

WHAT TO LOOK FOR IN A BUSINESS

PAST AND FUTURE

When people do their financial analysis they are essentially looking at the past. Although this is a useful guide to establish a purchase price and base-level performance, it is only part of the story. Undue focus on the past can shift attention from the reason for the acquisition – the future!

DISTIL THE BUSINESS TO ITS BARE ESSENTIALS

Put down on paper the essence of the business – what it does, how it does it and for whom. Identify the key products, customers and profit drivers, using the Pareto Principle (80/20 rule).

UNDERSTAND THE CURRENT PHILOSOPHY

Although a business may be successful in its current form, the owners may have run the business to suit their own style and preference. The owner may have held the business back.

AN ALTERNATIVE PHILOSOPHY

Look at the business and its processes from all points of view to see if another approach is likely to improve the results. For example, consider the mix of volume and margin to see if the gross profit is optimised, considering the price-sensitivity of the market. Look at existing products to see if any should be dropped or new ones introduced.

CAPACITY

Consider whether the business has the capacity for higher output. Determine the bottlenecks in the process. Evaluate what capital investment (if any) would be required to increase capacity by some factor.

MARKETING PHILOSOPHY

Determine the current attitude to the market and how this has impacted on the way the business is structured.

SUMMARISE THE KEY ATTRIBUTES OF THE BUSINESS

Eg: Unique product; Well-established business name; Strong systems and procedures; People trained, long-standing and capable; Barriers to entry for competitors; Capacity to significantly increase output with minimal capital investment; Broad base of customers covering a wide geographical area; Scope to increase automation; Strength of distribution channels; Growth market; Geographical restriction on growth.

NEW MANAGEMENT

Determine the effect on the business of a change in management or ownership as appropriate.

FULL CHECKLIST AVAILABLE FREE FROM SUPERTRAC

Supertrac has a checklist of more than 400 attributes to consider when analysing a business. Call, fax or email for a free copy to be emailed to you.