



# Ten Things You Don't Want to Hear When Buying or Investing in a Company

## The "Red Flag" List By Thomas Smith and Eric Edwards

*Comments that if made during the buy or invest process, should quickly raise your "Red Flag."*

### 1. "We have no real competition"

**Concern:** The company is not in touch with its customer, out of touch with the marketplace or just plain arrogant: Its days of being "fat, dumb and happy" will be short-lived, as the rude awakening is forthcoming. Right now, however, costs are probably out of control and the next generation of product probably well behind schedule. Unfortunately, right now, they are expecting much more for this business than it is worth.

### 2. "The monthly financial statements will not be available until 15<sup>th</sup> (or later.)"

**Concern:** Financial reporting is not a priority in this his Company. They are just not watching their numbers otherwise the financial report would be a bit more timely. When management finally does get around to looking at its numbers, the information is so dated it isn't meaningful.

### 3. "Our job is to separate the customer from his money."

**Concern:** This Company is not customer-centric. It has a short-term focus (this month's numbers) and no long-term vision. If they wake-up and see long-term, they will see no customers, hence no business.

### 4. "Our Business Plan is Simple: Capture 10% of a \$10 Billion Market"

**Concern:** The Company has no focus. It does not have a clear business plan. The sales organization is likely chartered with just producing revenue. As a result, products are over-sold. The Company lacks a fundamental understanding of its own core competency.

### 5. "Our customers are always complaining about something. If it weren't for them, this would be a fun business."

**Concern:** The Company conducts its business in a manner that will achieve this “desired” result. Be careful what you wish for!

6. **“Sometimes I wonder if finance works for this company. They just do not seem to be team players”**

**Concern:** The Company is living beyond its means. The CEO does not like to hear bad news nor will the CEO take kindly to being held accountable for results.

7. **“We have a hard time finding good \_\_\_\_\_ people.”**

**Concern:** This is group has become the institutionalized scapegoat for the Company’s lack of success. Yes, there will be problems here, but most of those problems have been “shoveled over” from the other organizations that have managed to duck accountability for their own failures. If this group is finance, see above.

8. **“Our CEO is a visionary. Our next generation product is going to be a winner because of the CEO’s vision”**

**Concern:** The CEO thinks it is the customer. Probably all of the employees think the CEO is the customer. What does the customer think?

9. **“Our marketing people earn a commission based upon current month’s sales”**

**Concern:** The Company does not have a marketing group, just a large sales organization. The Company may not understand the difference between sales and marketing. No one is concerned with the long-term.

10. **“Our customer support organization does not work well. They just can’t seem fix the customer’s issues and close out the calls.**

**Concern:** This group is probably the most efficient organization within the Company. It has learned to become efficient, because they have more work than anyone else. Their work is the result of product that was oversold by the sales organization and underdeveloped by the product development organization. Meanwhile, they are understaffed because of lack of funds (as the finance organization can not collect payment from the unhappy customer.)