Article

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Ask the Expert: Four reasons you need to care about technology in the Mergers & Acquisition process

Read our recent 'Ask The Expert' piece for Insider Magazine. Steve Williams, our head of mergers and acquisitions, offers his advice on technology in the Mergers and Acquisition process.

Some parts of the deal making process are already well understood, and common to every transaction. Whether you're buying a business, or you've built one and you're ready to sell, financial, commercial, and legal due diligence are vital to ensuring the deal goes to plan. That's understandable - buyers don't want to pay more than is reasonable, and sellers naturally wish to maximise the return on their hard work.

Times have changed quickly though; as business has moved to the digital world and technology has become a critical component in corporate success the need to take this into account has become undeniable. Taking the traditional route when doing a deal is to take a risk; the risk that you miss out on understanding the digital and technology factors at play when deciding whether, or how to proceed.

Here's four key reasons why we believe that technology due diligence has never been more important in deal making activity:

1. Often, the technology IS the business

From utilities trading to market research and from product-led companies to technology consulting, technology is often the fundamental driver of the business. If products aren't secure and robust, or won't scale, that kills the value in the deal. Equally, technology often forms a critical part of the product supply chain or value (consider an online retailer with a warehouse full of stock but a non-functional website). Furthermore, customers increasingly rely on it after purchase (a satnav with no 'sat' isn't much good at 'nav', for example!).

In these situations, investment in any deal must be seen as firstly an investment in the technology platforms the business exploits.

2. Bad technology can break your business

Taking that retail example again, a more traditional multi-channel retailer still relies on its technology and systems; regardless of whether it still displays goods in bricks and mortar stores. Without technology, the tills don't work. Without technology, the call centre can't take telephone orders. Without technology, most businesses can't scale – and without the ability to scale, where's the value in the deal?

3. There are financial benefits and penalties

Great technology is an enabler to great business. It opens up new markets, and allows new products to be developed. Unfortunately, the opposite is also true. Bad technology hampers a business, reduces profitability, and can mean products and services get left behind in today's connected world. Buy into a business with great technology and you buy in to the future. Ignore bad technology at your peril, and buy in to the past.

4. Technology is often overlooked in other due diligence

Financial and legal specialists may not understand how the technology in a business is reflected in the P&L. In a recent deal, we worked with the principals to gain a much better understanding of both one-off and continuing costs, which were not clearly expressed in the deal papers beforehand. This allowed for a very significant price reduction – technology in its own right may not seem expensive in the context of the wider sums changing hands, but the way it is used certainly is.

A great system badly implemented or badly maintained is a disaster waiting to happen – if it hasn't already. That potential IPR lawsuit the legal team spots is no more important than the ineffective business continuity plan that a well-executed IT due diligence process will identify. If the business fails because of a factory fire, does it matter if it gets sued?

The need to take technology into account in the deal has never been clearer than it is now. The ability of an organisation to survive and thrive during unforeseen events lies in its skill in adapting rapidly to changing conditions in their markets, harnessing technology to do things differently and digitally.

Take a look around your home, and you'll see how life during COVID19 has been enabled by technology. Home working, home shopping, online fitness classes, Zoom quizzes, and FaceTime with family and friends have become normal; and the businesses that are doing well have embraced a digital future.

Technology due diligence doesn't have to be expensive, time consuming or complicated. Outsourcing good business technology can help transform businesses and companies. Waterstons' M&A specialists work alongside other due diligence teams to provide plain-English advice on how a business uses technology and the risks it may pose in the deal – and give concise and actionable guidance on mitigating those risks to ensure the best possible outcomes.

If you'd like to know more about how we can help technology drive value in your deals, contact our M&A specialists, or read more on our Mergers & Acquisitions page

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