CASE STUDY

Match Point: Identifying Strategic Partnerships and Acquisitions

MATCHPOINT

Companies enter into partnerships and acquire new businesses to help them sell more products, extend their geographic reach, and increase their capabilities and expertise. Fail to choose the right partner, however, and not only will you miss out on these and other benefits, you can also put your company at considerable risk.

For many expansion-stage technology companies, the process of exploring potential strategic partnerships, acquisitions, or mergers is akin to choosing the right spouse. It's not a decision to be taken lightly and there are numerous factors that influence whether a partnership makes sense for both parties. It is essential to be well informed and, at a minimum, to establish clear goals, identify the best potential partners, and prioritize them appropriately.

Although this vetting process can be risky and expensive, failing to perform meaningful due diligence can mean significantly decreasing the chances that your company will find the right partner.

Enlisting a Matchmaker

OpenView Venture Partners understands that challenge and has first-hand experience helping companies successfully navigate it. Since 2006, the Boston-based venture capital firm has guided several of its portfolio companies through the process of identifying and engaging potential partnerships and acquisitions.

Most recently, OpenView Labs, the firm's strategic consulting arm, helped three of its portfolio companies carry out an array of market research and analysis to identify and qualify potential strategic partnerships.*

"Young technology companies often jump at the opportunity to partner with major players like IBM or Microsoft, even if those companies aren't the best fit for them. OpenView can help by providing the information they need to take a more holistic view of the marketplace and widen their scope of prospective targets. The result is a list of candidates that better aligns with their objectives."

Tien Anh Nguyen, Senior Associate, OpenView Labs

*For confidentiality purposes, we cannot name the portfolio companies that we worked with in this process.

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While each of the companies had unique long-term partnership goals, OpenView's approach to helping them was relatively universal, and consisted of a four-step process to explore and analyze the potential targets' industries, customer bases, competitive positions, financials, valuations, and funding.

The first and last steps in that process — setting specific partnership or acquisition goals, and executing the partnership or acquisition process — were handled by the portfolio companies themselves. OpenView, however, collaborated with the companies' management teams to carry out two much more labor-intensive middle steps.

Identifying Quality Prospects Through Comprehensive Research

Once goals were set, OpenView stepped in to uncover the potential partnership or acquisition targets that made the most sense for each business.

In all three cases, the OpenView Labs Research and Analytics team, led by OpenView Senior Associate Tien Anh Nguyen, conducted research aimed at better understanding the target prospect universe and each potential partner's history of engaging in specific types of partnerships or acquisitions. This step involved a wide-ranging discovery process that built a qualified prospect list tailored to each company's needs.

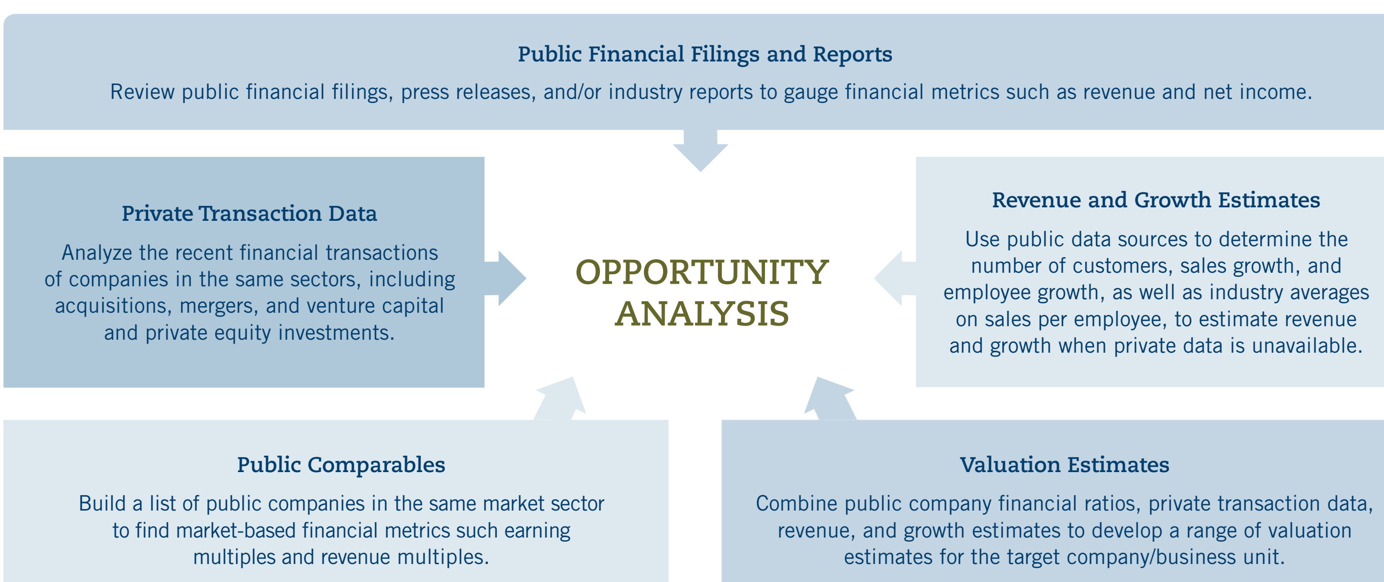
To do that, OpenView digested analyst reports and industry publications; analyzed prospects' websites, customer churn, and competitive environment; and aggregated hard-to-find valuation and financial information from a variety of sources (including Google Finance, Capital IQ, Crunchbase, and the Wayback Machine, among others). The result was a list of potential partners or acquisitions that closely aligned with each company's product capabilities and predetermined project goals.

