Beyond

FIVE QUESTIONS

EVERY INVESTOR SHOULD ASK ABOUT TECHNOLOGY

Hutton Henry

Why Technology Due Diligence **FAILS**

When we meet an Investor for the first time, there is often a discussion about “that” project which cost them dearly because crucial information was missing during Technology Due Diligence.

We feel their pain when they recall the moment they realised they had to fork out for extensive change. While this is a complicated area, we find investors generally have concerns with:

COST
Either hidden costs, or a lack of budgeting information.

CLARITY
The reports are too complicated and vital information is missed.

READINESS
The foundations of the business are not ready to implement the recommended technology changes.

Having interviewed tech teams for over twenty years I believe the main reasons IT Due Diligence fail are:

DISCLOSURE
People do not disclose essential information.

IMPERFECTIONS
Interviewees prefer not to discuss the natural imperfections of the technology they have built.

CONTEXT
For a full understanding of the technology effectiveness and risk, you need to speak to the business and customers.

Typically there are some key questions investors need answered as part of a Technology Due Diligence. Some of them are listed in the following page, and they provide a good insight into how technology can create value in a target business.

The challenge with these “standard” questions is that they are the obvious concerns that the target is already prepped to answer - either through a data room or interviews. Hence you may receive answers that satisfy the question, but you are none the wiser in regards to how the team, processes and people operate.

Therefore, the objective of this paper is to first, outline the typical concerns and secondly, equip you with some unusual questions that may provide you more of early insight into the target and how they operate technology.

These questions will help you develop an independent view – and decide if it is worth proceeding onto later stages.

And if you have any better questions, I’d be keen to learn more.

Sincerely,

Hutton Henry
CEO, Beyond M&A

Standard Technology Due Diligence Questions

The “Usual Suspects”

These are some of the questions most commonly asked:

- Is the system fit for purpose?
- Does the Technology Plan meet the Business Plan?
- How unique is the platform?
- Can it be easily copied?
- It is resilient?
- Is it scalable?
- What are the cyber security risks?
- What is the material impact of scaling the platform or systems? What are the development processes like?
- What is the bug/fix ratio? What is the trend over the past 12 months?
- What are the team’s strengths/areas of improvements?
- What are the business continuity plans?
- IT budgets and licensing

