Due diligence and the digital footprint

Assessing the risks and opportunities of digital assets and data

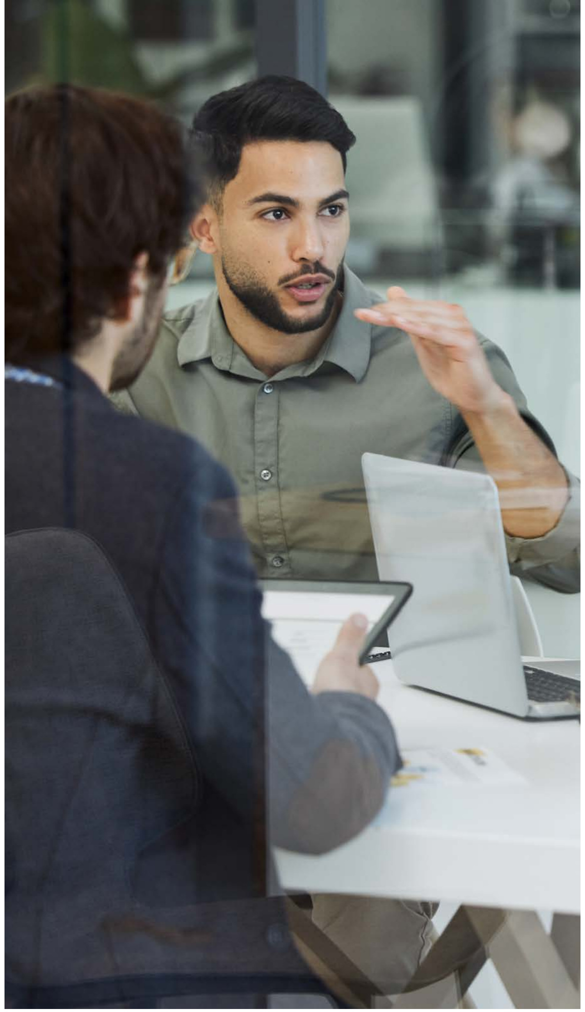
KPMG. Make the Difference.

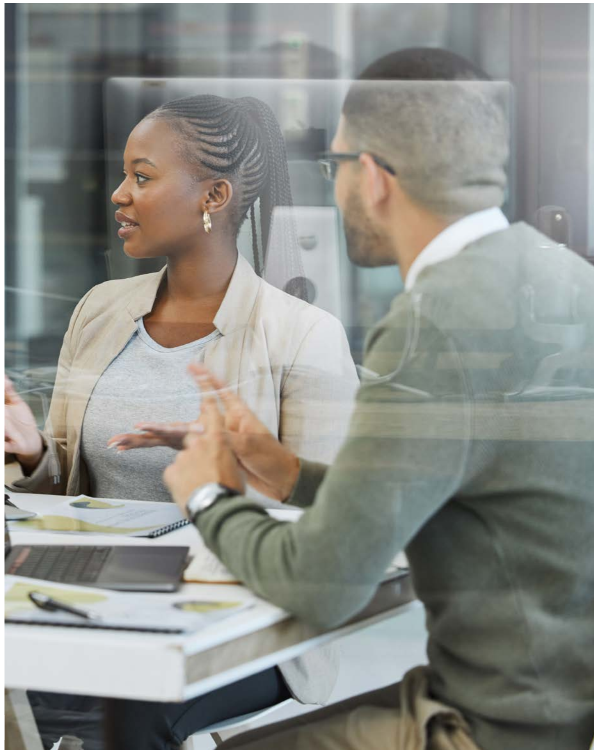
Enter →

February 2024

kpmg.com

Contents





New business models bring new diligence challenges

Key takeaways

- Digital transformations are reshaping companies and introducing new dynamics that need to be considered during the deal cycle.
- Assessing financial and non-financial digital assets during the due diligence process can offer both buyers and sellers a truer picture of the value — and the levers that build value — of a target.
- Data from a company's digital sources can help dealmakers dissect transactions, customer behaviors and brand perceptions creating insights that dealmakers can use to spot potential opportunities or much-needed improvements.

Digital transformations are reshaping companies. It's changing the structure of businesses and teams, and how they work together. It's also changing how companies engage with, as well as how they deliver their services and products to their customers. What's more, digitized companies are producing more data than ever before.

All of this is creating new dynamics in dealmaking. Assessing historical sales and costs, and projecting future revenue was once enough to help investors determine the viability of a deal. Today, as dealmakers face increasing pressures to create extra value from deals in highly competitive and fast-changing markets, they need to assess a broader set of factors to capture a more complete picture of a deal's long-term value potential.

