

Due Diligence outline
for a possible new & remote asset collection office
July, 2014

Big Picture, Basics

General	Please provide XYZ's most recent business plan and annual report.
Governance	Please provide board member names & background information. Timeline of board members' comings & goings.
Organization	Please provide an organization chart. Also, a timeline of professionals' additions and subtractions. The confidentiality agreement template. Personnel manual, policies, etc. Are there any gaps in the management team? What positions for professionals are planned to be recruited for and when? What is the process for performance evaluation? Please provide a summary of management incentive and/or bonus plans.
Strategy	What is XYZ selling? What customer problem(s) is being solved? What is unique about what XYZ is offering? How or in what dimensions are these services better or worse than the competition's? What offerings are scalable? What are the constraints on scalability? What strategic relationships exist, if any? Is there any protected IP?

External Environment. Where XYZ is positioned, etc.

Market	Studies, reports, etc. that XYZ relies upon. How does XYZ see the market for its services? How does XYZ segment the market? How large is the XYZ sweet spot segment? What is XYZ's market share of the relevant segment and others? How have those changed over time? Where does XYZ feel the low hanging fruit is? Why? How does it go about pursuing it? Domestically, how many are in the target market? How many of those are not being served by a 3 rd party service provider? Why are they not? What is the churn rate in XYZ's market segments? What suppliers have the highest churn rates? Why?
Competition	Any studies/analyses of XYZ's competitive landscape. Who does XYZ consider in its peer group? In its market segment, who are XYZ's most & least feared competitors? Why? What are their market shares and XYZ's? Wins & losses against various competitors? Over time? To what extent does XYZ target the customers of competitors perceived as weak or subpar? Does this depend on geography, firm skills, or the competencies of individual performers? What regulations govern this market? What are the barriers to entry? Who are the peers and main competitors by product line and other variables such as size, location, and whatever other dimensions may be relevant? What data is available to assess how you doing against them? How are you doing?
Suppliers	Reports on use & performance of outside financial product vendors, ideally over time. How are those providers chosen? What are the specifics of due diligence on providers? Over the last few years, which providers (if any) have been brought in or outplaced and why? What does the scorecard for a prospective vendor look like? What reports does XYZ request/require of such vendors? If there a "standard" contract, please supply. Or an example of a current contract. How are these vendors evaluated?

Internal Matters, Operations. How XYZ does stuff.

Business model	What are the drivers of growth in XYZ's profitability? More customers? Larger customers? More fee generating service? Higher fees? Less churn? Better cost control? How does XYZ sell its product or services? What do the customers and prospects perceive in the way of XYZ's value? How do you know?
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	<p>What costs are fixed and which ones are variable? What have been fixed costs as percent of revenue over time?</p> <p>What are the variable costs of a customer? Other than incremental fee income, are there other marginal benefits from a new customer?</p>
Product Line	<p>What is in XYZ's product line? Should more be in it or less? Are products (services) customarily custom tailored or are they off the shelf? If tailored, how and to what extent? What additions and/or deletions are being considered? Can the existing product offering be extended? Can customers be sold anything else? Should they be sold less?</p> <p>For California & other high income tax jurisdictions: Can a (nearly) bulletproof product line with positive taxation attributes be created to sell into California and similar jurisdictions? If it were to be, how would it be promoted and distributed?</p>
Marketing	<p><u>Pricing:</u> Please provide any XYZ price list and associated policy on deviations from it. Also, comparisons between XYZ pricing and its peers' pricing. Does XYZ tailor its pricing to perceived competition in jump ball situations? What is the process for doing that?</p> <p><u>Products:</u> What additional products and/or services is XYZ considering? Any considered for elimination?</p> <p>Does XYZ tailor its offerings, marketing collateral, etc. to verticals such as family business entrepreneurs, public company executives, lawyers, VC's, etc.?</p> <p>Is there a direct calling effort on end users? Or is it all marketing by referral? Any promotions?</p> <p>Market share by product line? Distribution relationships?</p> <p>Does XYZ have customers and/or strong prospects outside the U.S.? To what extent is XYZ pursuing international business? How similar or different are those end users compared to the U.S.- for example, average assets, fees, costs, etc.? Where is the best opportunity in non-U.S. markets and how good is it?</p>
Distribution – General	<p>Do you know how your customer buys?</p> <p>Does XYZ have a systematized sales process for each target market and/or vertical?</p>
Distribution - Indirect	<p>Please provide contact information on current & past XYZ finders. Data on their successes, assets brought in, fees, etc. Are customers generated through indirect channels as sticky as those from direct sales? Is there a standardized protocol for support of indirectly sourced customers?</p> <p>Please provide an example of a finder's agreement including typical compensation plan, how it all works. How are any conflicts resolved?</p> <p>What happens if there is a referral but no written referral agreement?</p> <p>To which trade associations do XYZ's referral sources belong? Is there any training for referral sources? Does XYZ provide any marketing collateral?</p> <p>Does XYZ have a formal program in place to recruit referral sources? At which trade association shows does XYZ exhibit?</p>
Distribution - Direct	<p>Please provide the sales incentive plan.</p> <p>Please provide copies of or examples of proposals and standard sales correspondence.</p> <p>What are the elements of XYZ's lead generation system? Any advertising and if so where?</p> <p>Direct mail? Systematic emails? Social media? Please describe and/or provide examples.</p> <p>For sales leads, which data providers does XYZ subscribe to? What are the most productive filters?</p>
Customers	<p><u>Basics:</u></p> <p>How many customers does XYZ have? What is the mean and median AUM for them? Does that vary across product lines? What is the mean and median fee charged stratified by account size and services provided? All else held constant, what variables contribute to (or may) to a difference in fees offered?</p> <p>Mean & median revenues/customer over time? How does the LTV – Life Time Value – of a</p>

	<p>customer vary across lead source and other metrics? Please discuss who your best and worst customer types are and why. Have you “fired” customers? Under what circumstances?</p> <p><u>Acquisition:</u> What CRM tool(s) does XYZ use? Names of staff members on it daily? Who is primarily responsible for its use and content? Please provide a set of recent reports.</p> <p><u>Maintenance:</u> Who is responsible for customer maintenance/happiness/relations? For each product type, please provide “standard” reporting packages as provided to a normal customer during a 12 month period. How is customer churn measured? What is XYZ’s customer churn rate? How does this stack up against XYZ’s primary competitors? How sticky are customers? Are there new or failed initiatives to keep customers? Are customers surveyed systematically? If yes, please provide a recent survey and results.</p> <p><u>Management of Customer Maintenance:</u> Please provide management reports on the portfolio of customers. Please provide examples of XYZ call reports on customers & prospects.</p>
Operations	<p>Please provide the operations manual. Who are your software/cloud providers? Are you happy with I.T. and security? What information providers does XYZ subscribe to or purchase data regularly from? How are customers onboarded? Please provide paperwork, checklists, etc. for onboarding and offboarding.</p>
Nuts & Bolts	<p>Key industry trade publications, websites & blogs? What periodicals does XYZ subscribe to? What online information services? Offline? To which industry associations does XYZ belong? Over the last couple of years, to which industry meetings/conferences has XYZ sent an employee to? What training does XYZ encourage/require? What licenses does XYZ hold? Are all in good standing?</p> <p>To what extent does XYZ use consultants? If so, who are they and what do they consult on? For the industry, who are the best and/or most respected consultants?</p>
Misc	<p>Please provide:</p> <ul style="list-style-type: none"> Most recent fiscal year financial statement – ideally audited Cap table Most recent federal tax return Any recent XYZ press releases Marketing collateral <p>Who are XYZ’s professional service firms?</p>