

## BUSINESS ASSESSMENT CHECKLIST

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**BUSINESS** -----

**DATE OF PREPARATION** -----

### SALE PROCESS

1. The real reason the business is for sale
2. How long has it been for sale
3. Exactly what is for sale – Assets/Name/Company Shares
4. Specific Inclusions
5. Specific Exclusions
6. Transferring the business: Phone/fax/mobile numbers
7. Special Conditions required by Franchisor/Licensor to be included as conditions of Sale
8. Who has authority to sell the business
9. Vendor finance available?
10. Confidentiality – Is the sale of the business to remain confidential from Staff? from the market?
11. Proposed handover/training for the new owner
12. Proposed Restrictions on outgoing owner's future trading .....Kms .....years
13. Franchises, Licences, Buying Groups, Associations & Intellectual Property available to the Business.
14. Nature of such arrangement including: Exclusive/non-exclusive, territory, term, transferability & any requirements regarding the sale process & the new owners.
15. Franchisor disclosure statement, information for prospective franchisees, franchisor's sale process and other information about the franchise agreement.

### INDUSTRY AND MARKET OVERVIEW

16. What industry does the business operate in?
17. How is this industry going generally?
18. Brief overview of Australian and State market
19. Where the industry is heading
20. External factors likely to impact on the business
21. How will changes in the economy affect the business and industry?
22. What expansion/contraction prospects are present for the industry?
23. What expansion prospects are present for the business itself?
24. What new products coming onto the market will enhance/threaten the business?
25. What regulations and laws cover the industry?
26. Dependence upon Government protection
27. How easy is it to enter the industry (capital requirements, protected under law, etc)?
28. What are the general characteristics of the industry (eg. highly competitive, relies on service, has fads, seasonal, etc)?
29. What is the Return On Investment (ROI) percentage range for the type of business?
30. Projected market growth
31. Main determinants of demand - Demand drivers
32. How widespread is the demand?
33. Supply versus demand
34. Seasonal or cyclical factors
35. Degree of import competition (or threat thereof)
36. Export sales & potential
37. Cross dependability with other markets
38. Tariffs: Existing
39. Likelihood and probable effect of changes in tariffs
40. Terms of trade
41. Major target market segments; Number and types of markets served
42. Market by Geographic spread

43. Market size and potential
44. General business conditions: Demographics
45. General business conditions: Promotion/advertising
46. General business conditions: Government factors
47. General business conditions: Product innovation

## **PRODUCTS**

48. Main product or service
49. Other products/services
50. Number of products
51. Main product groups
52. Relative importance: by turnover
53. Relative importance: by profit
54. Relative importance: by capital requirements
55. Age and expected product life
56. Gaps in range
57. Products under development
58. Exposure to technical changes/danger of obsolescence or substitution
59. Patents
60. Potential New products
61. Designing the Product
62. Market perception of products relative to competitors'
63. Are the major products/services going out of fashion or becoming obsolete?

## **MARKETING**

### **USP – Unique Aspects**

64. Unique aspects of the business
65. What is the organisation especially good at right now?
66. Market perception of products relative to competitors'?
67. What do they have to be good at to succeed in this business?
68. What will they have to be good at to succeed in this business in the future?
69. What do they already do that is special, but they don't tell anybody?
70. List everything they do that adds value to the end product or service;
71. What in the process is different to what others do?
72. Where is their quality superior to others in the market?
73. What unique extraordinary benefits?
74. Special features of product or service;

### **Customers, Sales & Debtors**

75. Market share by product group
76. Credit rating
77. Does the business rely on only one or a few customers?
78. Detailed Customer profile
79. Customer needs
80. Is product range all to same market or to different markets with different cycles?
81. Seasonality, busiest periods
82. Sales by customer category
83. Sales by geographic location
84. Key customers & % of total
85. % major client/s represents:
86. % repeat customers
87. Customers per day
88. Customer database maintained Computerised/manual
89. Account customers? Number/%
90. Customer satisfaction levels
91. Look at any letters of complaint or compliment from customers;
92. What steps have been taken to overcome seasonal changes in sale/expenses?
93. How much is the business growing/declining?
94. Does the business rely on tender/contract work and if so, what percentage of sales are involved?
95. What is the level of debtors compared to sales?