Prioritizing Prospects to Determine the Best Fit

After developing prospective partnership/acquisition lists, OpenView began the process of winnowing down those lists into prioritized tiers that were aligned with each company's short- and long-term goals, financial criteria (see chart below), technology, and business model.

Assessing Financial Criteria

When approaching another company as a potential strategic partner or acquisition, it's important to create a snapshot of its financial position. Understanding a company's financial health, business valuation, and growth dynamics will determine the attractiveness of either a partnership or an acquisition.



To do so, OpenView worked with each company to facilitate a more in-depth review of its prospect lists. Each target was further segmented and prioritized into three preliminary buckets based on revenue, maturity or presence in the market, and relevance to the companies' technology, resources, and goals. Ultimately, that step produced an output that resulted in a highly qualified shortlist of partnership or acquisition targets for each company.

Creating Stronger Short- and Long-Term Focus

Ultimately, OpenView delivered a package of materials to each company that included prospect engagement recommendations, relevant findings and data, and contact information for key decision makers at each of the prospective partner organizations. Additionally, Nguyen says the partnership and acquisition research also provides some immediate ancillary insight, including a better understanding of a company's direct market as well as key product development, marketing, and sales trends.

If and how a business acts on that information — the fourth and final step in the partnership or acquisition process — is ultimately up to each company's management team. Developing strategic alliances, of course, should be initiated and executed by the company's own management team. Likewise, for any partnership or acquisition to materialize, a business must independently build meaningful relationships with its targets, and perform additional due diligence, planning, and negotiation.

"We focus on our strengths, which include our macroeconomic view of the market and deep insights into the different segments, to give our portfolio companies the best, unbiased recommendations and action plans they need to achieve their business goals," Nguyen explains. "We urge them to take the reins from that point on, because only they can make their efforts to build these long-term, strategic relationship successful. The action plan we provide is simply a strong starting point."

6 Potential Partnership and Acquisition Pitfalls to Avoid

With 20 years of investment banking experience, Michael O'Hare, Managing Director at Pacific Crest Securities has certainly seen his fair share of companies' prospective partnerships falter when they expected them to flourish. To avoid that fate, O'Hare, says businesses need to steer clear of six potential partnership pitfalls:

1. Rushing the deal: One of the biggest killers of partnership or acquisition deals is not dedicating enough time to performing due diligence.

2. Lacking purchase price discipline: It's critical to think about the return on investment of any partnership and to challenge all financial assumptions several times.

3. Jumping straight to negotiation and execution: Without exception, due diligence and integration planning must come first.

4. Relying on just one alternative: It's important to have a backup plan, which creates leverage in negotiations and removes the chance of having to move forward at any cost.

5. Unwillingness to take calculated risk: No deal is certain to provide the ROI you're hoping for. You'll never complete any partnership unless you're willing to take some risk.

6. Biting off more than you can chew: Small, high-growth companies should focus on their core product or service first. If you need a partner or acquisition to survive early on, it could be a sign that your original plan wasn't strong enough.

To learn more about how OpenView Venture Partners can help accelerate your success, contact us at (617) 478-7500 or e-mail info@openviewpartners.com.

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