



## **Better Due Diligence: Look Inward, Then Outward**

Conducting thorough due diligence is critical to ensuring a successful acquisition or merger. You can't be too careful when investigating a potential business combination.

According to an article in the January 1999 Journal of Business Strategy, here's a way to get even more out of your due-diligence efforts: Before you conduct due diligence on another company, conduct it on your own. Or, as the author puts it, "[Your] company's capacity to objectively perform due diligence on itself is vital in determining the value it represents in that equation. Self-analysis is the fundamental first step to realistically determine whether the post-acquisition 'whole' will be greater than the sum of its parts."

The author recommends conducting a complete self-review of your company's strengths and weaknesses. This makes sense — the better you know yourself, the smarter you can be about finding an acquisition target that helps you meet strategic goals. Conduct objective interviews with your customers and competition. Ask pointed questions about how your company compares with other suppliers in terms of customer service, pricing, and sales and marketing coverage. Find out what factors are most important in encouraging your customers to buy from you. Get as much qualitative and quantitative information as possible to better understand your strengths and needs.

After you've studied yourself in detail, turn your attention to the market you plan to target through the acquisition and find out as much as you can about it. Determine the market's size and growth prospects, investigate potential trends and new products, and assess the current competition and its expected response to your company's expansion into its marketplace.

Once you've thoroughly investigated your own business as well as the market you hope to enter, then it's time to conduct due diligence on your best prospects. If all this seems like a lot of additional work, you're right. But given the stakes involved, you'll find it to be a small investment if it steers you toward the right acquisition or merger, or clear of the wrong one.