# A Practical Guide to Business Due Diligence for Buyers in South Africa

Buying an existing business can be a faster way to become an entrepreneur, giving you access to an established customer base, experienced employees, supplier relationships, and proven business systems.

However, every business comes with its own opportunities and risks.

That's why conducting business due diligence is an important part of the buying process. Due diligence is the process of gathering and verifying information about a business before committing to a purchase. It helps buyers understand the business, identify potential risks, and determine whether the asking price reflects its overall value.

While no investigation can uncover every future challenge, taking the time to perform due diligence can provide greater confidence before making such a significant investment.

Here are ten key areas worth reviewing before buying a business in South Africa.

## 1. Review the Financial Performance

Financial records provide valuable insight into how a business has performed over time.

Where available, request two to three years of:

- Income statements
- Balance sheets
- Cash flow statements
- Management accounts
- VAT returns (where applicable)

Look for trends rather than focusing on a single year. Consistent revenue, healthy profit margins, and positive cash flow often provide a clearer picture of the business's financial health.

If audited or independently reviewed financial statements are available, they may offer additional assurance.

## 2. Understand the Cash Flow

A profitable business can still experience cash flow challenges.

It's worth understanding:

- How quickly customers pay
- Whether the business relies heavily on credit sales
- Seasonal income fluctuations
- Major monthly expenses

Reliable cash flow often indicates a business that is financially stable and well managed.

## 3. Evaluate the Customer Base

Customers are one of the business's most valuable assets.

Consider learning:

- How many active customers there are
- Whether revenue is spread across multiple customers
- If long-term customer contracts exist
- Whether the business depends heavily on a small number of clients

For confidentiality reasons, detailed customer information may only be shared later in the sales process or under a non-disclosure agreement (NDA).

## 4. Review Supplier Relationships

Reliable suppliers help keep a business running smoothly.

Where possible, review:

- Key suppliers
- Credit terms
- Supply agreements
- Pricing arrangements
- Alternative suppliers

Not every business has formal supplier contracts, so discussions with the seller can also provide valuable insight.

## 5. Examine Contracts and Leases

Contracts can affect the future owner long after the sale.

Take time to review:

- Property leases
- Customer contracts
- Supplier agreements
- Franchise agreements
- Equipment finance
- Service contracts

If the business operates from leased premises, it's worth confirming whether the lease can be transferred, as landlord approval is often required.

## 6. Assess the Employees

Employees often play an important role in the ongoing success of a business.

Consider reviewing:

- Employment contracts
- Organisational structure
- Staff turnover
- Key employee responsibilities

It's also useful to understand how dependent the business is on the current owner. Businesses with documented systems and experienced managers often transition more smoothly to new ownership.

Where a business is sold as a going concern, employee rights may continue under South African labour legislation.

## 7. Identify Assets and Liabilities

Understand exactly what is included in the sale.

Assets may include:

- Equipment
- Vehicles
- Inventory
- Intellectual property
- Websites
- Trademarks
- Customer databases

Also identify any existing liabilities, including loans, outstanding supplier accounts, tax obligations, legal disputes, or financed equipment.

Where appropriate, confirm ownership of major assets before completing the purchase.

## 8. Verify Legal and Regulatory Compliance

A business's compliance history can be just as important as its financial performance.

Depending on the business, it may be worthwhile confirming:

- CIPC registration and company status
- SARS Tax Compliance Status (TCS)
- VAT, PAYE and Income Tax compliance
- UIF and COIDA registration
- B-BBEE documentation (where relevant)
- Industry licences and permits

Addressing compliance matters early can help avoid unexpected costs after the acquisition.

## 9. Understand Why the Business Is Being Sold

One of the simplest questions can also be one of the most valuable:

*"Why are you selling?"*

Common reasons include retirement, relocation, health, new business opportunities, or lifestyle changes.

Understanding the seller's motivation can provide useful context and highlight areas that may warrant further investigation.

## 10. Review the Sale Agreement Carefully

Before signing any agreement, take time to understand the terms of the sale.

A Sale of Business Agreement typically outlines:

- What's included in the sale
- Purchase price and payment terms
- Conditions of the sale
- Warranties
- Restraint of trade clauses
- Responsibilities of both parties

Depending on the complexity of the transaction, many buyers choose to have the agreement reviewed by an attorney or other professional advisor.

## Final Thoughts

Buying a business is a significant investment, and every opportunity is different.

A practical due diligence process helps buyers verify information, better understand potential risks, and make more informed decisions before proceeding with a purchase. While due diligence cannot eliminate every uncertainty, it provides a clearer understanding of the business and supports more confident decision-making.

If you're ready to explore business opportunities, use this guide as a practical checklist throughout your buying journey.