



# Leveraging ERP systems to drive deal value

March 2024

# Introduction

In the rapidly shifting deal landscape, maintaining a competitive edge across portfolio companies is paramount for private equity firms and pension funds. Organizations across various sectors are beginning to appreciate the extensive advantages of Enterprise Resource Planning (ERP) systems, deploying these robust tools to help enhance value, guide decisions, and gain a strategic advantage in the industry. Furthermore, ERP systems are proving to be crucial in mergers and acquisitions (M&As), across both pre-deal and post-deal phases. They facilitate data consolidation, seamlessly integrating information across operations and back-office functions into a unified platform, while also automating workflows and standardizing key business processes, which collectively often lead to improved operational and cost efficiencies. Recent research has proven ERP implementation to be a game-changer, empowering businesses with material process improvements. A staggering 95% of organizations have witnessed tangible enhancements in their operations through adoption of the right ERP system. The research has highlighted three leading benefits, which deliver substantial ROI:



**40%**  
Reduced  
IT costs

reduction in IT costs has been achieved on average, freeing up resources for strategic initiatives.



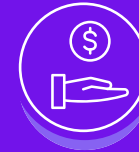
**38%**  
Reduced  
Inventory levels

reduction in inventory levels has been attained on average, optimizing supply chain efficiency.



**35%**  
Reduced  
cycle time

reduction in cycle time has streamlined operations on average, enabling organizations to seize opportunities swiftly.



**83%** of M&A deals failed to boost shareholder returns, primarily due to various post-merger integration challenges, many of which could be addressed with a right-fit ERP system, as per KPMG in Canada's 2023 CEO Survey.

*This whitepaper is part of a series focused on how IT can increase deal value and minimize business risks during a transaction. The series will highlight principles that the Technology M&A team in KPMG Canada leverages to help maximize value and minimize risks for clients across industries.*

*In this article, we will discuss how ERP systems can be utilized to help maximize deal value, offering tangible benefits to businesses in a fast-paced and perpetually evolving marketplace.*

# Maximizing business potential with next-generation ERP systems

Companies have traditionally depended on manual processes, often characterized by inefficiency, inaccuracies, and significant resourcing overhead. The absence of an ERP system can leave businesses grappling with asset inventory, orders, financials, and other critical data management, often leading to uncertainties, and missed opportunities. However, the advent of next-generation ERP systems equips companies to confidently navigate the dynamic business environment, seize opportunities, and unleash their true growth potential.



## Cost Optimization

- As consumption patterns shift, companies must grapple with a surge in consumer data. **ERP systems equip organizations with access to extensive data, enabling informed decision-making.**
- Organizations require advanced automation to eliminate manual tasks, decrease errors, and enhance operational efficiency, thereby leading to substantial cost savings. ERP systems extend their reach to functions like HR, thereby streamlining processes and optimizing workforce management.



## Enhancing Productivity

- ERP systems hold the immense potential to transform critical areas like supply chain management and smart manufacturing, thus enhancing overall productivity.
- Businesses require **real-time visibility to manage supply chains effectively.** This enables them to incorporate key factors into business decisions and allows them to adapt in real time.
- By integrating the supply chain processes, ERP systems allow organizations to streamline procurement, inventory management, and logistics. This can lead to **improved margins, reduced inventory obsolescence, and faster order fulfilment workflows.**



## Drive Revenue Generation

- ERP systems have evolved into catalysts for revenue growth by enabling organizations to utilize visualization channels and bolster their customer relationship management (CRM) efforts.
- With ERP, businesses can **visualize data in real time, obtaining valuable insights into customer behavior, market trends, and sales performance.** These insights enable organizations to make **data-driven decisions**, identify new market opportunities, and tailor their offerings to customer needs.
- ERP with CRM systems can drive revenue growth by **enhancing customer satisfaction, increasing sales efficiency, and enabling targeted marketing campaigns.**

# Maximizing M&A success - The strategic role of ERP systems

ERP systems are pivotal in M&A. They play a significant role in achieving synergies, enhancing operational efficiency, and steering the success of the merged organization. To truly realize the full potential of ERP systems to maximize deal value, there are three key lenses that help sharpen the focus:



## Strategic Alignment

- In an M&A, organizations with diverse legacy systems and disparate data structures often merge. A crucial assessment is how well the ERP system aligns with the organization's short and long-term business objectives. Its capacity to support future growth and expansion is also critical.
- By unifying systems onto a single ERP platform, operations streamline, economies of scale are achievable, and a comprehensive view of the merged business is accessible. Such integration supports **effective decision-making and reporting, promoting synergy and maximizing operational efficiency.**



## Master Data Standardization

- Standardizing business processes and data across the merged entities is another significant aspect of M&A.
- By assessing process and data maturity, areas ripe for improvement through an ERP system are identifiable. ERP systems provide a framework for streamlining financial, customer, and vendor data, ensuring financial reporting accuracy and transparency, unifying customer views, and optimizing vendor management. This alignment can **boost operational efficiency, eliminate redundancies, and foster effective departmental collaboration.**



## Scalability and Flexibility

- ERP systems are designed with growth and scalability in mind. As organizations may undergo rapid expansion during M&A, the ERP system should be capable of handling increased transaction volumes, accommodating additional users, and supporting new business units.
- Evaluate the existing technology infrastructure's ability to support scalability and flexibility. This ensures that the ERP system can **adapt to changing needs without significant disruptions or performance issues.**

