



ValuCompass

Red Flags

Red Flags are important issues or ‘watch-outs’ that can negate some, or all, the value of your business, and compromise performance. While Red Flags are “Driver Specific”, these issues penetrate into other Drivers essentially affecting the entire business.

If an owner is trying to raise capital, hit growth targets, attract stellar employees or a buyer, these are the types of issues that will bubble up during due diligence and can compromise achieving one’s business objectives.

Below you will find more information on each of our Red Flags.

- Company Overview**
- Customer Diversification**
- Business Growth**
- Human Resources**
- Legal Matters**
- Margin Advantage**
- Operations**
- Revenue Streams**
- Senior Management**



To learn more about our software, tools, and payment options, reach out to one of our sales executives: support@valucompass.com

Company Overview

Make it easier for any stakeholder (present or future) to gain a holistic understanding of the company.

When Company Overview comes up as a Red Flag, it is an indication that it is not easy for a stakeholder to gain a holistic understanding of the company.

Company Overview is an involved Driver, however, there is one specific indicator that often come up as a problem area during the Deep Dive:

Company Culture: A valuable company has a strong, positive culture where employees are proud of their individual jobs and proud of the company they work for. Unhappy employees is usually a sign of a bigger underlying problem in the organization.

If Company Overview is a Red Flag, it is important that you begin to address this issue as soon as possible as it not only is impacting your Value Gap but is also affecting your business as a whole.



Customer Diversification

To minimize risk, the company must diversify its customer base

When Customer Diversification comes up as a Red Flag, it is an indication that the company does not have a diverse customer base.

Customer Diversification is an involved Driver, however, there is one specific indicator that often come up as a problem area during the Deep Dive:

Customer Diversification: If your business is dependent on only 1-3 customers, you have all of your eggs in one (or a few) baskets which equals significant risk. Some capital providers or buyers will not want to assume this level of risk.

If Customer Diversification is a Red Flag, it is important that you begin to address this issue as soon as possible as it not only is impacting your Value Gap but is also affecting your business as a whole.



Growth

The company needs to show a growth history greater than competitors and projections above the norm.

When Growth comes up as a Red Flag, it is an indication that the company cannot show a growth history greater than competitors and projections above the norm.

Growth is an involved Driver, however, there is one specific indicator that often come up as a problem area during the Deep Dive:

Company Growth: Flat or declining revenue will make others pretty wary that your business has a bright future.

If Growth is a Red Flag, it is important that you begin to address this issue as soon as possible as it not only is impacting your Value Gap but is also affecting your business as a whole.



Human Resources

The company must be able to efficiently and effectively attract, find, train, and retain quality employees.

When Human Resources comes up as a Red Flag, it is an indication that the company is not able to efficiently and effectively attract find, train, or retain quality employees.

Human Resources is an involved Driver, however, there are two specific indicators that often come up as problem areas during the Deep Dive:

Organizational Roles & Responsibilities: Ambiguous employee roles and responsibilities is a sign of deeper organizational issues.

Employee Records: Inadequate employee records can make your business difficult or impossible to sell.

If Human Resources is a Red Flag, it is important that you begin to address this issue as soon as possible as it not only is impacting your Value Gap but is also affecting your business as a whole.



Legal

It's essential the company gets its legal house in order and follow all best practices.

When Legal comes up as a Red Flag, it is an indication that its legal house is not in order and best practices are not being followed.

Legal is an involved Driver, however, there is one specific indicator that often come up as a problem area during the Deep Dive:

Litigation: Nothing can kill the value of a company faster than legal issues.

If Legal is a Red Flag, it is important that you begin to address this issue as soon as possible as it not only is impacting your Value Gap but is also affecting your business as a whole.



Margin Advantage

The company needs to prove it enjoys gross and net margins greater than the industry norm.

When Margin Advantage comes up as a Red Flag, it is an indication that the company cannot prove that it is enjoying gross and net margins greater than the industry norm.

Margin Advantage is an involved Driver, however, there is one specific indicator that often come up as a problem area during the Deep Dive:

Margins: Knowing if and how much money your business makes on the bottom line as a percent of sales is critical. Businesses that don't make money aren't valuable.

If Margin Advantage is a Red Flag, it is important that you begin to address this issue as soon as possible as it not only is impacting your Value Gap but is also affecting your business as a whole.



Operations

To achieve any objectives, the company must improve how well it makes good on promises to the market.

When Operations comes up as a Red Flag, it is an indication that the company has difficulty making good (delivering) on promises to the market.

Operations is an involved Driver, however, there are three specific indicators that often come up as problem areas during the Deep Dive:

Suppliers and Contracts: Contracts with key suppliers will give others confidence that you can continue to deliver your products/services without interruption

Industry Standards and Regulations: If you don't pay attention to industry standards and regulations, you may not be in compliance

Delivery Process: A formalized delivery process is the foundation of a valuable company.

If Operations is a Red Flag, it is important that you begin to address this issue as soon as possible as it not only is impacting your Value Gap but is also affecting your business as a whole.



Recurring Revenue

The company should rely on a portion of revenue from contractually committed or recurring customers.

When Recurring Revenue comes up as a Red Flag, it is an indication that the company cannot rely on a portion of revenue from contractually committed or recurring customers.

Recurring Revenue is an involved Driver, however, there is one specific indicator that often come up as a problem area during the Deep Dive:

Future Growth: You cannot show, through contracts (or other reasons) reasons, why your growth trend will continue.

If Recurring Revenue is a Red Flag, it is important that you begin to address this issue as soon as possible as it not only is impacting your Value Gap but is also affecting your business as a whole.



Senior Management

If you're larger than a single-shingle, it's imperative you have a quality and capable leadership team.

When Senior Management comes up as a Red Flag, it is an indication that the company does not have a quality and capable leadership team.

Senior Management is an involved Driver, however, there are three specific indicators that often come up as problem areas during the Deep Dive:

Team Functionality: A dysfunctional senior management team is usually a symptom of deeper issues within a company.

Senior Roles: Unclear senior manager roles and responsibilities is usually a sign of deeper issues within an organization

Reporting Relationships: A "do-it-all" business owner means the value of the business is in the business owner versus the actual operating business. This red flag is one of the biggest and most common for private businesses looking to sell or transfer.

If Senior Management is a Red Flag, it is important that you begin to address this issue as soon as possible as it not only is impacting your Value Gap but is also affecting your business as a whole.

