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Due Diligence Framework

The Critical Importance of Due Diligence

Due diligence separates successful partnerships from costly mistakes. Thorough evaluation before entering into AI ISV partnerships may feel like bureaucratic overhead, but in reality it is protection. The time invested in rigorous evaluation prevents far greater losses in reputation, revenue, and customer relationships.

Setting clear expectations is a critical component of successful ISV and VAR partnerships. Without mutual understanding of capabilities, commitments, and constraints, partnerships fail.

Source: Digital Transactions. "Why Setting Expectations Is a Critical Part of ISV and VAR Partnerships." <https://www.digitaltransactions.net/why-setting-expectations-is-a-critical-part-of-isv-and-var-partnerships/>

The consequences of inadequate due diligence compound over time, affecting every dimension of your business.

A partner that appears promising on the surface may harbor hidden risks that only rigorous evaluation reveals. The following categories represent the primary risk domains that comprehensive due diligence addresses:

- **Reputational risk** from poor quality products
- **Financial risk** from unstable partners
- **Operational risk** from inadequate support
- **Customer risk** from failed implementations
- **Strategic risk** from misaligned partnerships

Due Diligence Checklist

Chapter 3 established the screening questions you ask to identify promising partners. Due diligence takes those answers and subjects them to verification. The following checklists focus on evidence gathering, documentation requests, and deeper investigation that confirms or contradicts what vendors claim during initial conversations. Each category includes verification methods and the red flags that emerge when claims do not withstand scrutiny.

Leveraging Deep Research AI as Your Due Diligence Partner

Comprehensive due diligence traditionally demands either significant internal resources or expensive external consultants. Grok Deep Research, xAI's advanced reasoning and research capability, fundamentally changes this equation. When activated, Deep Research synthesizes information across the public internet, financial databases, press archives, regulatory filings, and social platforms to produce analysis that would otherwise require hours of manual investigation or five-figure consulting engagements.

The tool functions as an always-available research analyst, capable of cross-referencing vendor claims against verifiable evidence, identifying inconsistencies between public statements and documented history, and surfacing information that vendors may not volunteer.

The practical value for due diligence is substantial. Consider the time investment required to manually verify a vendor's founding date, track executive tenure across LinkedIn profiles, search press archives for funding announcements, review customer complaints on social platforms, and synthesize analyst assessments from multiple sources. Deep Research compresses this multi-hour effort into minutes, returning structured analysis that highlights discrepancies and potential concerns. For partners evaluating multiple AI ISV candidates simultaneously, this capability transforms the economics of thorough evaluation.

The key to extracting maximum value lies in prompt construction. Rather than asking simple questions, provide Deep Research with structured context, specific verification objectives, and the analytical frameworks you expect it to apply. The following prompt template demonstrates how to engage the tool for comprehensive vendor analysis:

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Sample Deep Research Prompt for AI ISV Due Diligence:

**You are an elite 210 IQ business analyst with deep expertise in technology vendor evaluation, channel partnerships, enterprise software markets, and AI industry dynamics. Your analytical rigor matches the standards of Gartner, IDC, and Forrester research divisions.*

*You approach every investigation with healthy skepticism, verifying claims against evidence rather than accepting statements at face value. Conduct comprehensive research on [VENDOR NAME] and provide analysis across the following dimensions:**

1. Corporate History and Stability: Verify founding date, funding history, ownership structure, and executive team tenure. Cross-reference the company's stated history against publicly verifiable records including press releases, LinkedIn profiles, Crunchbase, and regulatory filings. Identify any discrepancies between claimed history and documented evidence.

2. Financial Health Indicators: Assess all available information regarding revenue trajectory, funding runway, customer concentration, and signals of financial stress. Look for patterns that suggest imminent acquisition pressure, down-round funding, or cash flow constraints. Note any recent layoffs, office closures, or cost-cutting measures.

