

## **Due Diligence ? How To Uncover any Problems BEFORE You Buy**

Buyers are often intimidated by the term "due diligence," but it's one of the most important parts of the buying process and should be clearly understood and then thoroughly completed.

Due diligence is the equivalent of running a background check on the business you're about to buy. This process begins after you've submitted a letter of intent and made an offer on the business you're interested in. At this point, the seller has theoretically agreed to your offer and will now allow you access to financial records and other sensitive information. It's standard practice that you'll be required to sign a confidentiality agreement.

With the help of financial professionals, you'll investigate not only the financial and business operations, but also the personnel, including employees skills, salaries, payroll procedures, benefits, and pension plans; marketing, including current campaigns and strategies; the property, equipment, and business assets; and customers, competition, outstanding contracts, and any other relevant aspects of the business.

This is your one opportunity to discover any potential problems or uncover any secrets the seller may have been keeping before you're committed to buy. Double-check everything. You'll also want to verify that everything the seller has told you is accurate and that the business has not been misrepresented. The more you discover about the business at this point, the more certain you can be that you actually want to buy it.

Before you even think of beginning this process, hire a CPA. Even if you have a thorough understanding of financial matters, you'll want the professional assistance and advice. Find a CPA who is familiar with the type of business you are reviewing. You should also have your lawyer on hand to help review documents and verify accuracy.

It's important to know that while sellers or brokers might try to pressure you for a quick inspection and review, there's no limit on the time in which due diligence may be performed, so negotiate for all the time you need to feel comfortable with your investigation. While the financial review might take as little as five days, the rest of the due diligence process might take as long as 15-20 days. Don't allow yourself to be rushed; if a seller is pushing too hard to close the deal, there may be something they're afraid you'll discover.

After you've negotiated a time period in which to conduct your investigation, you'll want to get organized and use that time wisely. You may want to use BizTrader.com's DUE DILIGENCE CHECK LIST, which is available [here](#). Give the seller a list of materials and documents you'll need to review the company. This list should include, but is not limited to: bank accounts, customers list, suppliers, sales records, contracts, payroll, benefits, pension plans, employee records, inventory, advertising materials, federal certification, lease information, professional accreditations, and property documents. Don't allow the clock to start on this process until you've received these requested materials. You won't have access to a company's financial records until you've made an offer and that offer has been accepted.

As this process goes along, you're bound to make some discoveries, some of which may be problematic. Try to maintain a sense of perspective; separate the small surprises from the serious issues that warrant reconsidering your purchase or renegotiating your offer. Keep a detailed record of all the problems you discover in case you need the evidence to fall back on later.

As they say, knowledge is power and this is your one big opportunity to gain all the knowledge you need. If you do a comprehensive job, you'll know exactly what you're getting into and can easily make the decision on whether or not this property is right for you. Completing thorough due diligence is in your own best interest and will make purchasing your own business that much easier!