

## >: **What are the first three questions you should ask before investing in a private company?**

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1) What is the background of the key people in this business and what have they each accomplished in this type of business in the past? As part of that question, what is their best accomplishment and what is the worst mistake they have made in business?

Assuming the business plan looks well thought out, it is very hard to judge the validity and reasonableness of a business plan for a start-up, particularly if it is in a business that you have not run. One way to evaluate the business plan is to evaluate how the key people in the proposed start-up have actually performed in the past by looking at the results they have actually achieved in the past. While past performance is no guarantee of future performance, it is a pretty good indicator of future performance. And if past actual results have been bad, that is a very good predictor that future performance will be bad, and you should turn down the proposed investment. The relevance of the actual results may be diminished by either not being achieved in the business being promoted in the business plan or being achieved many years earlier. However, bad results are not diminished by being achieved in a different business. They are a very good predictor of bad results in the future by the person achieving them.

2) What competitive advantages does the business have? The competitive advantages should be laid out in the business plan. You should question the key people thoroughly about the competitive advantages and ask others to help you evaluate whether they are real and how long it will take the competition to catch up.

3) What could go wrong and prevent the start-up from achieving its goals? If the key people do not have a list of what could go wrong, you should not invest in the start-up, because they have not done a thorough job of planning to make the start-up successful. Every business has things that can go wrong. Good managers have thought about and have a list of what can go wrong and have a plan to avoid each bad thing that can happen. You need to evaluate the list and determine if you think it covers everything that can go wrong.

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