3. Product and Technology Assessment: Analyze independent reviews, analyst coverage, and customer testimonials. Determine whether the company's technology claims are substantiated by third-party validation. Identify whether their AI capabilities are unique and with strong moats or built with thin differentiation.

4. Channel Commitment Evidence: Investigate whether this vendor demonstrates genuine channel-first behavior. Look for partner program announcements, channel leadership hires, partner testimonials, and evidence that the company prioritizes partner success over direct sales competition. Note any reports of channel conflict from existing partners.

5. Red Flag Detection: Surface any concerning patterns including executive departures, customer complaints, legal issues, security incidents, negative press coverage, or social media criticism that would affect partnership viability. Pay particular attention to patterns rather than isolated incidents.

6. Competitive Position: Analyze how the company is positioned relative to named competitors. What do independent analysts say about their market position? Where do customers indicate this vendor excels or falls short compared to alternatives?

Synthesize your findings into a detailed 10 page report with an executive summary with a clear assessment of partnership viability. Highlight areas of strength, areas of concern, and specific questions that require direct verification through conversation or reference calls. Provide confidence levels for each conclusion based on the quality and recency of available evidence. Cite all sources with links in-line.

This prompt structure transforms a general inquiry into a focused investigation that returns actionable intelligence. The specificity of the request guides the research toward the verification objectives that matter most for partnership decisions, and the analytical framework ensures the output can be directly applied to your due diligence process. Treat the results as a starting point for human judgment, not a replacement for it; Deep Research surfaces information and identifies patterns, but the partnership decision remains yours to make based on the complete picture.

Company and Financial Assessment

Initial screening revealed what the vendor claims about their business. Due diligence verifies whether those claims hold up under examination. Vendors with unstable finances or ownership structures create risk that compounds with every customer you bring to their platform. The following verification methods help you confirm corporate stability and financial health:

Category	Verification Methods	Red Flags During Verification
Corporate Structure	If a company is less than 2 years old, request corporate registration documents, ownership structure charts, and executive bios with verifiable employment history. Cross-reference founding dates and leadership claims against LinkedIn profiles, press releases, and other web search data. Ask Grok Deep Research to analyze the company's history.	Inconsistencies between claimed history and verifiable records; executives with patterns of short tenures at previous companies; ownership structures that obscure decision-making authority or suggest imminent acquisition pressure.

Category	Verification Methods	Red Flags During Verification
Financial Verification	For startups, request reference customer interviews, or third-party validation from investors or board members. Ask directly about runway and next funding requirements. If a company is bootstrapped (self-funded) this often is a very good sign because it means that strong financial management and profitability are more likely without VC money to hide faults or mismanagement.	Refusal to provide any financial verification; answers that contradict information from reference calls; investor references who express concerns about the company's trajectory.

Category	Verification Methods	Red Flags During Verification
Market Position Validation	<p>Review analyst reports and competitive intelligence for independent market share estimates. Ask the vendor to articulate their differentiation in a recorded format and compare against competitor claims. Interview customers who evaluated alternatives before selecting this vendor. Use Grok Deep Research to compare your findings with those shared by the vendor.</p>	<p>Differentiation claims that do not match customer perceptions; analyst assessments that contradict vendor positioning; customers who chose this vendor primarily on price rather than capability, suggesting weak competitive moats.</p>

Category	Verification Methods	Red Flags During Verification
Customer Base Evidence	Request a customer list with permission to contact references of your choosing, not vendor-selected references only. Ask for retention metrics with supporting data. Investigate whether “customers” are paid pilots, freemium users, or production deployments.	Vendor resistance to non-curated reference calls; retention claims that do not align with customer tenure on provided lists; high concentration where a small number of customers represent majority of revenue; customers who describe themselves as “still evaluating” rather than committed users.

