

# Ian M. Berkowitz

## When buying a business, look 'behind the numbers'

The process of buying an existing business can be broken down into two definitive steps. A prospective buyer must verify the financial picture of the business, its past and present. This is either done by the buyer or his or her trusty accountant.

Upon completion of a comprehensive review of the past and present financial picture, the prospective buyer must examine the future financial picture and conclude whether or not the business can or will do the same or better revenue for the new owner.

Although a financial review is very important step, there is an equally important step in determining whether or not the business is strong, healthy and ripe for the picking. Most buyers focus on the numbers and the "owner's benefit" and forget to look behind the numbers.

Looking behind the numbers is to request and review the things that make the company function in any and all ways. The questions are many but if answered responsibly and thoroughly it will ensure a smooth transition from seller to buyer.

How does the business generate revenue? Who are its customers? Are there agreements with its customers? Are they long-term or short-term agreements? Are any of those agreements in jeopardy or expiring? Is a majority of the business coming from a few customers as opposed to many? What happens if that main customer decides to go somewhere else with

their business?

What about the suppliers who supply product? Is there one main supplier? What are the terms and conditions with that supplier? What happens if that supplier goes out of business or decides to cut off the business? Are there backup suppliers? Who else does the business depend on for its products or services?

What about the employees who are part of the day-to-day operations. Are there special licenses required to operate the business? Who holds them? Are those employees under employment agreements or can they pick up and leave at any time? What are the terms of those agreements? What happens if one or more employees leave? Are you able to hire and train new employees at a moments notice? Can you continue to afford the labor even if you may need to add some debt on the business?

These types of questions are what I call part of the legal due diligence process. It is extremely important to work with an attorney or a well-qualified business consultant to review these specifics behind the numbers and make sure that the business is on solid footing and not just a house of cards waiting to fall.

A solid business is one that will continue to operate, grow, generate revenue and not be affected by sudden movements, good or bad, by vendors, customers, suppliers, or employees. Things happen every day to businesses, but it is the



Ian M.  
Berkowitz

well-positioned and valuable businesses that will thrive in any market. More importantly, it is worth your time and effort to make sure that your target acquisition is able to stand on its own two feet even if a curve ball is thrown its way.

Smart businessmen and women are always checking every part of their operations to ensure that no one factor alone will have a detrimental effect on the entire business. If you don't see through the financial snapshot and look behind the numbers, you might find yourself wishing you did when an unexpected action walks in the door and leaves you, the new owner, wondering what hit you and what happened to the business.

Ian M. Berkowitz is a former attorney/advisor with the United States Small Business Administration in Washington D.C. During his tenure with the Federal Government he specifically worked in the areas of disaster relief for homeowners and businesses and government contracting. He is currently a practicing business and real estate attorney in Boca Raton. In addition to his law degree, Ian also holds a Masters Degree in Government from The John Hopkins University.