Cheatography

10 Key Questions Evaluating Investment Opportunity Cheat Sheet

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The Challenge

The challenge for entrepreneurs is to incorporate these questions into their own opportunity self-assessment process. Doing so will improve the quality of the entrepreneurial process greatly for all parties involved.

Credit: http://blog.iese.edu/entrepreneurship/2013/12/03/ten-key-questions-when-evaluating-an-investment-opportunity-the-business-angel-approach/

5 Basic Considerations

1. MARKET

Is there a market that can be identified that has an appealing growth potential? (Does it exist or it should be created? What is the feasibility of entry and to what extent?)

2. OPPORTUNITY WINDOW

Is this the right time? (Why today? Why not yesterday? Too early? Too late? How long will the window remain open?)

3. COMPETITION

What is the existing and likely competition? (And to what extent has the sector in which the venture attempts to operate been adequately evaluated, i.e., entry barriers, new entrants, substitutes, customers, suppliers, etc.? What is the profit potential in the this sector?)

4. BUSINESS MODEL

Does it have an economically, and conceptually viable, business model? (Margins, profits, breakeven, etc. What is the required know-how? To what extent can it be protected?)

5. STRATEGY

Does it have a focused and differentiated strategy? (Who are the customers? How are they acquired and retained? What is the value proposition to the customer? How sustainable is the competitive advantage? What operating advantages can be gained from focus?)

By weighing these “ordinary” issues investors and entrepreneurs alike are able to better understand how attractive and viable a business opportunity is. However, for investors an “attractive” and “viable” opportunity is a necessary condition but not sufficient to finally support a decision; the opportunity must also be deemed “investable.”

Additional Questions

1. SCALABILITY

Is the concept scalable? (Or similarly, how big could it become, and as it gets bigger and bigger, how much more profitable will it be and to what extent could the concept be easily replicated?)

2. EXIT

Is there a possible exit for the investor to recover his/her investment with the expected return? (What are the likely options to exit? Can tag or drag along rights be considered?)

3. CO-INVESTMENT

Can the project attract other co-investors to come on board? (If so, to what extent are they likeminded partners to co-invest with? To what extent can other potential co-investors be spotted within the investor’s own network?)

4. RETURN

Does the deal provide an adequate return consistent with level of risk implied? (At what stage of development is the project (technology/product, financial metrics/revenue)? What is the probability of getting an IRR of -100%, 0%, 10%, 20%, 50% or 100%?

5. TEAM

Does it have a complete, committed, compatible and complementary management team (4 C’s)? (Have they work together before? To what extent are their skills complementary? What are the personal objectives/vision of the team’s key members? Are they the kind of people with whom one is able to get on well, and develop a good relationship?)

Investors are always trying to identify attractive business opportunities from good business ideas. However, they particularly need to be very disciplined about selecting “investable” opportunities out of the many business opportunities that they come across. Making an investment decision is a complex process. Knowing what questions to ask can help investors find the right answers to effectively support their decision.