Product and Technology Assessment

The technology you bring to your customers reflects directly on your organization. Initial screening identified what deployment models and certifications the vendor claims; due diligence verifies whether the product performs as advertised in environments that mirror your customers’ actual infrastructure. The following verification methods separate marketing claims from production reality:

Category	Verification Methods	Red Flags During Verification
Technology Architecture	Request a technical deep-dive session with the vendor's engineering team, not sales engineers. Ask for architecture documentation that explains how the AI models work, where data flows, and what dependencies exist. If the vendor claims proprietary technology, ask what specifically is proprietary versus built on open-source foundations.	Engineering team cannot articulate architecture clearly or defers all questions to product marketing; claims of proprietary AI that, upon investigation, are thin wrappers around open-source models with minimal differentiation; architecture documentation that does not exist or is perpetually "being updated."
Production Validation	Deploy the solution in a test environment that mirrors your customers' infrastructure constraints: limited IT resources, specific hardware configurations, realistic data volumes. Document Time to Value from installation to meaningful output. Ask for access to a customer reference who deployed in similar conditions.	Solution requires significantly more resources, expertise, or time than sales process indicated; test environment performance does not match demo environment claims; reference customers describe implementation experiences that contradict vendor promises.

Category	Verification Methods	Red Flags During Verification
Integration Reality	Test documented APIs and pre-built connectors in your environment where applicable. Remember that not every product needs to have an API to bring significant value. Evaluate documentation quality by having a technical resource attempt integration using only published materials, without vendor assistance. Ask for examples of completed integrations with systems your customers commonly use. Keep in mind that even many large-scale companies have documentation issues.	APIs that do not function as documented; integration documentation that assumes expertise the vendor claimed was unnecessary; pre-built connectors that require significant customization to function; no evidence of successful integrations with platforms relevant to your customer base.

Category	Verification Methods	Red Flags During Verification
Security Evidence	Request copies of security documentation (a version under NDA should be readily available for partner use) plus any relevant SOC 2 Type II reports, ISO 27001 certificates, or industry-specific certifications, and verify their currency and scope. Ask specifically what the certification covers: the entire product, only the cloud infrastructure, or specific modules. Inquire about penetration testing frequency and whether results can be shared under NDA.	Certifications that are expired, pending, or cover only a portion of the solution; vendors who claim compliance but cannot produce documentation; security assessments that reveal unaddressed vulnerabilities; any history of data breaches or security incidents, regardless of how they were resolved.

Partner Program Assessment

Chapter 3’s Channel Orientation table identified what to look for in a channel-first vendor. Due diligence verifies whether the partner program operates as described. Ad-hoc arrangements and thin margins signal that the vendor views partners as an afterthought; your task now is to confirm through evidence whether this vendor genuinely supports partner success. The following verification methods expose the gap between program marketing and program reality:

Category	Verification Methods	Red Flags During Verification
Program Structure Verification	Request the complete partner agreement for legal review before signing. Ask for contact information of partners at your proposed tier level and conduct independent reference calls. Inquire about how many partners exist at each tier and what percentage successfully progress to higher tiers (keeping in mind that AI is still naicent so tier advancement may still be early). Ask what happens if you fail to meet tier requirements: immediate demotion, grace periods, or renegotiation.	Partner agreements that contain terms materially different from sales conversations; existing partners who describe the program differently than the vendor's partner team; tier structures where almost no partners progress, suggesting requirements are designed to maintain the status quo rather than reward performance; punitive terms for underperformance that create asymmetric risk

Category	Verification Methods	Red Flags During Verification
Economics Validation	Request written confirmation of margin structures, SPIFs, and incentive programs with specific dollar amounts and qualification criteria. Ask for examples of actual partner earnings: what did partners at your size and focus area earn last quarter? Verify deal registration protection by asking partners about conflicts they experienced and how those conflicts were resolved.	Margin structures that compress significantly after introductory periods; incentive programs with qualification criteria that few partners actually meet; deal registration that exists on paper but is routinely overridden by direct sales; partners who report channel conflict as a recurring problem rather than a rare exception

