If You Don’t Uncover the Skeletons in Your Closet, Your Buyer Will

Starting the preparations to sell your business is never easy. Selling or buying a business comes with mixed emotions and hard decisions. There are a lot of variables to consider. One action item to discuss early is the process of due diligence. In order for you to attract a buyer to your company, you must engage in the pre-sale due diligence process well before your anticipated departure date.

No experienced buyer purchases a company without first learning everything there is to know about it. This investigation process is known as “due diligence.”

What is Due Diligence

Due diligence is the process in which a buyer scrutinizes every detail about your company, from financial reporting to earnings confirmation, to human resources practices, looking for risks, flaws, opportunities, and ways to justify a reduction in the purchase price they pay. Simply put, this is the buyer’s thorough investigation of every aspect of your business.

Due diligence is like an audit, or review, performed to confirm the facts of a matter under consideration. In the financial world, due diligence requires an examination of financial records before entering into a proposed transaction with another party.

So, when we talk about *pre-sale* due diligence, we mean the detailed investigation of your own company, performed by your own team, done well before you take your company to market.

What to Expect

Time rarely favors the seller, so it is in your best interest to start the pre-sale due diligence process early. The actual internal investigation itself typically takes between 30 and 60 days. But, as a seller, if you uncover information about your company that will influence the purchase price, you want to have time to fix those issues before the company goes on the market. You might want months, or even years, to make changes and set up new trends.

By discovering not only the strengths, but also the weaknesses of your company before undertaking the sale process, your advisors can focus on making the company more valuable. In some cases, pre-sale due diligence uncovers significant "repairs" that must be made to increase value or decrease risk. Maintenance and repair activities designed to make the company more valuable may include hiring key management, eliminating overhead, delaying (or accelerating) the purchase of significant capital equipment, resolving shareholder disputes, cleaning up employee records and policies, clearing bad debt, and so on.

There may be several parties involved in pre-sale due diligence: your lawyers, accountants, financial advisors, transaction representative (broker or investment banker), and administrative staff. Eventually your buyer’s team will have the same types of players, or even more of them. With so many people involved, it may be best to get organized to avoid any confusion throughout the process.

You and your advisors may need to clean up current and historical financial statements, contracts, customer accounts, ownership records, governing documents, leases, or threatened claims or lawsuit *before* you take your company to market. Buyers are looking for each and every skeleton, big or small, and they will find them. The buyer is looking for anything they can use to lower the price they pay for your business. Don't let them find anything. Lay everything out and work on improving any weaknesses before potential buyers get the opportunity to use this information against you.

Perks of Planning Ahead

Planning and starting the due diligence process well in advance can have several perks for your business. Starting the pre-sale due diligence process may save you time and money in the long run. Uncovering your skeletons and working to fix them early can protect and could even potentially increase the purchase price of your business. This process can also protect your goals and your team: your co-owners, key employees, and family.

Through the process, members of your advisor team can come to know and understand your company as well as you do—and far better than a potential buyer. This understanding can enable your transaction advisor to prepare and share information with potential buyers in a way that highlights the strengths of your business.

If you plan to sell your business, you will have to go through this process one way or another. So, you might as well start early and figure out areas of the business you can improve now before you put the business on the market.

We strive to help business owners identify and prioritize their objectives with respect to their business, their employees, and their family. If you are ready to talk about your goals for the future and get insights into how you might achieve those goals, we'd be happy to sit down and talk with you. Please feel free to contact us at your convenience.

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