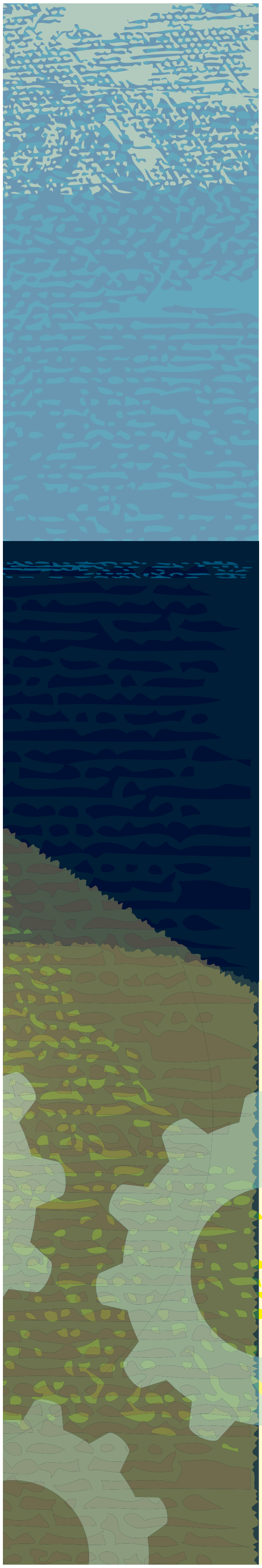

Check Yourself Before You Wreck Yourself

BY DERRIL JORDAN AND DON ZILLIOUX

An earlier article in this series discussed the value of effective planning and goal setting when implementing an effective economic development campaign.

The use of a comprehensive planning document was described as a first level of due diligence to reject potential ventures if they fail to meet the investment and strategic criteria established by the tribe's master strategic and economic development plan.

This article discusses the next level of due diligence and assumes that a potential venture has met enough of the tribe's development and investment criteria to deserve further consideration.

There are two primary ways to conduct due diligence: Looking at the company or person that wants to do business with the tribe and the specific venture that is being proposed.

The purpose of conducting due diligence on the person or company is to make sure they are who and what they say they are, and that they are capable of doing what they propose.

There are many legitimate companies and individuals willing to do business with tribes and invest in their economic development efforts. A legitimate company or investor is one that has the capital (or access to capital), the expertise to manage and operate a successful business and a reputation for fairness and honesty. The absence of one or more of these qualities means that a potential investor is not legitimate. Avoiding illegitimate investors is the first goal of due diligence.

Unfortunately, there are more than a few suitors trying to do business with tribes that are neither competent nor honorable. Some potential business partners will propose potentially viable investment opportunities, but try to take advantage of the tribe. One example would be seeking to assign a share of the risks to the tribe that is disproportionate to the potential tribal gains. Other potential investors will propose ventures for which they haven't done their own due diligence. Although not dishonest, they are fools who will eventually be parted from their own money.

Illustration by JDawnInk

TO AVOID EITHER BEING TAKEN ADVANTAGE OF BY CHARLATANS OR BOOKING A TRIP ON PLATO'S SHIP OF FOOLS, IT IS NECESSARY TO CONDUCT DUE DILIGENCE ON THE PEOPLE AND COMPANIES WITH WHICH THE TRIBE IS CONSIDERING DOING BUSINESS.

It's true that misery loves company, but there is no consolation that comes from knowing that your partner was honorable but incompetent.

To avoid either being taken advantage of by charlatans or booking a trip on Plato's ship of fools, it is necessary to conduct due diligence on the people and companies with which the tribe is considering doing business.

The tribe should ask suitors for references from other tribes, governments or companies with whom they claim to be doing, or have done, business. The tribe should find out the names of the principals of the business, the owners and managers, and the names of the various businesses they conduct their operations through. The tribe should also ask them if they have been involved in litigation and review any court decisions in which they may have been involved.

The tribe should never take anyone at his or her word. Instead, it must implement a process for conducting thorough background checks on the companies and principals with which it will be dealing with. At a bare minimum, the tribe should search their names on the internet, the results of which may help to focus additional search efforts or provide a basis for saying no. If the potential investor passes this aspect of the due diligence process, the tribe can turn its attention to evaluating the specific venture that has been proposed.

A tribe should never invest money in a venture for which a market study and a business plan have not been prepared. These documents will supply valuable information about the proposed venture, including how much money the tribe is being asked to invest, the length of time before the tribe begins to see a return on its investment, the rate of return that can be expected, the number of jobs to be created, the average wage and the required training.

A good market study will provide a discussion of the industry generally, analyze and interpret data about the nature of and demand for the product or service to be offered, and also discuss the potential customers for the goods or services to be offered. It will provide information about the spending capabilities and habits of the potential customers and help the investor understand the competition and how best to target advertising and appropriately price the product or service to maximize sales.

A business plan sets forth the goals of the venture and explains how they will be achieved. It should include information about the track record of the management team, which will enable the tribe to determine whether the potential partner is capable of producing the promised results.

The business plan also should include projected financials for the operation of the proposed business over at least a five-year period. If the investor has operated the same or a similar business in the past, the business plan also should present historical financials. Of course, anyone can throw facts and numbers together, so the tribe will need knowledgeable staff or trusted consultants who can review the market study and business plan to determine whether they are based on real data and reasonable expectations and predictions about the industry in general and the targeted market.

If a potential investor has not prepared these documents, they are foolishly willing to invest their own money and will soon be sorry. This is the ship of fools to be avoided. An investor that has these documents and won't share them with the tribe has something to hide. They may not want the tribe to understand the length of time for the venture to become profitable or the rate of return once it becomes profitable. Likewise, they may want to hide the risk the tribe is being asked to take in comparison to its return.

In short, there are a lot of ways by which a tribe may be taken advantage. Only by asking the investor to substantiate claims about the likelihood and level of success about the proposed business can a tribe avoid being the victim of an unprincipled suitor.

Failure is expensive in terms of dollars and cents, demoralizing to the tribal community and erodes faith in tribal leadership.

Tribes must be able to sort the good from the bad and reject proposals that lack background information, a market study and a business plan. It is better for a tribe to make no deal than a bad deal, because it may be a long time until the tribe has a second chance.

Always remember to ask, "How will the tribe and its enterprises grow profitably, with the efficient use of its capital on a sustainable basis?" ♦

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