

Financial Analysis: The Business Detective

Over the years our Comprehensive Financial Analysis has often been referred to as being a business detective. While this service pinpoints problem areas in small businesses allowing us to formulate corrective strategies to cure the problems it also has helped uncover partner theft and other business shenanigans that cause harm to businesses. This service has helped sellers demonstrate a finely run business to their buyers as well as help them find problems areas and fix profit draining problems. One glowing example I can tell you about the business detective as I was part of this deal and hence would not be discussing proprietary information from someone else's business affairs.

In addition to business consulting I am involved in various business deals from time to time. Many years ago, while living in California and belong to a tennis club, a friend and I started a business importing tennis racquets and other accessories and selling to various other tennis clubs throughout southern California, Nevada & Arizona etc. At the time graphite racquets were selling for up to \$500 in local retail shops and we could bring these in from Taiwan for \$39.00 each. Business was going good and we were sponsoring tennis tournaments throughout southern California when we got call from a guy in Simi Valley. He had a company that was buying anything and everything from soup to nuts and was interested in buying \$100,000 worth of our tennis racquets. Wow, what a deal. My partner owned a small retail tennis shop and the well-known tennis shoe rep said that his company already shipped \$60,000 worth of shoes to this guy.

I met with the guy in Simi Valley, on Easy Street of all places, right off the 118 Freeway in the western part of Simi Valley. He in fact wanted to buy \$100,000 worth of racquets from us. I took \$100,000 divided by our price to him of \$50 and that amounted to 2,000 racquets. This far exceeded our inventory so I sent a telex to our supplier in Taiwan who was ready to ship but want more info on the buyer. I again met with this buyer and said that our company brass wanted to review the buyer's company financial statements before consenting to supply such a large order. The buyer immediately opened a desk drawer and pulled out his company's Income Statement and Balance Sheet from last year and handed them to me. I took them and ended our meeting and left. Upon getting back to my office on the beach in Channel Islands Oxnard I analyzed them just like I have done for countless clients before. What my analysis showed is that he wasn't paying his bills along with several other negative factors about the business.

I again met with the Simi buyer and told him that our financial department indicated that he was late on many of his payables and they wanted some form of collateral before they would ship. He became indignant and told me how could I say that when he didn't give me any payable or receivable dating. I told him that I didn't understand it either, the financial guys came up with it and I was just telling him what they said. The Simi buyer said he'd have to pass this on to his company executives to see what could be done. A week passed, then two weeks and I heard nothing from Simi Valley. I called and the phone just rang and rang. I finally got in my car and drove to the Easy Street address only to find a vacant building. I saw a neighbor and asked him what happened to these guys and where they were. He said that about two weeks ago, on a Tuesday night, a semi pulled up and they loaded all the inventory and left and that's all he knew. Wow, talk about dodging a bullet. If we would have requested it, our Taiwan supplier would have shipped 2,000 racquets to us and we would be stuck with a bill of \$78,000. That bill would have bankrupted our small import business and us personally as well. Imagine that, a national, huge, very well know athletic shoe manufacturer got stung and this little up start import company did not.

We have also provided this analysis to other business brokers throughout the country. There is nothing like a disinterested third party expert validating the financial health of the business they are selling. Any business buyer has

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basically two main questions; What is the business really worth? And, what is the financial health of the business? Our services can answer both of these questions and offer advice to make the business more profitable too.

If we can help you buy or sell a business, please call so we can discuss how we might be able to help you. We also have other services such as; appraisal, financial analysis, productivity studies, profit development, loans, small business accounting and income tax preparation.

I hope you found this informative and if we can help you in the future, please contact us. We have been serving clients coast to coast since 1980. Business can be fun and profitable if it's done right.

Sincerely,

A handwritten signature in blue ink, appearing to read "Tom Stewart", is written over a light purple rectangular background.

Tom Stewart