

Venture Risk Assessment

AhITek

David R. Ahlgren
January 1, 2005

Two Different Views

- Entrepreneur
 - Absolute confidence – no problem
 - Very high rewards
 - Just need money
- Investor
 - Everything is a risk
 - Bad things will happen
 - Why risk our valuable resources
 - Capital and reputation

Strategy

- Understand Investor Viewpoint
- Analyze risk categories
- Develop plan to minimize risk
 - Financing
 - Execution
 - Competition
 - Market
 - Technology

Financing

- Lack of funding kills good companies
- Cram down disenfranchises early investors
- Current round
 - Significant increase in valuations
 - Must get to cash flow break even
- Identify future funding sources
 - Potential buyout candidates.

Execution

- Most startups make significant changes
 - New Products, New Markets
- Is management a true team?
- Do they have the ability to adapt?
- Can they stay focused?
- Have they been there done that?

Competition

- Similar products under development
 - Competitors, start ups
- What are the barriers to entry?
 - Do they assure profitability?
- Can you develop a dominating market share?
 - Is this a niche or broad market?
 - What percent can be achieved?

Market

- Will Customers Buy this Product?
 - You cannot force customers to buy
 - Will they pay a high price for good profit?
 - Is it expensive to acquire new customers?
- Is this a Pain Killer or a Vitamin
- Are there other solutions for the Problem?
- Does the customer have to change their business methods or process?

Technology

- Will the product work in a high volume market?
- How much support will it take?
- How much money will it take?
- Is there sufficient market demand to justify the technology development

Action

- Minimize risk in each category
 - Remember - Investors magnify risk
- Show that each risk is manageable
 - Entrepreneur minimize risk
 - Show that risk is less than zero
 - Develop specific plans for each
- Reduce the Risk/Reward ratio