Secret Sauce of Market Due Diligence

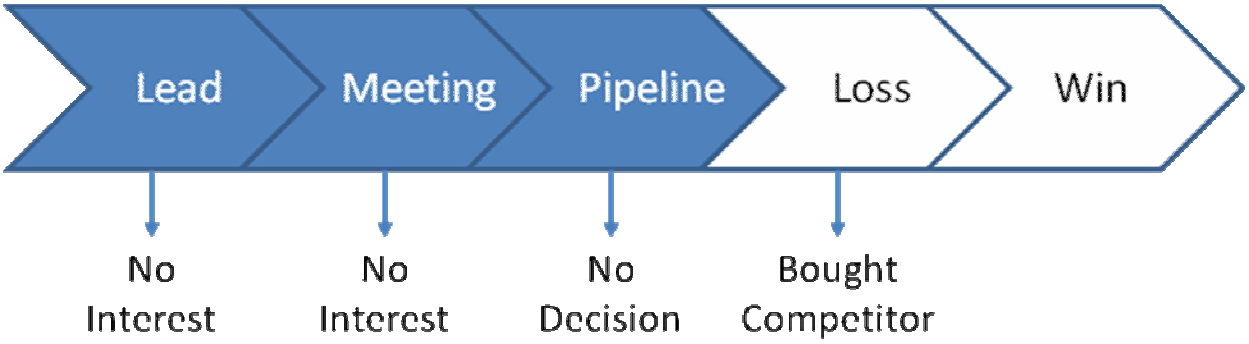
When it comes to venture capital and growth equity investments, the bottom line is the top line. If a company can grow its revenue, then odds are it will generate a strong return for its investors. Market due diligence is a key component of determining the growth prospects, and therefore the return prospects, of an investment. However, the tried and true methods of market due diligence typically leave out one of the most important elements of measuring the opportunity – Pipeline Interviews.

In our experience, Pipeline Interviews – interviews with accounts that fell out of the pipeline without making a purchase – are rarely conducted during a market due diligence effort. However, they provide vital insight into the true market potential of the company, a perspective that cannot be gained elsewhere. To understand why, we'll start by looking at what is typically included in a market due diligence effort. Pipeline Interviews: The Missing Piece.

At this point, you may be thinking, "The analysis addressed the overall market size, the potential penetration of the market, and the company's likely share. Shouldn't that be enough?" Actually, it isn't. The typical due diligence process is based on the critical assumption that the accounts that have purchased a solution from the company or its competitors are fundamentally the same as accounts that have not yet purchased. Given enough time, the non-buyers will eventually buy a solution if it has a strong value proposition.

But what if that assumption is wrong? What if the accounts who haven't bought are somehow fundamentally different than the ones that already have purchased in a way that isn't obvious from segmentation factors like size or industry? If that is the case, then 'I haven't purchased yet' becomes 'I'm never going to purchase' and the market is far smaller than calculated. And, if the market is smaller than you calculated, the company may never reach its revenue projections.

Pipeline Interviews: Interviews with Accounts that Fell Out of the Pipeline without Making any Purchase



So how do you sort out whether or not you have an 'I'm never going to purchase' problem? The answer is through Pipeline Interviews. Only prospects that have had sales interaction with the company but decided not to purchase anything can answer this question. They know whether their decision not to buy is primarily a timing issue or is due to something more fundamental.

To read the full White Paper, please go to http://www.sema4usa.com/semaphore-news/ and click on May 3, 2010 link titled - White Paper – Market Due Diligence.