Category	Verification Methods	Red Flags During Verification
Enablement Quality	Access the partner portal and training resources before committing. Complete a training module yourself to evaluate quality and relevance. Ask how frequently content is updated and request the changelog. Inquire about demo environment access: is it included at your tier, time-limited, or an additional cost? Ask existing partners whether the enablement resources translated to closed deals.	Training content that is outdated, generic, or clearly repurposed from customer-facing materials; demo environments that require significant setup or incur usage costs; partners who describe enablement as “check the box” rather than genuinely useful; certification programs that partners view as revenue extraction rather than capability building

Category	Verification Methods	Red Flags During Verification
Support Reality	Ask for the name and contact information of the partner manager who will support your account before signing. Inquire about their partner load: how many partners does this person support? Test responsiveness by sending a pre-sales inquiry and measuring response time. Ask existing partners about their support experience during active deals and post-sale escalations.	Partner manager assignment that occurs after signing, leaving you uncertain about your actual support; slow response times or low quality results are indicative of stretched resources; pre-sales inquiries that go unanswered or receive generic responses; partners who describe support as slow, unhelpful, or deprioritized relative to direct sales support.

Internal AI Adoption Assessment

An AI vendor that does not use AI internally raises a fundamental question: if this technology transforms how work gets done, why has the vendor not transformed their own operations? Companies that build and sell AI solutions should demonstrate AI-first thinking in their own workflows. Their internal adoption reveals whether they genuinely believe in their technology or simply view it as a product to monetize. The following verification methods expose the gap between what vendors sell and what they practice:

Category	Verification Methods	Red Flags During Verification
Internal AI Usage	Ask the vendor to describe specifically how they use AI in their own operations: customer support, product development, sales enablement, documentation, internal communications. Request concrete examples with measurable outcomes. Inquire whether their employees use the product they sell, and if so, how frequently and for what purposes.	Vague answers about “exploring AI internally” without specific implementations; employees who do not use the company’s own product in their daily work; inability to articulate productivity gains or operational improvements from their own AI adoption; responses that focus entirely on R&D usage while ignoring operational applications.
AI-First Culture Evidence	Investigate whether AI capabilities are embedded in the vendor’s workflows or treated as optional add-ons. Ask how new employees are trained on AI tools and whether AI proficiency is part of performance evaluation. Request examples of processes that were redesigned around AI rather than simply augmented with AI features.	AI treated as a separate initiative rather than integrated into core operations; training programs that mention AI only in product context, not operational context; leaders who cannot personally demonstrate how they use AI in their work; processes that remain fundamentally unchanged despite AI availability.

Category	Verification Methods	Red Flags During Verification
Credibility Through Practice	Evaluate whether the vendor can articulate lessons learned from their own AI implementation: what worked, what failed, what required iteration. Ask what they would do differently if starting their AI adoption today. Compare their internal deployment timeline against the implementation timelines they promise customers.	Vendors who have never encountered meaningful challenges in their own AI adoption, suggesting superficial implementation timelines for customers that are significantly shorter than the vendor's own adoption journey; inability to share genuine lessons learned because internal usage is too limited to generate insight.

Reference Check Process

Customer references provide ground-truth validation that no marketing material or sales presentation can replicate. Vendor-selected references will naturally skew positive; your task is to extract actionable intelligence by asking questions that reveal operational reality rather than surface satisfaction. When conducting reference calls, focus on specifics: timelines, resources consumed, problems encountered, and how those problems were resolved. The following questions are designed to surface both strengths and potential concerns:

1. Walk me through your implementation timeline from contract signature to production deployment. What resources from your team were required, and how did that compare to what the vendor initially estimated?
2. What specific, measurable results have you achieved with the solution? Can you share metrics that demonstrate ROI, and how long after deployment did those results become apparent?
3. Describe a situation where something went wrong with the solution or you needed urgent support. How quickly did the vendor respond, and how was the issue ultimately resolved?
4. If you worked with a VAR or implementation partner, how did that experience compare to working with the vendor directly? What value did the partner add, and where did you need vendor involvement despite having a partner?
5. Knowing what you know now, would you select this vendor again? If you were advising a peer organization considering this solution, what would you tell them to evaluate carefully before committing?
6. What surprised you most about working with this vendor, whether positively or negatively? What do you wish you had known before signing the agreement?