96. What is the age profile of debtors and how has this changed over time?
97. How many bad debts have occurred and why? How does this compare to industry norms?
98. If products are exported, how sound are the overseas customers?
99. Are any of the debtors looking shaky and what procedures does the business use to protect itself?
100. What system does the owner have in place to collect debts?

### **Competition**

101. Products already fulfilling the need
102. Alternative ways to fulfil the Need
103. How many competitors does the business have?
104. Who are the main competitors (eg multi-nationals, small business owners, etc)
105. Main competitors, their methods and standing in the market
106. What size are these competitors in relation to the business?
107. Where are the competitors located?
108. How competitive is the industry?
109. Do the competitors offer better service, price, availability of products, etc?
110. How many new competitors have entered the industry or old ones left in recent times?

#### **Basis of Competition:**

111. Price?
112. Delivery?
113. Brand Image?
114. Credit Terms?
115. Product Range?
116. Quality?
117. Reliability?
118. Technical excellence?
119. Market perception of products relative to competitors'
120. Overall performance relative to competitors
121. Relative price position
122. Any recent major developments among competitors?
123. Can competitors enter the industry easily?
124. Barriers to entry: High Capital investment
125. Barriers to entry: Technological expertise
126. Barriers to entry: Manufacturing expertise
127. Barriers to entry: Distribution channels
128. Barriers to entry: Patents

### **Distribution Channels**

129. Does the business have any agency/distribution agreements or patents?
130. If so, how solid are these?
131. Full details of distributors:
  132. Number and type
  133. coverage
  134. location
  135. transport
  136. service
137. Performance of carriers
138. Arrangements, including pricing, service
139. Outwards Freight and shipping arrangements satisfactory
140. Adequacy and cost of Delivery Service

### **Pricing**

141. What is the pricing policy – expensive/exclusive, mid-range or discount?
142. Retail, wholesale, trade
143. Price trends
144. Gross margin by product group
145. Price sensitivity by product group

### **Promotion**

146. Advertising policies and expenditures
147. Target audiences / segments

- 148. Publicity
- 149. Image
- 150. Brand Awareness
- 151. Copies of any promotional material for the business
- 152. Franchisor promotional material
- 153. What advertising and promotions have been done in the past?
- 154. What is planned for the future?
- 155. Does the advertising/promotion support the product or shop decor and style?

#### **BUSINESS OVERVIEW**

- 156. Date business commenced
- 157. Date present owners commenced
- 158. Brief history – chronology of key events
- 159. Brief description of the daily routine and operation of the business
- 160. Trading hours and days

#### **PRODUCTION / MANUFACTURING**

##### **Production technology overview**

- 161. Key production variables
- 162. Industrial engineering
- 163. Technical innovation
- 164. Research and development:
  - 165. direction
  - 166. interest
  - 167. past & future expenditure
- 168. Technical efficiency of process/extent of automation
- 169. Licences held, royalties payable

##### **Production facilities**

- 170. Plant location and size
- 171. Machinery and equipment-technology, condition, age,
- 172. Flow chart of processes
- 173. Maintenance expenditure and downtime
- 174. Major maintenance outlays and spare parts orders

##### **Production capacity**

- 175. Capacity and current utilisation
- 176. Production scheduling procedures/guidelines
- 177. Can the current plant handle increased production?
- 178. Is any plant and equipment not being used?

##### **Process Quality Control**

- 179. Control systems
- 180. Quality control
- 181. Quality, presentation, labelling, consistency
- 182. QA certification - QA Manual

##### **Suppliers & Creditors**

- 183. Sources of raw materials, utilities and supplies.
- 184. Raw material selection, choices, changes, prices
- 185. Ordering and stocks
- 186. Terms of trade
- 187. Purchasing policy
- 188. Inwards Freight and shipping arrangements satisfactory?
- 189. List of suppliers
- 190. Seasonal restrictions
- 191. Age profile of creditors ledger
- 192. Will suppliers continue to give the same credit facilities with a new owner?
- 193. If products are imported how have these been financed in the past and how will the new owner finance?

