

Talking Technology

Buying into high tech: Business investments require analysis

By Steve Burns, Capital News contributor



I am frequently asked by potential purchasers what to look for when they are considering the purchase of a technology business.

The industry and market segment may be new to them and they are concerned that they might miss something.

If you are considering the purchase of a technology business, it is often useful to take a step back away from the specific opportunity to take a closer look at your personal objectives.

Independent of whether or not this is a technology business, what are your specific objectives?

What are the key attributes of the business that are important to you and that you want to ensure are in place?

For example, do you want to run the business or do you want the business to run without your involvement?

This is a critical question as too many purchasers rush into the purchase of a business that does not fit with their objectives.

Better to do some soul searching now to determine what you are really looking in a business rather than find out after you have sealed the deal.

For example, I recently went through this exercise with a potential purchaser.

The outcome was that we determined that a technology business did not fit his risk profile.

He really was not an inherent risk taker and certainly did not want to risk his future retirement fund on a technology company.

He also didn't want to work for anyone else.

As a result, we found a much more stable business that he absolutely loves to operate. A technology business simply did not fit with his personality and risk profile.

While not specifically technology, let me give you another example.

A good friend of mine asked for my help to purchase a small business.

I spent some time with him and his wife to guide them through determining what their critical objectives were.

In addition to the basics of being a profitable, well established business, they were looking for the following in a business opportunity:

1. Involves both of their diverse skill sets without the involvement of outside investors or partners.
2. Would take up to 50 per cent of their collective time while allowing them to continue to maintain a good balance of life with their four young children.
3. Was within a specific and inflexible price range.
4. Was in an industry/market segment that they either have worked in or are very familiar with.

Once we determined their objectives, I went into hunt mode – to find them a suitable business to purchase.

I identified one opportunity that seemed to match perfectly.

After talking with the owners they indicated that they were very interested in looking at a potential sale.

The owners described a “business that was started ten years ago with consistent increases in sales and profitability. My wife and I spend little time actually operating the business.”

After the standard legalities of a mutual non-disclosure agreement approved by both lawyers, we started the preliminary due diligence phase.

After initial interviews with the owners and employees, I determined that not only had a number of employees left the business within the last year but that the reason they left was that the owners were very hands on and essentially made every operational decision.

My estimate was that while they may have spent little time “actually operating the business”, the success of the business was highly dependent on the owners, who are experts in their industry.

Employees did not possess the decision making skills necessary to effectively run the business without the constant input and involvement of the owners.

While they tried to convince me that the business was not dependent on them and that staff could be “empowered”, I didn’t buy the story.

This example is not significantly different from the purchase of a technology business.

If you know what your objectives are ahead of time, it will help you identify if a technology business is a good fit for you and if so what the profile of this business should be.

Similar to my example, technology businesses are often very dependent on the expertise and decision making involvement of the owners. In my opinion, the more highly dependent a business is on the owners, the less attractive that opportunity business is.

That is, unless you happen to share the same experience level and expertise. I estimate that I spend about 75 per cent of my preliminary due diligence effort on evaluating whether a potential business opportunity is a good fit with a purchaser's objectives.

From my perspective, evaluating this fit is one of the most critical and overlooked aspects of a purchase.

I always recommend involving an objective third party to help guide you through the purchase decision. Emotion and the excitement of the purchasing process can often blind you to what is really going on.

In summary, if you are looking to purchase a business of any kind, take the time to determine your objectives first. There is nothing like owning a business that really fits.

steve@burnsinnovation.com