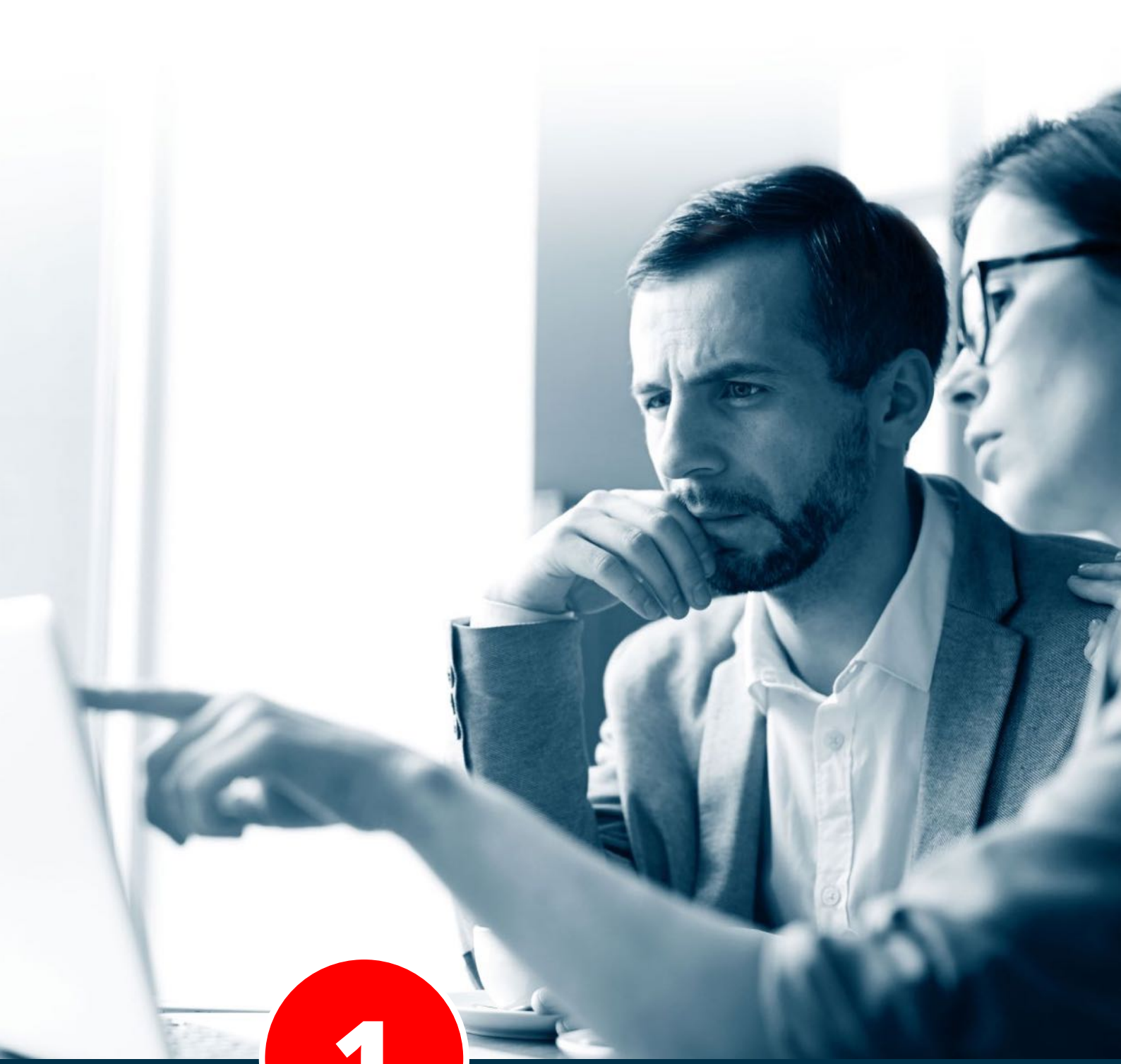
BEFORE
You Interview Anyone

If you put yourself in the technology leader's shoes, a Technology Due Diligence process can be stressful as it's a reflection of both their leadership and the technology they have built.

When a full DD exercise is performed, I have repeatedly witnessed the leaders responding to information requests at 2am, or bringing out their best people and customers to represent them. I don't blame them - they are trying to keep the "lights on" whilst having to prepare a solid case that they are worth investing in.

There is also a generalization that some CTO's are brilliant at tech but poor communicators. So their interview performance may be awkward or defensive.

The easiest way to deal with this is to show some empathy - that you understand any form of discussion is additional work on top of their day job. The interaction should be more an interview than an interrogation.



1

ASK THEM ABOUT THEIR **PAIN**

Their Pain

If you want to get any sense of the technology, how it is built and operated then it's worth focusing on **their pain**.

If you can get a picture of what is causing them issues in their day-to-day operations, this will reveal the types of problems - and opportunities - there are in the business.

Q: What's preventing you from doing your job on a day-to-day basis?

Usually, the answer to this question will help you form a picture of the way the technology is operated. Is the team being constantly bombarded by the business? Too many meetings? Is the business requirement and therefore technology direction constantly changing?

A word of warning, if the answer is "nothing" this could be a red flag too. In one case the team wasn't being managed well and there was not enough pressure on the team to deliver.

Q: When it comes to work, what keeps you awake at night?

Here you are looking for risks – known concerns about security or resilience usually surface here. But there are often concerns about knowledge drain, hiring, stability of code.

This is a better question than "*what risks does your environment/product currently have?*" as that will usually illicit a defensive response.

2

WHAT ARE THEIR **EXPECTATIONS**

Their Expectations

Q: What are you expecting to fix post investment?