## **OPPORTUNITIES TO FURTHER DEVELOP THE BUSINESS**

- 194. Recommendations on equipment upgrades & expansions
- 195. Identify as many opportunities as possible

## **STRUCTURE, MANAGEMENT AND STAFFING**

- 196. Skills needed to run the business

### **Organisation**

- 197. Organisational structure - Organisation Chart
- 198. Employment Summary – No. of people working in the business, including owners
- 199. Staffing levels for optimum balance
- 200. Review organisational structure for appropriateness
- 201. Staff roster
- 202. Wage and salary levels in the industry and company
- 203. Are the staff being under/overpaid? What about other conditions (eg. company cars)?
- 204. Staff turnover
- 205. Labour market
- 206. Extent of unionisation of labour force, implications and possible impact
- 207. Unions and labour record
- 208. In-house vs outsourcing of resources

### **Owner**

- 209. Why are they selling?
- 210. How important is the vendor to the business - management, sales, production?
- 211. How long has the vendor owned the business?
- 212. Does the vendor own other businesses?
- 213. What is the vendors and his family's involvement in the business?
- 214. Will the vendor train the new owner?
- 215. Will the vendor give vendor terms to assist financing?
- 216. Obtain a brief history of the business (eg how long in operation, number of owners)
- 217. How dependent is the business on the current owners?
- 218. Total hours worked by owner/s per week
- 219. Total amount paid to the owner/s that is included in Wages Expense in the trading accounts
- 220. Possible future involvement of existing owners

### **Key People**

- 221. Key People – experience, responsibilities, Position Profiles, skills & attributes, age
- 222. Copies of service contracts of key people
- 223. Copies of profit sharing scheme
- 224. How long have the key people been in their current positions?
- 225. Will the key people remain?
- 226. Independent outside opinions of key people
- 227. Key person insurance

### **Management**

- 228. Management's strengths and weaknesses
- 229. Management succession
- 230. Market awareness of people
- 231. Team cohesion
- 232. Personnel management capability
- 233. Empowerment of staff, involvement in decisions

### **Board**

- 234. Composition and method of operation of Board

### **Staff**

- 235. Employees - Analysis of employee numbers, by function, service profile, employment contracts, remuneration, training, employee unions, superannuation plans.
- 236. Skill profile of work force

- 237. Are the staff well trained, motivated in their jobs, or unsuited to the business?
- 238. Are qualified staff necessary and how easy is it to replace such people?
- 239. Staff or contractors not on the books
- 240. Technical expertise of people
- 241. Financial awareness of people
- 242. Training needs & opportunities

#### **Performance reviews**

- 243. Wages & Salary setting & advice
- 244. Performance reviews with all staff

#### **Recruitment**

- 245. Employee hiring guidelines
- 246. Decisions on hiring new people
- 247. Medical Examination reports on employees

#### **Recognition**

- 248. Performance recognition
- 249. Staff achievements and milestones
- 250. Safety achievements milestones, records

#### **Career development**

- 251. Personal development of staff

#### **Purchaser**

- 252. Does the purchaser have the right personal characteristics to operate a business?
- 253. Does the purchaser have experience or qualifications in this industry?
- 254. How much research has the purchaser done?
- 255. Has the purchaser received advice from an Accountant or Business Valuer?
- 256. What type of management skills does the purchaser have?
- 257. Will the purchaser undertake training to obtain necessary skills
- 258. Does the purchaser really understand what is necessary to run the business
- 259. How much profit does the purchaser need to make from the business?

