

## Due Diligence Factsheet

### Market

The following factsheet was drawn up by the trade body's Technical Committee, comprised of experts in financial, technical and legal aspects of angel investing. This factsheet on the market has been produced by Martin Brassell at Inngot Ltd and Martin Avison at Pera.

The purpose of market research is to provide information about customer demand, market needs, market size and competition. If you do not perform market research prior to product development you cannot ascertain the size of the target market, the likely volume of sales you could expect, the required unit sell price and hence likely margin available or even whether the product you make is likely to sell at all and therefore whether the investee business will be able to pay back the cost of developing the product in the first place.

#### Top 10 tips

- 1. The Investee Business needs to identify who the customer is and why they are going to want the product/service.** It is quite common for the customer to be different from the user and it is likely that each will require different benefits in order for them to demand the product/service.
- 2. Who is going to pay for the product/service?** The buyer can be different to both the customer and the user? An example would be in the NHS where the buyer would be the procurement department, the customer may be the consultant in charge of a department and the users may be junior doctors or nurses within the department or the patients themselves.
- 3. What are the unique selling points (USPs) for this product?** What makes this different from what could be bought from other providers?
- 4. What is the specific need that the future proposed product/service is meeting?** What is the size of that need?
- 5. Who and what are the competitors – companies and products - to the product the Investee Business is developing?** You need to know as much about the competition as possible in order to decide whether the idea has sufficient merit to proceed
- 6. What is the Investee Business position in the sales channel?** Are they selling direct to the customer? Through a distributor? To a business? The position in the sales channel will affect

both the cost of sales, the number of direct customers who need to be attracted to the offer and the profitability of sales.

7. **Where is the Investee Business going to sell the product?** What is the size, location and accessibility of the market?
8. **What is the time and cost to market?** This will affect how much money the product needs to generate in order to make a profit and the likelihood of a competitor developing a similar or better product/service. In a fast changing market such as electronics or software a long development time could mean the product is obsolete before it is launched.
9. **What is the selling price of the product and how can that price be justified?** Will customers pay the price that you are asking and what is the elasticity? What price does the customer currently pay to resolve this problem?
10. **Is the Investee Business selling into an established market or trying to generate a new market for the product?** With an established market you do not have to persuade the customers that they need to buy but you need to compete on quality, functionality, price or other drivers. If you are trying to create a new market you need to persuade customers that they need your product – how will the IB do this?