Buying a Technology Business: Ten Mistakes You Can't Afford
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All good acquisitions are alike, to paraphrase Tolstoy; but all bad ones are bad in their own special way. Although the cause of any given problem may be unique to a situation, it is often the result of a common mistake. Here then, are some of the mistakes I often see:

1. "I know this technology." Frequently a buyer who is looking to augment their existing technology by branching into a related area will believe that they know the technology in that area and will not examine the technology as rigorously as a result. That's not a good idea. The end result of development efforts often appears the same, but beneath the surface compatibility issues can be daunting. I've seen a number of "bolt on" acquisitions that didn't work, because an incompatible technology didn't bolt on.

2. "There's no need to move quickly." While it's not good to move recklessly fast, it can be just as bad to take your time. If the target is a good company, others will be interested, and they could take it from you if you're not quick enough. Also, because the sales process is extremely distracting to management, the value of a business will deteriorate the longer the process takes.

3. "I'm getting a great deal." Most deals that appear too good to be true, are. No matter what, you can't know the target's business better than they do. Why are they selling? What do they know that you don't?

4. "I can make money with this with only a very small change." Right. This is the "seller-is-so-stupid-I-can't-believe-they-didn't-think-of-this" analysis. Usually, if you are not careful, you only find out that they did think of it, but that it couldn't be done, after you buy the business—when it's too late.

5. "I can sell the target's product through my channel." Maybe you can, maybe you can't. Disrupting or changing a sales channel can lead to disastrous results, either because of existing contractual commitments or because of a failure to appreciate that some products require a different type of sale. Although it seems obvious, a highly specialized product requiring customization for a particular customer application doesn't sell well in a catalog.

6. "It's easier just to buy stock." Yep, sure is easier, because it gives the seller a tax advantage and an easier time walking away from unknown liabilities. Usually the tax and liability benefit to a buyer to buy assets is greater than the burden on the seller—it's often worth it to pay a little more for the privilege.

7. "I don't care about the people, I'm just buying the technology." With that attitude, they won't care about you, either. They also won't care about maintaining the technology and protecting it while the sale process is ongoing.

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8. “This is a unique solution.” It may be, but everything is built on some prior knowledge, and if you don’t rigorously examine the integrity of the development process, you may be buying an infringement lawsuit along with your “unique solution.”

9. “They’d tell me if something were wrong.” A surprising number of sophisticated buyers fail to update due diligence if for some reason the process takes longer than expected. Don’t expect the seller to come clean about recent bad developments— they are often too easy to rationalize away. Ask.

10. “The contracting process is for lawyers.” The acquisition agreement can help you to make sure you are buying what you think you are buying. In order for it to do so, you have to work collaboratively with your lawyer, so he or she knows exactly what it is you think you are buying.

A buyer should be vigilant and thorough in the acquisition process, because the likelihood of a disastrous mistake resulting from an improper assumption is more likely than people often realize. Some mistakes are common. People who make them more than once, are not.

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