### **LOCATION**

#### **Strategic**

- 260. How critical is location to the success of the business?
- 261. Is it well sited?
- 262. Are any new developments (eg. shopping centres) planned for the area?
- 263. Are any changes to roads, parking, etc planned?
- 264. Is the business in a growing area (ie. new housing)?
- 265. Freehold/leasehold
- 266. Is the freehold available
- 267. Copy of title deed
- 268. Rates invoice
- 269. Site plan
- 270. Age and condition
- 271. Development and expansion potential

#### **Building/s**

- 272. Area of premises
- 273. Construction type and condition
- 274. Have all site improvements been certified by regulatory authorities?
- 275. Detail any outstanding works to be carried out or approved
- 276. Copy of any recent land and buildings valuation/s
- 277. Does the site conform to local Council zoning rules?
- 278. If applicable, does the shop/factory meet the appropriate health regulations?
- 279. Overall impression of the site - old and tired or bright and new?
- 280. Is the lay-out of the site suitable? Can it be improved and at what cost?
- 281. Does the site allow for expansion of sales or is there no room left?
- 282. Are the premises clean?

283. Site visit

#### **Lease of Premises**

- 284. Copy of lease and lease summary
- 285. Area of leased premises m<sup>2</sup>
- 286. Commencement date of existing lease
- 287. Expires
- 288. Options/extensions
- 289. Lease cost including outgoings
- 290. GST included/additional
- 291. Base Rent
- 292. Current outgoings
- 293. Copy of a recent outgoings invoice
- 294. Permitted usage under the lease; any restrictions?
- 295. Check the current rent with Landlord/Managing Agent.
- 296. Is this rent reasonable for the area?
- 297. When is the next rent review?
- 298. How is the rent review conducted?
- 299. Does the current owner have any special deals - eg lower rent than in lease, rent free periods?
- 300. Have the option periods been protected by a caveat?
- 301. what are the permitted uses in the lease and does the business conform to these uses?
- 302. Does the lease have a demolition or relocation clause?

#### **Property Management**

- 303. Security arrangements
- 304. Zoning changes, status
- 305. Adjacent property activity

#### **PHYSICAL ASSETS**

##### **Plant & Equipment - General**

- 306. Back-up for critical plant?
- 307. Duration of shut-down in the event of breakdown
- 308. Valuation: in books and current
- 309. Cost
- 310. Copy of any recent plant and equipment valuation/s
- 311. Is the plant and equipment in good repair and well maintained?
- 312. How modern and efficient is the plant and equipment?
- 313. When does the plant have to be replaced due to age or new technology?
- 314. Does the Depreciation Schedule include all the plant and equipment

##### **Plant and Equipment – Owned**

- 315. Schedule of plant & equipment to be included in the sale
- 316. Schedule of plant & equipment to be excluded from the sale
- 317. Vehicles – make, model, tare weight, age, kilometres traveled.

##### **Plant & Equipment – Leased**

- 318. Any assets owned by third parties?
- 319. All lease agreements
- 320. Pay-out figure in sixty days' time

##### **Other Assets incl. Intangibles**

- 321. Details

##### **Asset Sales and Purchases**

- 322. Land purchases and sales
- 323. Vehicle disposals

#### **INVENTORY**

- 324. Breakdown of Trading Stock Items:
  - ◆ Raw Materials

- ◆ Packaging
  - ◆ Advertising Brochures
  - ◆ Other items
  - ◆ Work In Progress
325. Stock levels, quality, condition,  
326. Lead times, stock-outs, delivery performance  
327. Does the stock in the shop/warehouse look sufficient to match the amount on the balance sheet?  
328. How do stock levels change during the year?  
329. Is the stock in good condition, obsolete, well presented etc?  
330. How much stock is wasted or thrown out?  
331. How quickly can stock be purchased (overseas, local)?  
332. What products are being sold and is an appropriate product mix being maintained?  
333. Is the business understocked?  
334. For a manufacturing business, how much work is in progress compared to raw materials?  
335. What stock control or inventory systems are in place?  
336. How often are stocktakes done?  
337. How is stock ordered?  
338. What warranties have to be met?  
339. How will the purchaser finance any 'extra' stock above the estimate in the contract?  
340. How is the stock marked up?  
341. What costing method and system is used?