If you watch "Dragons Den", or "Shark Tank" this is the type of question where the entrepreneur tries to justify why they need an investor's hard earned cash.

But those Dragons and Sharks know the point of the question is to probe a little, as the subtext of this question is easy – what is currently "broken".

If you simply ask what is currently wrong/broken, you are likely to get the answer "nothing" for a multitude of reasons.

Instead ask: "*What are you expecting to fix post-investment?*" It's softer and their answer is usually a good indicator of what might be on their mind.

The answers you may be given will show you:

1. **Their willingness to adapt**
2. **Future planning**
3. **Innovation plans vs. realism**

The scope of what they want to fix could be minimal ("*We want to move xyz system to the cloud*") to something very significant ("*Ideally we need to migrate to a new version of SAP*").

3

AGILITY VERSUS **BUREAUCRACY**

Agility vs. Bureaucracy

Q: How are decisions made here?

High-tech digital systems operate and change within nanoseconds, but the people operating it are a bottleneck to change and innovation.

How technology teams make decisions, commit to work and actually get work done is a major indicator of future concerns.

Consider:

- **How long does it take to make a change?**
- **Who is involved?**
- **What is their appetite for risk?**

Your job is to try and determine how mature, yet effective, the change process is.

The volume of change isn't the indicator

We often find that teams are at either end of the change spectrum. Some are extremely "agile", making changes constantly while others are operating a cumbersome operation – taking days or weeks to make change.

We have met Agile teams who are running household name SAAS products that have so many ongoing major projects they achieve little. Conversely, other "traditional" teams are enforcing 1980s-style control that prevents innovation.

There needs to be a happy medium.

Ideally, the technology leaders will demonstrate they are able to run not only with agility, but also with quality. Otherwise, you may find there's years of unpicking poor code that will prevent any future changes unless there's a re-write or major investment.

4

WHAT DO THEY THINK ABOUT **INNOVATION**

Innovation

Q: What are you doing to turn the dial?

Technology changes on a daily basis. Without continuous improvement it is impossible to keep up with the competition because what was the team's best efforts 5 years ago is almost certainly their baggage today.

If the team doesn't constantly adapt and learn with the latest technology trends, they cannot make the best use of the technology and may even create costlier solutions.

You need to know how innovative the team is but, once again, if you ask that question you'll get a simple answer: "very".

By "turning the dial" we mean:

- What are you doing to make things better **today**?
- What will you need to do to scale up operations? (a question you'll already be thinking about)

There is a very high risk that their response will be reams of technical jargon – but are they:

1. **Looking to reduce cost?**
2. **Increase product quality?**
3. **Improve the end customer experience?**

Does their technology roadmap align to a business purpose, and can you clearly see where value is created?

5

HOW DO THEY FEEL ABOUT **FUTURE ISSUES**

Future Issues

Q: If you could build it again, what would you change?

Electric cars. Whilst Elon Musk managed to design his models from scratch, the more traditional car makers had to adapt current models into electric versions. The result? Elon's cars are significantly faster and safer.

Using this question, we are looking to ignite the inner-perfectionist in the interviewee and give them their Elon Musk moment of starting again.

This seemingly friendly and open-ended question appears quite harmless – a "blue sky" and idealist situation. But, if you listen carefully to the answer, you will get an insight into which areas of the current technology may be a risk.

For instance, we have heard:

"*The entire code stack... because it's hardly hanging together and it's impossible to hire young people as they have no skills or interest.*" (Time to address: 6-12 months of development for a FinTech environment.)

"*The CRM system ... because someone developed it years ago and we don't have the source code.*"

You get the idea.

3 Steps to Technology Due Diligence Success

1 POSITION

Position yourself as the guide, not the auditor.
You need the interviewee to be relaxed to disclose what's really happening.

2 QUESTION

Ask five pertinent questions.
This document will help you to determine what's really happening.

3 ASSESS

Balance issues versus opportunities.
Evaluate what you have learnt during your conversations.

Need help uncovering what's really going on with your technology?

Book a Discovery Call here

Beyond
Simplifying M&A Integration