

Software Acquisitions

The Agony or the Ecstasy?

John Chambers, CEO of Cisco Systems, Inc., said it best, “*The downside or folly is that 50% of acquisitions fail, and anyone who believes otherwise is in for a rude awakening.*” Most technology company executives with experience acquiring software companies agree.

No more than 50% of software acquisitions meet strategic and financial expectations. In many cases, the number is well *under* 50%.

Is this dismal record of acquisition failure inevitable, or is it something you can overcome? Will your next deal be the beginning of something good or the beginning of the end? For many, acquisitions are an unpleasant process fraught with missed targets, unmet expectations, lost jobs, and even failed companies. For others, it’s another story entirely. Here’s a look at the differences.

Surprise!

After an acquisition deal is signed, sealed, and delivered, technology companies often find themselves facing costly surprises, including:

- Poor product quality
- Unhappy customers
- Poor development infrastructure
- Unfulfilled promises to customers or employees

- Antiquated or inferior technology
- Pirated code
- High maintenance costs
- Insufficient and inadequate staff
- “Marketecture” – software that does not mirror the advertised architecture
- Unscaleable software

All too often, the details of acquisition failures are buried in corporate archives. But every now and then, a story leaks out. Consider these real-life headlines:

- “Lawsuit shelves recently acquired software. Rewrite planned.”
- “Newly acquired product withdrawn for retooling”
- “Substantial employee royalty claims surprise new owner”
- “System development delayed pending vendor audit”
- “Implementation headaches delay system acceptance indefinitely”

It’s not something CEOs and boards want to read in the papers. But how and why does it happen. And why so often?

The Road to Acquisition Hell

Sometimes even the best acquisition efforts fail due to unforeseen market changes. More often, however, it’s simply a matter of inadequate due diligence and ineffective assimilation of the acquired company’s software and personnel assets.

When it comes to product-related due diligence, there are usually three reasons deals go down in flames:

1. The desire to limit expenses
2. A perceived need to complete the deal or rush to market
3. Lack of experience and expertise

The problem with most assessments is that they are too narrowly focused – and that produces skewed results. Even when a target product is well-established in the market, the acquirer needs a thorough software evaluation in order to assess the key ramifications of the acquisition.

Improving the Odds

With a thorough knowledge of the target software, its underlying infrastructure, and the people behind it -- *before* the deal is complete – you have a better shot at managing your investment effectively afterwards. Equally important, effective due diligence may give you the information you need to renegotiate your offer. (It's no wonder investment bankers who represent the seller do everything they can to minimize due diligence, especially before a Letter of Intent is signed.)

So how can you improve your odds of completing an acquisition that works? Commit to due diligence that covers aspects of software, staff, and infra-structure that make a real difference:

- Software quality
- Customer satisfaction
- Technology infrastructure
- Product viability
- Key personnel competence
- Management effectiveness
- Technology culture

- Human resources management
- Contract and financial management

Your Roadmap for Acquisition Success

The best insurance against acquisition failure is to implement a methodology that defines what to do, how to do it, expected results, and how to evaluate an investment opportunity based upon those results. Combine this methodology with people who have software “investi-gative” experience plus critical technology expertise, and you have a combination that ensures the best, most objective understanding of the most important assets in an acquisition deal.

With this approach, you can:

- Solidify your negotiation position
- Prevent costly surprises
- Provide a foundation for the effective integration of the acquired product and related assets
- Deliver critical input to financial and marketing assumptions that support the valuation of the deal
- Engender confidence in decision making

Can you sidestep the pitfalls and potential disasters lurking around your future acquisitions? The answer lies in careful, calculated, and well-executed due diligence before the deal and effective integration afterwards. It's simply the best way to boost your acquisition success rate well above that infamous 50% mark.

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