



Consumer Hub

Due Diligence Guide

Did you ever need to buy something fast? No problem. Just Google it or look it up on Amazon.com. Scan for the best price. Then enter your credit card number and click “buy.” Done deal. No fuss, no muss! This approach works fine . . . until you pick a firm that turns out to be incompetent or criminal. So protect yourself. Do your “due diligence” before you buy. A little sleuthing up front can prevent big problems later.

The National Ethics Association recommends the following six techniques for checking on a company before you buy.

1. Don’t pick a firm “out of a hat.”

Finding a company on Google or Amazon is convenient. But it’s the equivalent of picking a name out of a hat. Better approach: Ask family, friends, and colleagues for referrals. Or if you found a company online, ask people if they’ve ever heard of it. Also, since there’s no accounting for personal experience, don’t assume that one person’s recommendation paints an accurate picture. Ideally, try to find a company that has satisfied several people you know and respect.

2. Follow the “paper trail.”

Always confirm a company’s owners, street address, and phone number. Don’t do business with post-office boxes! If an online merchant fails to display contact info, proceed with caution. For web sites, just enter the site’s uniform resource locator (URL) into www.who.is/whois. Out will pop the site owner’s name and address. If this information is different from what’s on the web site, ask why. Also, watch out for firms that register their domains on www.domainsbyproxy.com. Their owners might have something to hide.

3. Look for companies that follow “best practices.”

Try to deal with companies that believe in doing business the right way. Narrow your search to those belonging to professional business associations that promote best-practice standards. Examples include the Better Business Bureau (BBB); the Financial Industry Regulatory Association (FINRA), for those in financial services; and the National Ethics Association (NEA). Many industries also have trade associations that sponsor “find-a-member” services for consumers. Although these groups might not enforce standards, association membership at least indicates a firm is willing to stand with its peers.

A “fly by night” operation is often unwilling to do this.



Consumer Hub

Due Diligence Guide

4. Tap the “wisdom of the crowd.”

With Web 2.0 technologies consumers now have the ability to share opinions online. This means you can unmask firms that promise great products and services, but fail to deliver. Before buying, make sure to enter the company’s name into sites such as Yelp.com, Angie’s List, and Reseller Ratings. Also, major online vendors usually provide customer reviews on their products. Amazon.com and B&H Photo are notable examples. How to make sense of consumer ratings? First, don’t place too much emphasis on an overall score. Instead, focus on the content of individual reviews. Second, don’t get swayed by a few negative reviews. All companies can have a bad day. Judge a firm by the preponderance of evidence, both good and bad. Third, watch for reviewers who are unbalanced or who have axes to grind. Finally, understand that companies sometimes “game” review sites by giving incentives to their customers to write positive reviews or by having employees write them. Bottom line: treat reviews as an important “data point,” but not the only measure by which to evaluate a company. The same is true with online “complaint registries” such as Ripoff Report and Complaints Board. Visiting such sites can be helpful. But take angry, obscenity-filled rants with a grain of skepticism.

5. Inspect the work.

By this point, you should have a feel for the competence and integrity of the firm you’re considering. If you’re happy with what you’ve seen and heard, ask to see evidence of their work. Does it meet your expectations? Does it reflect the company’s marketing claims? Then ask to speak with several recent references.

6. Put the firm under the microscope.

If you have any further doubts about the company—or if the purchase is very large—check with state consumer protection agencies or consider purchasing a background check on the business owners and/or principals.

The Federal Trade Commission, Consumer Protection Division, accepts complaints online and also provides great information. States generally have their own consumer protection agencies that license various occupations, investigate complaints, and issue sanctions. Go to your state “one-stop” web site to find other agencies that can help with your due diligence.

Consider buying a background check on the people that own or manage a company. Available online for nominal fees, such services unearth civil suits, criminal convictions, and bankruptcies. It’s better to uncover damaging information before you buy than after. So there you have it! Six effective ways to really check on a company before doing business. Too much work? Yes, it takes time. But doing just an hour or two of research can prevent tremendous financial damage and personal stress later. Would you rather protect yourself now? Or scramble to recover your money later?