The TIP of the ICEBERG

It's the part you *don't* see that sinks the ship

A Business is More Than Just Its Numbers!

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What better way to launch a new year of *The Tip of the Iceberg™* than with a discussion something that *seems* obvious, but often is not: There is **much** more to evaluating a business you want to buy than simply the company's financial statements.

First, understand what financial statements are and what they *do* tell you about a business. A company's financial statements provide a snapshot of what a business has been for a period of time in the past, and how things look right now. They certainly are important. At a minimum, you will want to study the company's Balance Sheet, Profit &Loss Statement, and its tax returns for at least the past three years (five is better). You will also want to look very closely at Cash Flow Statements.

But…***DON'T STOP THERE!!!*** Look at least as hard at the critical non-financial parts of the business, as you do at the financial statements. More often than not, that is where you will find the nasty little surprises nobody is telling you about….*and* it's also where you can find lots of untapped potential that you, the new owner, can tap. Don't agree to a price until you have a handle on these areas:

What about the company's **Customers??** How many customers does the company have? Are they happy? Do just a few customers account for the lion's share of the company's sales…OR of its profits? How hard is it to find new customers? How hard is it for your customers to find new suppliers for the product or service you provide? This goes much deeper than the Accounts Receivable Aging Report!

What about the company's **Employees??** Are there any key employees required for the company's success in the future? Will they stay? What should you do to be sure they do? Are they happy? Are they loyal to the company, or to the current owner? Are there employees in the company who will help you learn to run the business?

What about the **Landlord??** Is there a lease for the business on reasonable terms covering at least the length of time you will need to pay off any acquisition loans?

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Beware!! Lenders ALWAYS look closely at this. Inexperienced buyers often times do not know they should.

What about the company's **Bank??** Does the company currently have a good relationship with its bank(s)? Don't think just about obvious things like outstanding loans. What about working capital needs? If the bank is happy with the business, they will want to work with you going forward, help you over little bumps in the road. Be sure the bank is a friend, not a foe!

What about **Suppliers??** Who are they? How healthy are *they*? Are there alternative suppliers for the company if one should get in trouble? Do they give the company terms at least as good as they give to competitors? Too much reliance on too few suppliers of critical parts or services for your business can be just as dangerous as having too much business going to too few customers. Remember: natural disasters and unexpected crises can hit any of them too!

You guessed it: A company's financial statements are just ***The Tip of the Iceberg™***! You may think you have found a winner from looking at the numbers and doing the quick multiples, only to crash into the submerged parts…the **non-**financial parts, which can send you, as the unsuspecting new owner of this turkey, plunging to the bottom faster than a politician's approval ratings after a tax increase!

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