

Preparing for Due Diligence - What Sellers Want to Know About Buyers

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Whether you're buying or selling a business, the final terms of the deal must be agreed upon by both parties. Buyers may assume they have the last say. Yet, most owners are not willing to hand over their keys to just anyone. They want someone who not only has the means to buy the business, but also run it successfully.

After the buyer and seller have ironed out a deal and the letter of intent has been accepted, the next step is due diligence. As the buyer moves forward in verifying that the business meets their expectations, the seller will be verifying that the buyer meets their expectations as well.

Information sellers need from buyers during due diligence:

- **Financial statements.** The owner will want to examine the buyer's financial strength. They will ask for a copy of the buyer's credit report, income tax returns, as well as any financial liabilities, such as rent or other monthly expenses. Does the buyer pay their bills on time? Have they filed for bankruptcy? The owner should review all financial information with their accountant.

- **Business plan.** The buyer's business plan should lay out a strategy for success, including new products and/or services, new locations, new staff, or any other dramatic changes to the business. The owner should be expected to ask detailed questions about the plan, as their goal is to find out if the buyer is capable of earning the money necessary to make any deferred payments regarding the purchase price of the business.
- **Personal and professional references.** The buyer should put together a list of people who can vouch for their credibility. This may include professional colleagues, personal friends through memberships or charities, as well as close friends who have known them for a number of years. There should also be an agreement on how the seller introduces themselves when contacting the buyer's references.
- **Background check.** This is a precautionary measure to ensure the seller that the buyer is who they say they are. Does the buyer have any legal judgments against them? Are there any reasons why the buyer is unable to obtain any type licenses required to operate the business?

The seller will also ask the buyer if they have the right set of skills and management experience to run the company. They may ask the buyer their views on the industry or how they intend to stay competitive. This would be especially important if the transaction is structured as seller financed or an earn-out.

Bear in mind, the owner may have received multiple offers to buy their business. The transferring of business ownership is tedious and time consuming. They do not want any surprises. While the buyer may want to come across as the perfect fit, it's better to be as forthcoming as possible.

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