When Does the Due Diligence Process Begin?

Many buyers who have never bought a business occasionally get the cart before the horse. The want to spend time and money conducting their due diligence before they even know if the Seller will agree to a price that they feel is reasonable. Therefore, the best way to save time and money - and one's sanity - is to receive some basic information about the company such as; 1.) a summary of the financial statements for the past three years; 2.) a summary description of the products and/or services the business provides; 3.) the general location that it operates in geographically; 4.) the basic organizational structure with a simplified resume on key employees; 5.) a basic understanding of the customer and sale base; 6.) a basic understanding of the condition of the assets that are producing the income stream and if there are any assets that the buyer is selling that do not produce income; 7.) a non-detailed description of the inventory and how often it turns (assuming that a physical inventory is taken at least once a year); and 8.) the basic information on any leases of equipment and buildings that are required to operate the company; 9.) is Seller financing available.

You will also need to do a little homework yourself to determine who the competition is in the market and how the prospective company is perceived in the marketplace in general. This last step can be invasive so this may have to wait until a proven approach is agreed upon by the Seller. Another great step to take is to have a general idea of what size of deal you can command based on your financial strength. A smart seller is not going to waste their time with you unless you have some means of assuring them you have what it takes to put a deal together.

Once a Seller gives you this information in a summary format, you have what you need to offer a Letter of Intent or Term Sheet before you meet with the owner, tour the facility, meet the key employees, pepper the accountant with a million questions; have your attorney draw up a contract, review the subsidiary journals, talk with the vendors and spend endless hours second guessing yourself.

Your non binding LOI or Term Sheet will allow you to have your offer couched within the business meeting certain contingencies that can be satisfied during your due diligence period, that come after the mutual agreement of an LOI or Term Sheet.

Remember - kill deals fast, if they are not going to happen anyway. Life is too short…enjoy!

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