

Ladies – very good job. I would have liked to see something on how you will conduct the due diligence. Will you do all the due diligence yourselves or will you bring in outside assistance? You have raised a number of areas that require unique skills and I would like to have seen the outside expertise you would use - lawyers, accountants, engineers, etc.? A very impressive set of references. Over all a very professional analysis of the situation and well written paper. See comments below.

14 out of 15 points.

Due Diligence Process & Creative Minds, Inc.

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### Due Diligence Process & Creative Minds, Inc.

Currently, we are looking into possibly purchasing a company so that we can expand our company to other regions outside of the Chicago area such as the south suburbs. The target company we are looking at is The Children's House (TCH). They currently have 2 locations in the south suburbs and 1 in the Chicago area. These areas are:

The Children's House I&II 16601 S. Kedzie Markham, IL. 60626	The Children's House (Park Forest) 94-96 Orchard Drive Park Forest, IL. 60476	The Children's House (Lake Meadows) 501 East 32 <sup>nd</sup> street Chicago, IL. 60616
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According to their website they have the staff, curriculum and appropriate setup like most daycares, but they are missing one thing...accreditation through National Association for the Education of Young Children (NAEYC). The NAEYC is the highest accreditation that a daycare center can receive. In most states, centers that care for more than 12 children have to be licensed; nationwide, there are more than 96,000 licensed facilities. But a license is not a guarantee of quality; all it shows is that a facility has met minimum health, safety, and teacher training standards set by the state ([www.babycenter.com](http://www.babycenter.com)).

Ms. Jenkins decided to speak with an old acquaintance that currently works for the target company. Ms. Lisa Wright (teacher's assistant at The Children's House) confidentially expressed what was happening with the company from within. Consistently, The Children's House has made several attempts to receive accreditation

from NAEYC, but has failed. Ms. Jenkins got a chance to visit the Markham site and noticed that the playground area swings were not stable ([stable or suitable?](#)) for use. In addition, the playground area was too close to the woods that anything could possibly get into the playground and create a serious danger to the children and staff. One time they had to close the playground because an unusual animal ([what is an unusual animal?](#)) got into the playground area. After the incident, no measures were taken to correct the matter (Wright, 2004).

At The Children's House, they have a very high turnover of staff and administration. According to Ms. Wright, supervisors and directors would mistreat their staff and would keep gossip on going. There is no code of ethics or privacy at this institution. The directors and supervisors are not properly fit in managing the center. They only have meetings every blue moon. If there were something vital that everyone should know the directors would address everyone through memos. They all receive training every-so-often. The daycare center is constantly losing money and children. Parents who withdraw their children from the program are disgusted with the consistent level of unprofessionalism. The children who left did not receive the quality of care and education they deserved. Amazingly, most of the staff from the directors on down did not have the qualifications deemed by the state to hold the positions that they are in (Wright, 2004).

Currently, there is a situation with a child that makes sexual moves on her bed during naptime. The assistant teacher reported it to the director and in turn was told to document the incident. The director stated that she would handle the matter with the parent. As time went on, the director did not deal with it at all because of being

overwhelmed by the financial blows that has cause them to cut some of the teachers and assistants hours (Wright, 2004). It is truly amazing that this daycare center simply has not lost their license and permit.

After the interview, we felt it was necessary to make a full investigation before considering a purchase known as due diligence. Even though, an employee was interviewed about things that were happening inside the company, we needed to look into the whole picture whether or not it would be a wise investment decision for Creative Minds, Inc. to embark upon. In order to fully answer this question we will need to prepare a due diligence checklist of items to determine if purchasing The Children's House will be a great investment or a sour deal.

Here is a list of items that should be addressed as follows:

- Condition of the business – what shape the building is in will determine the [sale](#) of it.
- Profit History – this determines whether the company is financially stable and what [its](#) profits look like for the past 5 years.
- Profit Potential – is the company growing each year, and is it in a position to make more money? What does the business own [and owe](#)?
- Marketing position – is the demand for the company's product or service increasing. What advertising methods have been effective for the business so far?
- Economic Conditions – how does the business position itself when the economy is stable and unstable? [Very good point](#)
- Company Reputation – how is the business relationship with vendors, employees, suppliers, visitors, and primarily customers? (Beech, 1999).

