

Commercial Due Diligence

The Key to Understanding Value in an
Acquisition

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Introduction

Many years ago, stock market guru Warren Buffet concluded that investing in superior businesses for the long term was better than buying poor, but cheap, businesses. Commercial due diligence (CDD) is about telling the difference between superior businesses and poor businesses, which is why this book is a mixture of business strategy, marketing analysis and market research. However, CDD is not about the bland application of analytical techniques. Cold rational analysis is a part but it is not the only part. CDD is about really understanding how businesses and markets work; it is about understanding what is really important for profits and growth. CDD is about magic. It is about unearthing the few magic ingredients that allow you to say with confidence whether or not a business is worth investing in. A 'tool box' of analytical techniques will only get you so far.

You need to develop an approach where you keep on asking the question 'why?' until finally a light goes on and you suddenly know you can say with confidence whether or not a business is worth investing in.

Experience helps, but this is true of due diligence in general. One of the reasons why due diligence is often seen as an expensive waste of time that only tells acquirers what they already know is that it is left to junior staff who, while they might be highly intelligent and well trained, do not really understand what they are supposed to achieve.

You must learn to tell what is important and what is not. Investigating companies, markets and competitive positions will throw up a wall of data, much of it contradictory and a great deal of it incomplete or only partially relevant. Being able to bring order to the mess and uncertainty inherent in the process is a special skill.

You must have confidence in your own judgement. So often the cry goes up 'we need more data', when in fact there is no more to be had. At some point you have to know when you have collected all you sensibly can and have the courage to dive in and make something of it all.

Oh, and by the way, you have approximately 3 weeks to pass judgement on the commercial prospects of a company that has been run by the founder for the last 20 years in a market you didn't know existed until yesterday . . . You had better be good. It is the aim of this book to make you good by giving you a solid foundation on which to build experience and with which to develop judgement and confidence.