Reference calls should be supplemented with independent research. Third-party sources provide perspectives that may not emerge from vendor-selected references, and they can reveal patterns across multiple customers that individual conversations might miss. Pay particular attention to negative reviews: a vendor with universally positive reviews may be curating feedback, while a vendor who responds constructively to criticism demonstrates maturity. Incorporate the following validation sources into your evaluation:

- Partner branding from trusted sources (i.e. large companies co-branding on their sites with the ISV). For example: <https://www.intel>.

- [com/content/www/us/en/content-details/850647/iternal-turnkey-ai-blockify.html](https://www.ibm.com/content/www/us/en/content-details/850647/iternal-turnkey-ai-blockify.html)
- Online customer reviews (G2, TrustRadius, Gartner Peer Insights)
- Industry analyst assessments
- Press coverage and mentions
- Legal and ethical issue research

Due Diligence Documentation Template

Documented due diligence creates accountability and enables comparison across multiple potential partners. The following template standardizes your evaluation process, ensuring that critical questions are addressed consistently and that findings are captured for future reference. Adapt this framework to your organization's specific requirements while maintaining the core assessment categories:

SAMPLE AI ISV DUE DILIGENCE REPORT

Company Information

Field	Value
Name	Iternal Technologies
Website	https://iternal.ai
Founded	2018
Headquarters	Austin Texas
Staffing Count	≈50

Financial Assessment

Score	Complete	Item	Notes
		Reviewed funding history	
		Assessed revenue trajectory	
		Evaluated profitability status	
		Checked customer concentration	

Assessment Score (1-5): _____

Product Assessment

Score	Complete	Item	Notes
		Reviewed product demos	
		Evaluated technology stack	
		Assessed integration capabilities	
		Verified security certifications	

Assessment Score (1-5): _____

Partner Program Assessment

Score	Complete	Item	Notes
		Reviewed program structure	
		Evaluated economics and margins	
		Assessed enablement resources	
		Verified support capabilities	

Assessment Score (1-5): _____

Reference Checks

Complete	Item
	Conducted minimum 3 reference calls
	Reviewed online customer feedback
	Checked analyst assessments

Assessment Score (1-5): _____

Overall Recommendation

Select	Recommendation
	Proceed with partnership
	Proceed with conditions: _____ _____
	Do not proceed

Prepared by: _____ Date: _____

Connecting the Dots

Chapter 3 established how to identify promising AI ISV partners through screening questions and initial evaluation criteria. This chapter transforms those initial impressions into verified conclusions. Due diligence is the bridge between partner identification and partnership commitment, the process that subjects vendor claims to evidence-based scrutiny. The frameworks in this chapter may appear to create bureaucratic delay, but they exist to prevent costly mistakes that compound over time.

We’ve seen multiple partners initially select a different ISV over Internal because that ISV had a relationship with someone in leadership, only to discover that the ISV’s partner enablement, training resources, and channel support were severely lacking. Those partners eventually removed the other ISV and standardized on Internal—but not before wasting months of effort on a partnership that couldn’t scale. Internal brought the maturity and partner first strategy that was essential for success.

The distinction between screening and verification matters.

Screening asks what the vendor claims; due diligence confirms whether those claims withstand examination. A partner that appears promising during initial conversations may harbor financial instability, technology debt, or channel conflict that only rigorous evaluation reveals. By requesting documentation, conducting independent reference calls, and testing the product in realistic environments, you move from optimism to confidence, or from optimism to appropriate caution.

The strategic importance of due diligence extends beyond risk mitigation. When you complete thorough evaluation, you enter partnerships with clear eyes and realistic expectations. You understand where the partner excels and where your organization must compensate. This clarity enables the kind of productive collaboration that generates revenue and customer success, the ultimate goals of every partnership documented in this AI Blueprint.