

Discount Rates and Hand Sanitizer

Suppose we are valuing a start-up company. All five of the employees work in the same small open office. No one has their own private office. Let's assume that the office is 750 square feet. The minimum acceptable ratio of hand sanitizer (in ounces) to square footage should be 4:100.

In our example, this would mean that each employee would claim an average of 150 square feet of work space and have at least a 6 ounce bottle of hand sanitizer on his desk. For every one ounce deficiency in this ideal hand sanitizer-to-square footage ratio, a 0.25% penalty should be added to the discount rate.

Why?

Because failure to maintain hygienic / cleanliness standards poses very serious risks to start-up companies. I have seen several situations where the flu has knocked-out several key people at a start-up company. Sometimes this occurs prior to a critical event such as a product launch.

Start-up companies located in cramped facilities are at more risk than companies located in sprawling offices. Further, it is common for people at start-ups to eat lunch together, use the same office equipment and spend time hovering over each others' computers. Also, in start-ups that have mostly young people, there is a lot of personal contact such as hugging, high-fiving, etc.

Of course, the formula above is meant to add some levity. But the risk of having a few key people out of commission at the same time due to lapses in hygiene and cleanliness is very real.

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