Valuation by Stage

Finally, there is the development stage valuation approach, often used by angel investors and venture capital firms to quickly come up with a rough-and-ready range of company value. Such "rule of thumb" values are typically set by the investors, depending on the venture's stage of commercial development. The further the company has progressed along the development pathway, the lower the company's risk and the higher its value. A valuation-by-stage model might look something like this:

Estimated Company Value	**Stage of Development**
$250,000 - $500,000	Has an exciting business idea or business plan
$500,000 - $1 million	Has a strong management team in place to execute on the plan
$1 million - $2 million	Has a final product or technology prototype
$2 million - $5 million	Has strategic alliances or partners, or signs of a customer base
$5 million and up	Has clear signs of revenue growth and obvious pathway to profitability

Again, the particular value ranges will vary depending on the company and, of course, the investor. But in all likelihood, startups that have nothing more than a business plan will likely get the lowest valuations from all investors. As the company succeeds in meeting development milestones, investors will be willing to assign a higher value.

Many private equity firms will utilize an approach whereby they provide additional funding when the firm reaches a given milestone. For example, the initial round of financing may be targeted toward providing wages for employees to develop a product. Once the product is proved to be successful, a subsequent round of funding is provided to mass-produce and market the invention.