

Business Evaluation Checklist

Use this extensive checklist to make sure you get answers to all your important questions before you purchase a business.

If you find a business you'd like to buy, you will need to consider a number of points before deciding whether to purchase it. Take a good, close look at the business and answer the following questions. They will help you determine whether the business is a sound investment.

- Why does the current owner want to sell the business?
- What type of growth potential does this business have?
- If the business is in decline, will you be able to save it and make it successful?
- Is the business in sound financial condition? Have you seen audited year-end financial statements for the business? Have you reviewed the most recent statements? Have you reviewed the business's last five tax returns?
- Have you seen copies of all of the business's current contracts?
- Have you planned any sales promotions?
- Have you planned a publicity campaign?
- Is the business now, or has it ever been, under investigation by any government agency? If so, what is the status of any current investigation? What were the results of any past investigation?
- Is the business currently involved in a lawsuit, or has it ever been involved in one? If so, what is the status or result?
- Does the business have any debts or liens against it? If so, what are they for, and in what amounts?
- What percentage of the business's accounts are past due? How much does the business write off each year for bad debts?
- How many customers does the business serve on a regular basis?
- Who makes up the market for this business? Where are your customers located?
- Do they all come from your community or from across the state, or are they spread across the globe?
- Does the amount business vary from season to season?

- Does any single customer account for a large portion of the sales volume? If so, would the business be able to survive without this customer? Remember, the larger the customer base is, the more easily you will be able to survive the loss of any customers. If, on the other hand, the business exists mainly to serve a single client, the loss of that client could be catastrophic.
- How does the business market its products or services? Does its competition use the same methods? If not, what methods does the competition use? How successful are they?
 - Does the business have exclusive rights to market any particular products or services? If so, how has it obtained this exclusivity? Is it making the best possible use of this exclusivity? Do you have written proof that the current business owner can transfer this exclusivity to you?
 - Does the business hold patents for any of its products? Which ones? What percentage of gross sales do they represent? Would the sale of the business include the sale of any patents?
 - Are the business' supplies, merchandise, and other materials available from several suppliers, or are there only a handful who can meet your needs? If you lost the business' current supplier, what impact would that loss have on your business? Would you be able to find substitute goods of the appropriate quality and price?
 - Are any of the business' products in danger of becoming obsolete or of going out of style? Is it a "fad" business?
 - What is the business' market share?
 - What competition does the business face? How can the business compete successfully? Have the business' competitors changed recently? Have any of them gone out of business, for instance?
 - Does the business have all the equipment necessary? Will you need to add or update any equipment?
 - What is the business' current inventory worth? Will you be able to use any of this inventory, or is it inconsistent with your intended product line?
 - How many employees does the business have? What positions do they hold?
 - Does the business pay its employees high wages, or are the wages average or low?
 - Does the business experience high employee turnover? If so, why?
 - What benefits does the business offer its employees?
 - How long have the company's top managers been with the company?
 - Will the change of ownership cause any changes in personnel?
 - Which employees are the most important to the company?