ERP systems, given their capacity to integrate diverse systems, streamline operations, standardize processes, and support growth, hold immense relevance in M&A scenarios. For integrations, they **ease the merging of different organizations and business processes**; for separations or carve-outs, they **ensure data visibility and accuracy for the transition**; and in standalone acquisitions, they **drive scalability, process automation, and clear financial and management reporting.**

Private equity firms and pension funds considering these lenses during the pre-deal assessment and post-deal value creation process will position themselves well to **harness the full potential of ERP systems for long-term scalability and value maximization.**



# Turbocharging value creation - Process to gain benefits from ERP systems in M&A

Legacy ERP systems can sometimes stifle growth and limit the potential for value creation. To overcome these constraints, it's essential for organizations to upgrade their legacy ERP systems. Embracing modern ERP solutions can position companies for both pre-deal and post-deal value creation, unlocking untapped avenues for transformative growth. Here are the best practices to assess and upgrade to contemporary ERP solutions:



## Identify business requirements

Before diving into the diverse ERP systems landscape, **defining your business's specific functional, non-functional, and technical requirements is paramount.** These requirements encompass functionalities, capabilities, and the degree of customization necessary for an ERP system to integrate with existing applications. Prioritizing these requirements aids in **shortlisting suitable options and ensures the chosen ERP system adequately serves business needs today and in the future.**



## Conduct a market scan

Upon identifying the requirements, the subsequent step is to seek out an ERP system aligning with your business. **Undertake a market scan for ERP solutions tailored for your industry as they may offer industry-specific features that provide added value.**



## Evaluate costs

Besides the initial purchase price, **ongoing maintenance, support costs, and any additional costs for customization or integration with other systems require careful consideration.** Over time, these costs can accumulate and significantly affect the ERP system's overall cost. **Evaluating the total cost of ownership and the return on investment can aid companies in making informed decisions and circumvent unforeseen costs.**



## Select a reliable implementation partner

**A reliable vendor is crucial for successful ERP implementation.** Selecting the ERP system is just the initial step; it's equally critical to consider the system's implementation and support. The best **ERP partners have a strong industry experience, flexible implementation approaches, and a demonstrated track record of successful ERP implementations.** These partners can offer necessary support and resources to ensure a seamless rollout.

# Case study



KPMG was appointed by a major portfolio company, a leader in the fire and life safety industry belonging to one of the world's largest private equity firms. Embarking on an ambitious acquisition journey, the company was expanding its foothold within the industry. However, the complexity arose from managing diverse processes across the newly acquired entities, each operating distinct systems and processes.



Our mission was to assist the client in selecting and implementing an ERP and Human Capital Management (HCM) system in order to harmonize its operations and unlock post-acquisition value.



Our approach involved several key steps designed to ensure a successful outcome by securing a best-fit system and an implementation partner. Through a meticulous and well-structured process, we sought to maximize value and facilitate a smooth implementation that was tailored to our client's specific needs and goals.

**KPMG aids major fire and life safety company in the selection and implementation of ERP and HCM systems for operational harmonization and post-acquisition value maximization.**

- A. KPMG conducted workshops to develop ERP and HCM system requirements, **ensuring alignment with the client's needs.**
- B. A list of potential systems and partners was compiled, and key software attributes were documented.
- C. **A shortlist of potential vendors and partners was created** based on detailed requirements fit, product scans, and validation workshops.
- D. KPMG **facilitated the RFI process** for final selection, assessing responses, including **proposed solutions, implementation timelines, and costs.**
- E. ERP and HCM **product demos were arranged** for the client, and **proposal presentations were organized to finalize the best-fit partner.**
- F. KPMG **used its proprietary vendor evaluation framework** for an impartial assessment of the proposals.
- G. Feedback and product evaluations were gathered from stakeholders for the final decision, **ensuring the chosen ERP system aligns with the organization's needs.**

# Summary and conclusion



Prioritizing ERP systems for pre-deal assessment and post-deal value creation planning can help private equity firms and pension funds realize the full potential of ERP systems for long-term scalability and value maximization.

Furthermore, a thorough assessment and upgrade of an ERP solution helps identify the perfect ERP fit and reveals opportunities for process improvement, automation, and streamlined operations. By leveraging the power of ERP, businesses can optimize their workflows, reduce costs, and position themselves as industry leaders.



In conclusion, the quest for the ideal ERP solution demands a comprehensive evaluation of an organization's requirements and goals, accompanied by a comparison with available options. Investing time and effort into due diligence and market research enables businesses to create value through an ERP system, which meets their current needs and supports future growth and long-term success.

## Contact our Technology M&A Services team

To learn how KPMG can help navigate the challenges of ERP system selection and unlock the full potential from your merger or acquisition, please feel free to contact us.

### **Sharjil Salim**

Partner  
Toronto, Canada  
416-791-2030  
[ssalim1@kpmg.ca](mailto:ssalim1@kpmg.ca)

### **Aditya Narasimha**

Senior Manager  
Toronto, Canada  
416-791-2104  
[anarasimha@kpmg.ca](mailto:anarasimha@kpmg.ca)

### **Nikhil Sethi**

Senior Consultant  
Toronto, Canada  
416 934 3868  
[nikhilsethi2@kpmg.ca](mailto:nikhilsethi2@kpmg.ca)