## **FINANCES**

342. Copies of the following documents for at least the most recent 3 years, where available:  
343. Trading Statements (P&L)  
344. Balance Sheets  
345. Adjustments to accounts for each year i.e. items of a private nature or that don't directly relate to the operation of the business  
346. Monthly Sales  
347. Explanation of trends  
348. Normalised historical profit and loss statements - EBIT and EBITDA including discussion of trends - by operating site and consolidated  
349. Analysis of direct costs, fixed costs, expenses and overheads  
350. Net funds employed  
351. Accounting policies and practices - depreciation, inventory, debtors, provisions etc.  
352. Any special or unusual accounting policies and practices - Depreciation, inventory, debtors, provisions etc.  
353. Depreciation schedules  
354. Recent major Capital Expenditure  
355. Fixed assets analysis  
356. Historical cashflow statements  
357. Other Working Capital Items - Current Trade Debtors, Current Trade Creditors  
358. Security Bonds - Details of Security Bonds paid and who they have been paid to  
359. Current Financial Demands - Do they have any current demands from their Bank, Financier or one or more Creditors?  
360. Comparison of actuals to budgets  
361. Explanation of extraordinary items  
362. Any contingent liabilities  
363. Performance Bonds,  
364. Superannuation fund contributions  
365. Litigation/arbitration  
366. Loans: term, security, rate, events of default  
367. Key financial ratios: Liquidity  
368. Key financial ratios: Inventory Turn  
369. Key financial ratios: Gross Margin  
370. Debtors: Control  
371. Debtors: Age  
372. Bad debt history  
373. R & D expenditure  
374. Age of Creditors  
375. Capital commitments & future capital requirements

- 376. Dividend history
- 377. Dividend policy
- 378. Projections and Budgets (up to 7 years):
- 379. Assumptions: Inflation, Capital Expenditure, Depreciation, Cash Flow
- 380. Capital expenditure explanation
- 381. Depreciation/Amortisation rates
- 382. Gross Margin
- 383. Inventory Turn
- 384. When and how much future finance will be required for working capital and capital items?

#### **ADMINISTRATION**

- 385. Past share dealings
- 386. Directors' Minutes
- 387. Names of bankers, auditors & lawyers
- 388. Banking history
- 389. Main shareholders and company ownership history
- 390. Nature of company (partnership/private/public)
- 391. Past acquisitions and divestments
- 392. Successes and failures
- 393. MemArts of company and principal subsidiaries
- 394. Structure and relationship of group
- 395. Appropriate Business structure in place
- 396. What company records are to remain with the business
- 397. What manufacturing and production plans, designs, formulae, etc are available?
- 398. What type of insurance has the business taken out and is the amount covered adequate?
- 399. Is the business a franchise operation?

#### **Trade Practices**

- 400. Adherence to laws & Policy
- 401. Training program attendance

#### **Infrastructure**

- 402. running costs
- 403. staffing
- 404. operating space
- 405. storage space
- 406. technology
- 407. equipment
- 408. communication
- 409. transport
- 410. travel

#### **Reporting**

- 411. Reports produced for decision makers
- 412. Accuracy and promptness of reports
- 413. Relevance of Reports
- 414. Efficiency of preparation
- 415. Appropriate use of technology
- 416. How long reporting system in operation?
- 417. Control systems used in production, sales, insurance etc.
- 418. What record keeping systems are in place?
- 419. What accounting practices are used (eg how often are P&L's produced)?

#### **Information Systems**

- 420. Does the business have a computer network? Is this used properly?
- 421. Systems documentation available
- 422. Supply or service contracts: details and a copy of any supply or service agreements.

#### **Internal Control**

- 423. Franchise Quality Control systems and how they control the process
- 424. Are stock control Systems in place and used?

