Buying or Selling a SaaS Company? Read This First!



Here is the secret to analyzing the health of a SaaS company.

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The startup world is a fast-growing, quickly-responsive one. It combines a perilous balancing act of extremes — the potential for exciting, lucrative opportunities weighed against the unquestionable risk of failure. And, it seems that in our current economic climate, more and more SaaS (Software as a Service) companies are surfacing. The opportunity and upside of a successful, technology-based company is tantalizing for any investor, but there's an unfortunate downside that accompanies most of these budding companies. This can make investing dangerous.

The truth is that too many of these SaaS startups fail. In fact, Harvard Senior Lecturer Shikhar Ghosh told the Wall Street Journal that 75% of venture-backed companies end up dissolving, failing, or giving up completely.

So, what's going on? Why are all these investment-backed startups failing? How can you identify which startup will be part of the 25% that succeeds? And, more importantly, how do you avoid investing in a company that is marked for failure?

The secret of "technical" due diligence

You may be thinking: I do my due diligence, so why should I keep reading? Unfortunately, those 75% of investors mentioned above thought they did their due diligence as well, but the company they invested in still failed.

Related: A Quick Checklist for Building SaaS Businesses

The ugly truth is: you may not be doing the correct type of due diligence. After years of investing, company building, and venture capitalism in the SaaS space, we have created a new way to assess infant SaaS companies. We call it: "technical due diligence." Though we haven't been perfect, we've been able to avoid many of the downfalls and poor investment decisions that many VCs experience when dealing with SaaS companies. This is in large part due to the success rate of our time-tested formula.

First, when performing technical due diligence, we look at four potential risk areas. These areas must be assessed thoroughly to determine if a company has the appropriate legs to survive.

1. Are the teams' technical claims accurate?
2. Is the team technically competent?
3. Is the organization capable of continuing to execute

their roadmap long-term?
4. What are the technical strengths, shortcomings, and risks of the technology platform?

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Once these four areas have been thoroughly and successfully assessed, and the team checks out, we can then move on to evaluating the company through the lens of our eight operational attributes.

1. **Performance:** The company's ability to execute many requests for many users within the smallest amount of time.
2. **Manageability:** This defines how easily a system administrator can manage the application once it's deployed.
3. **Interoperability:** This is the ability of services to interact with other services, utilizing the data within the system.
4. **Security:** Security measures the confidentiality and authenticity of users that are trying to interact with the system.
5. **Maintainability:** Defined as the degree to which an application can be understood, repaired, or enhanced.
6. **Extensibility:** The ability to add functionality to a component without modifying other components.
7. **Scalability:** The ability of the system to handle load increases, sometimes rapidly, without decreasing performance.
8. **Availability:** The quality of a system or component that assures a high level of operational performance for a given period of time.

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This kind of thorough, technical due diligence establishes a

more realistic view of the company’s technology and easily highlights cultural qualities and dysfunctions within technical teams. It can also give you confidence that you’re investing intelligently in a SaaS company that has the needed attributes to tip the balance toward success.

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