Checklist for Business Acquisition or Start Up
Stage Two: Strategic Considerations

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In evaluating a business purchase or start up it is important to conduct basic due diligence, here called "Stage One." This stage includes review and analysis of the financial records, inspecting the furniture, fixtures and equipment, verifying the intellectual property including not just technology but name, trademark(s) URL and other contact information, and determining whether the company has liens, judgments or pending litigation.

Often completion of Stage One is where the due diligence process ends, but there are additional factors you may want to consider. I call this "Stage Two: Strategic Considerations."

Why is the business for sale?

Assume the stated reason is not the real reason (it almost never is – generally a good approach is to consider that everything a business seller tells you is a lie) and look deeply. For example the pending loss of a key government or private company contract is a common reason for sale. Often "something is up" and you will need to find out what that is.

What is so great about the business or idea; what makes it special?

Everyone you deal with, from customers, bankers, and investors, will be asking this question. Here are some considerations:

a. Reputation – How is the company considered in the marketplace; avant-garde or stodgy? It is almost impossible to become something the company isn't. Further, change may cost the customer.
b. Industry and market – It's important to consider the general area of business you're considering going into; or are already in, for that matter. It's also important to consider this in relation to your target market. Is this business, market or industry on the upswing, stable, or fading?
c. Market share – the portion of the market that is already controlled by a particular company or product brand.
d. Niche market – catering your product or idea to a specific customer or market segment.
e. Sales expansion –Increasing your sales to existing customers can include up-selling other products or services or increasing the number of "add-ons" per transaction. Another way to achieve these increased sales can be through the expansion of your customer base; for example, finding new customers through state wide advertisements as opposed to the local market exclusively. The question is can you do either one of these things?
f. First-provider advantage – can be gained through entering a potential new market or customer base. For example adding online sales to wholesale or retail distribution.
g. Competition – Who will your business be competing against? These are the alternative options for your customer. Is the competition strong, weak, upcoming or fading?

h. Product or service lifecycle – where is your product or service going to fall in regards to its market lifecycle? Is this particular product or service early in its life, i.e. recently emerging? Or perhaps sales for similar products have been stable or beginning to fade?
i. "Secret sauce" – The "ingredient" that is going to set your business or idea apart from the competition. Whether it's the product/service itself, intellectual property, an invention, idea, production method, or marketing method, think about what special component is or could be unique to your business.
j. Minority ownership – Is the company owned by a minority, woman, or disabled veteran? These owners are favored in government contracts and the government may require private companies doing business with the government to have such businesses as partners or sub-contractors. Will you lose these contracts because you are not a minority owner?
k. New products or services – have you recently expanded your product line? Or perhaps you have created a newer, better quality version of a preexisting product.
l. Facilities – Consider the actual premises in which business will be conducted. Are they "high-tech", i.e. up to date? Or are they in need of improvement? What impression to they make? Does it matter to your customer?
m. Superior production methods – Production can be one of the most expensive aspects of running a business. A superior method of producing the product can be a great way of cutting costs and perhaps creating a higher quality product.
n. Established distribution channels – e.g. wholesalers, retailers, distributors.
o. Hypothetical distribution channels - supposed channels intended for the new product or service. Can you re-brand and sell to a different market?
p. Location for the type of business – Is your business located near your target market? How about the location in relation to its logistics (e.g. near a railroad yard or airport), key suppliers, or resources?
q. Vendors – Consider the relationship with your vendors. Is it a mutually beneficial, i.e. competitive cost or terms? Or, will you be held "hostage" as with some franchise companies.
r. Purchasing power – Can you compete with someone who can sell retail cheaper than you can buy wholesale due to their purchasing power and distribution channels? Think about ways in which your business or idea can compete if you're not the low cost producer or low cost seller.
s. Specialized market – high-end or technologically advanced products and services that produce higher quality and higher priced items.
t. Integration – There are typically two types of "integration:" One, "horizontal," e.g. adding stores or facilities in new locations, or "vertical," e.g. buying your distributer. Does your company have the opportunity to integrate? Does it make sense with what you're selling?
u. New expertise – a specialized knowledge in your area of business.
v. Timing – Is now the time for this business, this investment?
w. Synergy – the greater combined effect produced by the interaction amongst the various components of the business.

What's *not* so great about the business?

This question is equally important to consider about your new business. What hurdles will you need to overcome? Once you have noted these challenges, think realistically about how, and if, you will be able to overcome them.

Is the business being "subsidized?"

Is the rent below market, or the lease short term and likely to increase? Is the owner or spouse working for below market rates? Will the company be profitable; thus, have value, if it pays market costs? When you "appraised" the business did you do so based on the old, subsidized costs or did you factor in current or more typical rents and salaries?

What's so great –or not – about you?

So you've analyzed the different elements of your *business,* but what about *you*? Do you have the background, knowledge and experience needed to run this type of business? Can you do the work yourself, or will you have to hire employees to do the most important work? (This is a recipe for the "wolf inside your door problem" which should be addressed practically, e.g. incentives to perform and stay, and legally, e.g. strong confidentiality, non-competition (i.e. competing business) and non-solicitation (i.e. targeting the company employees and customers) provisions. Do you bring something special to the table? What do you think you can accomplish when assets and aspects of the business may be relatively fixed or expensive to change? In other words, consider the material difference that your ownership will bring.

Lastly, you need to think about the price. Does the price make sense?

Option 1: Fair market value as pre-tax cash flow (not income) times industry multiple. This multiple should be available online and ranges from 2 to 7 for most businesses, or

Option 2: Mergers and Acquisitions model as after tax cash flow divided by "cap rate", usually 10 to 20%.