- 425. Are appropriate credit control Systems used?
- 426. Control systems for production
- 427. Control systems for sales
- 428. Account approvals, expense approvals etc
- 429. Internal controls for effectiveness and appropriateness
- 430. Staff expenses
- 431. Payrolls
- 432. Pay levels for new staff and changes to existing
- 433. Stocktake results & accuracy of perpetual records
- 434. Write-offs of stock losses/shortages
- 435. Stock write-downs to seconds
- 436. Credit Notes

**Tax**

- 437. Receiving Professional tax advice
- 438. Tax paid in past
- 439. Tax rates applicable
- 440. Possible tax incentives
- 441. Any tax losses or credits with time limits, other restrictions on their use?
- 442. Basis of deferral for any deferred tax
- 443. Tax returns

**Insurances**

- 444. Details of all insurances
- 445. Consequential loss
- 446. Building
- 447. Contents
- 448. Super, Life cover
- 449. Health Insurance
- 450. Workers' Compensation
- 451. Public Liability
- 452. Income Continuation
- 453. Professional Indemnity
- 454. Exposure to, and Cover for, Contractors

**LEGAL AND REGULATORY**

**Local & Overseas**

- 455. Structure / business vehicle registrations
- 456. Licences, permits, permissions:
- 457. Licences held, royalties payable
- 458. Registrations
- 459. Business Name
- 460. Trade marks
- 461. Copyright
- 462. Superannuation
- 463. Any litigation, pending or potential?

**OHS (Occupational Health & Safety)**

- 464. Safety Policy currency, distribution, adherence
- 465. Safety Incentive Program for appropriateness, effectiveness
- 466. Safety Committees' activity, membership, effectiveness
- 467. Safety performance
- 468. Injury procedures & W/comp procedures
- 469. Safety and W/comp issues as required
- 470. Fulfilment of legal responsibilities re OHS
- 471. LTI's (Lost Time Injuries) and near-misses

**Environmental**

- 472. Adherence to Environmental policy
- 473. Recommendations on improvements on environmental issues

### **Contracts**

- 474. Copies of all leases, loan agreements, mortgages, sale agreements under retention of title
- 475. Copies of all contracts for supply of capital items/construction

### **Profit Generation**

- 476. Do they know what the profit drivers are?
- 477. Which Products?
- 478. Which People?
- 479. Does the business concentrate on sales rather than profit?

### **INVESTMENT CONSIDERATIONS**

- 480. Proposal
- 481. Cash flow and DCF return to purchaser
- 482. Current and prospective PE and asset backing
- 483. Comparable PE's
- 484. How necessary are the funds to the company?
- 485. Why us?
- 486. What alternative funds are available
- 487. How will any repayments which may become due to us be funded?
- 488. How will investment be realised?
- 489. Security proposed (if guarantor proposed, include all relevant details)
- 490. Availability of foreign exchange in country
- 491. Remittability of capital and income
- 492. Exchange controls
- 493. Relevant Government legislation or Government bodies eg Regulatory agencies associated with the investments
- 494. Tax on dividends and interest and capital gains
- 495. Effect on our portfolio- industry spread and regional spread
- 496. Country's past performance on investment regulation and restriction

### **GENERAL STRATEGIC ISSUES**

#### **Why buy this business?**

- 497. Why should we buy this business instead of establishing one from scratch? Is it cheaper?
- 498. Why pay more than the current value of fixed assets?
- 499. What elements of the business are essential?
- 500. Capital requirements
- 501. Growth potential
- 502. Ensure business has appropriate focus, goals, objectives, principles.
- 503. Capable of becoming World's Best in its field

#### **Vision**

- 504. Presents the intended direction
- 505. Easy to read and understand
- 506. Captures the spirit of the organisation
- 507. Useful as a guide to decision making
- 508. Gets people's attention
- 509. Describes a preferred and meaningful future state
- 510. Gives people goose bumps when they hear it
- 511. Helps align individual purpose with organisational purpose
- 512. Perceived as achievable
- 513. Challenging, compelling, stretching beyond the comfort zone

#### **Mission**

- 514. Clear statement of business purpose
- 515. Describes the essence of what they do
- 516. Creates superior client value
- 517. Captures the essence of our competitive strength
- 518. Persuasive in its influence on individual behaviour