



CASE STUDY: DISCOVERY

THE DISCOVERY PHASE: GETTING UNDER THE COVERS OF A SOFTWARE PRODUCT COMPANY

BACKGROUND

Global Tech Inc.¹ is a medium-sized company that has been in business for 4 years, marketing a product which distributes investment research on a push basis to thousands of brokers in various financial hubs. It differentiates itself by providing a high quality front-end delivered via a web browser and has an extremely high usability (“wow”) factor. They have managed to sell this product to several high profile investment companies and have generated much interest from Private Equity firms.

After a positive pre-assessment², Pantheon Management was asked to carry out a more in-depth discovery to determine whether the company was run properly from a product development.

THE ENGAGEMENT

The discovery engagement was planned to be 5-7 days where the focus was on the internal sales & marketing and product development departments (which also included requirements, QA & release delivery).

The purpose of this phase is to find out in detail how the company works. This gives the potential investor a first opportunity to see the company in action and determine whether efficiencies can be made in terms of how the product is sold, marketed, implemented, delivered and supported.

It can also include certain customers to get an *outside-in* view; what impression does the company give? Negative feedback can be an indication that their reputation is not satisfactory (and possibly gain a good negotiating position) or indicate scope for future improvement and increased revenue.

¹ This case study is a real Pantheon engagement but all names of companies in question have been modified.

² See *Case Study 1: The Pre-Assessment* for further information.



The development process is also an area which can often do with some improvement. An outside view is rarely sought by the company itself and it therefore rarely has the best processes or tools in place to really develop efficiently.

THE DISCOVERY FINDINGS

The following paragraphs give an example of findings in several discovery exercises Pantheon Management has carried out over the last few years and is not indicative of any single company.

Global Tech., based in bay area in San Francisco, is a typical high tech company very influenced by the CEO and CFO. The CTO gets relatively little say in the product's future and is side-lined when it comes to major decisions. The main concern here is what would happen if a) the CTO leaves (experience gap) or b) the CEO is no longer there to provide product direction over the short-medium term. Some sort of earn-out scheme should mitigate this risk. The CFO seems to have little idea of the actual product or product strategy. A replacement could be found after a suitable handover.

The requirements process is run by Sales & Marketing, which is a good strategy. The ownership this provides leaves little room to evade sales targets once set and therefore the department can easily be held to account over any undershoot. Records show that this team has consistently over-performed. Keeping these individuals happy is key success factor.

The Product development itself leaves a lot to be desired in terms of process. As suspected, the design team is first class. The operation itself would fail any SAS-70 audit. Investment must be made post-acquisition (\$250-300K) to rectify this.

Security and penetration tests have never been carried out. Considering that this is a SaaS company whose livelihood depends on securely delivering (non-operational) research data to financial to financial institutions, this is a surprising finding. Should there be security flaws in the platform, the effort to upgrade both software and hardware could be expensive.

There is currently no use of offshoring. Given the right management, this could significantly reduce the cost of developing future versions.

BOTTOM LINE

In several cases, Pantheon Management was able to save Private Equity firms a significant amount of money by their ability to negotiate the price down. Given an investment of less than £30K, the return was in many cases over £1m.

In most cases, further savings post acquisition in terms of staffing, operating efficiencies or organisation were made thereby increasing EBITDA over several years.