under each scenario

	58	has or can project acceptable margins that are consistent with required market ASPs and its internal cost structure
	59	has a clear path to cash flow breakeven that minimizes the need for additional, highly dilutive capital infusion
	60	is confident but not arrogant about their ability to get revenue, scale the organization, and win
	61	has obvious multiple exit strategies/potentially interested acquirers
	62	and is attractive to companies that have cash and a fundamental need for the product to enhance or expand their portfolio
	63	has a detailed, realistic plan for the use of funds, with expenditures occurring after specific milestones are met
	64	has a reasonable amount of debt with acceptable covenant and repayment terms
Investment Opportunity	65	provides an attractive opportunity vis-à-vis others under consideration
	66	has a clean Cap table
	67	does not have any unusual or draconian terms in their Operating Agreement
	68	can directly benefit from our market experience and contacts
	69	compliments and does not conflict with other portfolio companies
	70	Is addressing a market segment that is on our investment roadmap
	71	can project an acceptable return within our investment horizon
	72	has a reasonable company valuation considering their current status
	73	does not have any cap table, business, or legal complications that need to be addressed before closing
	74	likely not to incur significant dilution in future rounds
	75	will not require an inordinate amount of our time

In order to keep the listing manageable, some of the descriptions are brief and may be subject to interpretation. Rather than hold lengthy debates on each item, the intent needs to be kept in mind that this exercise is an attempt to add some level of objectivity in the evaluation process. It should be used with other methods to obtain a realistic evaluation of a company.

One item, number 45, requires some additional explanation. It involves the Engineering or Development Team's conscious prioritization of thirty Fitness for Use characteristics. These characteristics include attributes such as reliability, scalability, installability, maintainability, and modularity. In their day-to-day development activities, each developer will make conscious decisions regarding the importance of these factors. Their prioritization decisions may not align with others in the development organization or within other elements of the company. For example, if the product's first version is installed by internal company personnel, installability may not be a priority. However, if that version will be installed by customers with limited knowledge about the product, then installability may be far more important than features, functionality, or performance. It is important that all groups within the company agree on the priority of these items to ensure that the company's product or service and business goals align. The article in this series, 6.030304, "*Fitness for Use Decisions*," discusses the FFU concept more thoroughly.

An implication of the above example is the consideration of time or maturity of the company. The company may have consciously decided not to round out the entire management team in its early stages. Instead, they may expect key individuals to assume multiple roles. For example, the CEO may take on the role of the Sales VP. In these cases, lower grades may be acceptable.

As discussed in the "*A Framework for Evaluating a Company*" article, the table shown above can be incorporated into a spreadsheet or word processor document to form a tool that multiple individuals can use to evaluate a company. The resulting numeric calculations, although useful, need to represent only one aspect in developing an overall evaluation of a company. A tool modeled after this article has been developed and is available in Volume 8 of this collection, as described below.

Two tools have been developed. The first, referred to as "Basic" consists of an Excel™ spreadsheet that lists the items shown above and allows either three companies to be evaluated side-by-side. Alternatively, three users can sequentially grade the same company.

The second tool is a superset of the Basic Tool and is referred to as the Advanced Tool. Grading data for three companies or users is added exactly the same as with the Basic Tool. The Advanced Tool contains different graphics, charts, and other analysis features to help interpret the grading data. The Advanced Tool uses several Macros (Visual Basic routines) to help manipulate the grading data. User instruction manuals are available for both versions.

Below is a summary of the two Volume 8 articles that provide access to the two tool versions and the associated user manuals.

Article: 8.020101 Investor Assessment Tool: Basic Version

Includes downloaded versions (for registered users) of:

COMPANY GRADING TOOL v1_BASIC.xls

Company Grading Tool User Instructions v1_Basic.doc

Article: 8.020102 Investor Assessment Tool: Advanced Version

Includes downloaded versions (for registered users) of:

COMPANY GRADING TOOL v1_Advanced.xlsm (Macro enabled)

Company Grading Tool User Instructions v1_Advanced.doc