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- Personnel – look at the employee list and job descriptions to tell if he/she fit into the overall plan after the purchase? What key persons will fit our structure? Will need to go behind-the-scenes and observe his/her work. [Good point](#)
- Property – what the business owns and what it is leasing?. Is it transferable?
- Insurance – is the company over-covered or over-exposed? What types of employee benefits are in place? Make sure employees are protected and insured from the start (Posnock, unknown)?.

Creative Minds, Inc. founder and partners in the corporation wanted to go further into the due diligence process. We found that recent increase in liability claims can reduce the attraction of the target company, as [do](#), problems such as poor fire protection or safety program (Hollyday, 1995).

We would need to know about the development of the property such as a detailed analysis of the physical condition of the sites at all The Children's House locations, both above and below ground including topography, soil, rock, stream or water table information. For instances, soil that is too soft may require additional foundation features such as piles, while soil that is too hard, (or rock) may require blasting or additional excavation prior to grading and building construction. Either scenario can significantly increase the construction cost to the buyer (Babb, 2003). [Is this as big a concern if you are purchasing the existing structures versus building new structures?](#)

The existence of a stream or high water table will impact the cost of construction and may also require additional permits and approvals. Many municipalities will not permit any improvements on an area designated as wetlands. Some locations will permit paved parking area but no structural improvements, while others will require retaining

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walls and foundation upgrades. If Creative Minds, Inc. hopes to use site water for childcare center operations (for drinking water and fire suppression) further analysis needs to be done on the quality and quantity of available water. However, our tougher hurdle is meeting necessary government water quality standards (Babb, 2003). [Not sure this would be an issue in the Chicago area including the Suburbs.](#)

Environmental hazards can prove to be among the most treacherous because of their long tail and relative obscurity. Environmental issues can involve past, current, and subsequent buyers, unless their liability is transferred via a contractual arrangement. For example, XY Company had acquired property incidental to its operations a few years earlier. The property was being used as a warehouse for paper products, cleaning chemicals, and some equipment. Down the road, the current owner, Company Z, wants to do a structural change to the building, but discovers that prior to Company XY, Company W and even earlier Company V had also owned it. Company V had racecars, and in a pit that had been grated over, there was a large quantity of solvents, paint oil, and gasoline buried under the building. These pollutants nearly contaminated the water table, and Company Z must restore what was effectively one and a half blocks of a downtown area. There had been no contractual relief in any of the purchase, and sale agreements, in additions to which Company V with the race cars no longer existed (Browne, 1997).

As we continue in dig into The Children's House setup, we will need to become acquainted with their electronic records. Traditional due diligence, however, typically ignores email, the lifeblood of an efficiently run business. [– interesting idea for this type of business.](#) The spontaneous and unpolished nature of email presents the most candid view of what is really going on in a company such as The Children's House. It provides

context. It also can fly in the face of the fully vetted printed record offered by a company under the due diligence microscope. The recent surge in electronic discovery has brought with it an industry of experts who have developed sophisticated software and techniques for finding and producing relevant records from a mountain of data. It is possible, with the right expertise and tools, to search through a vast amount of electronic data efficiently and thoroughly (Thornquist, 2004). [Very good](#)

Meanwhile, as we chip away at our target purchase (The Children's House); we need to an industry assessment. Industry attractiveness or lack thereof may provide valuable insights into the purchase of one company over another. The due-diligence process should provide objective input on how to compare industries and systematic means to assess the attractiveness of an industry. Without this detached third-party assessment of industries, individual managers may lobby for their favorite industry. Furthermore, managers will be constrained to examine companies in their particular industry because of a lack of knowledge about other industries (Harvey, Price, Lusch, 1998). [Very observant and good idea.](#)

Even through the creation of the due diligence checklist, we will need to do a (strengths, weakness, opportunity, threats) S.W.O.T analysis on our company in order to see realistically what we can and can not accomplish through purchasing another business. Therefore, we can speak with other professional daycare institutions to get their insight on making such investments and hire an attorney and accountant whose expertise are in handling matters such as these. [Very good point.](#)

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