

The Tornado Diagram

A Twist on Business Valuation

By Jon Vencil

What is a company worth?

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Using the baseline data calculated earlier, reconstruct the company's total profit equation. Now "adjust" each variable, one at a time, to measure the change in total profit. For example, what if costs per job unexpectedly rise or fall by 11%? What happens to profitability?

Do this for each revenue generating variable and record the result. Now sort these results and plot them on a bar graph. The results are displayed in Figure 1.1.

Figure 1.1 Tornado Diagram Conclusion Val uat ion of busi nesses (publ ic and pr i va te) i nvol ves