KPMG proposed a more broad-ranging approach to due diligence in the first part of this thought leadership series. One that goes beyond traditional due diligence of financial, legal and operational dimensions of a business. Here, KPMG professionals build on our proposition, widening the due diligence aperture to assess a company's digital footprint — both the potential risks digital businesses present as well as the levers that can unlock revenue opportunities in terms of new products and services, customer acquisition, retention, penetration and share of wallet. This more broad-ranging view can help dealmakers capture a more complete picture of a deal's value as well as its future viability.

Harnessing the power of data

The digital economy continues to shift and shape, bringing more organizations, and their businesses and processes online. From advertising, browsing and customer inquiries to purchases, customer service and reviews, companies are connecting with their customers, prospects and other stakeholders through new technologies and applications.

These assets and the tremendous amounts of data they collect can offer dealmakers insights about a target investment. It can also help investors more deeply understand a business: its model and scalability potential, perceived external reputation, and the reliability of its data. Diving deeper into the data can also offer insights into a company's customers from buying behaviors to lifetime value potentials, acquisition costs and retention rates.

The trick, however, will be making sense of the digital information available to gain the meaningful insights needed to make effective, competitive decisions. To get here, dealmakers need to perform a detailed assessment of the target company's financial and non-financial digital assets, and analyze large-scale, digitally retrievable information using data analytics and machine learning algorithms. This process entails an in-depth analysis of transactional data like pricing, product performance, promotions and competitor activity.

By capturing this information, dealmakers can identify potential risks in the data and how the company manages it. They can also better understand the potential investments needed to upgrade technology or maintenance, or to support other compliance-related changes. Insights can be used for strategic planning purposes and help identify potential post-deal opportunities that can create value for the newly acquired business. A KPMG member firm client, an acquirer of a software-as-a-service (SaaS) company, had uncovered historic sales data that had been captured largely through upselling, which pointed to potential opportunities for cross-selling post-deal that had not been unleashed yet.

As much as this deeper understanding of a company's digital information can benefit buyers, it can also help sellers more accurately value their business by accounting for the quality and potential of their digital assets and operations.

Analyzing the three phases of the digital customer journey

There are three phases of the digital customer journey, that when analyzed, can help dealmakers dissect transactions and customer behaviors — the data of which can be turned into isights to inform future decisions:

Phase 1: Website analytics

Web analytics offer a treasure trove of customer information. This includes how visitors find their way to a company's website from search engines, advertisements, links on other websites and references. They also show the degree of engagement in terms of time spent on the website, number of pages visited, competitor websites browsed and, ultimately, customer conversion rates. Such data can be further broken down by age, gender, occupation, geography and other criteria.

Taken together, the information can be translated into meaningful insights that can help management make effective and strategic decisions to further grow the company. For example, a direct-to-consumer bicycle producer used web analytics in a buy-side due diligence setting and discovered that it enjoyed considerably higher traffic from existing customers, compared to its peers. Using this information, the potential buyer was able to build the investment story around brand loyalty to potentially grow sales by expanding account penetration in the future.

Phase 2: Customer behavior

Digital data can also be assessed to unlock hidden value. Such data can be used to better understand a company's customers, their purchasing behaviors and other interests. The customer base can be segmented in many ways, including existing, newly won and recently converted customers. Detailed analysis of the data can help evaluate cross-selling and up-selling potential, predict customer churn and customer lifetime value, assess price sensitivity, and other insights that will impact the product or service offering in terms of design, price, promotions, packaging and delivery. An online household goods retailer, for example, examined its customer data and learned that it had higher customer retention than was expected as well as a higher average order value over the lifetime of the customer. The client used this data, which showed increasing order volumes with ideally higher margin products, to improve its negotiating position when it was ready to sell its business.

Phase 3: Customer reviews

Many consumers today leave online reviews of their experiences with a company. This data, which can be collected and analyzed using natural-language processing, can make meaningful value-enhancing improvements. The data can also be used to evaluate customer perceptions of a company at different touchpoints along the journey. Sentiment analytics can be benchmarked against peer companies or products to identify advantages. Capturing and analyzing such data helped a car leasing company to discover a significant dip in customer satisfaction after returning their rented vehicle, and led the client to re-design their drop-off process to make it more customer-friendly.

Case in point: The value of assessing data

A KPMG member firm recently conducted due diligence for a client looking to acquire an online car leasing startup. In addition to analyzing the target's financial, tax, legal and operational factors, the KPMG team also assessed its data during the due diligence process.

The target had a unique proposition: customers can subscribe to a membership for a limited period of time (typically less than one year) to access different vehicles, as, when and where they need it. Operating its business fully online — except for the physical cars and pick-up points — the KPMG team was able to access and analyze data from multiple sources, including the target's website, vehicle pick-up points, the company's customer relationship management (CRM) software, fleet service relationship management (SRM) software, and sensors on vehicles. Plus, sentiment analytics were captured from social media and news websites.

With such dynamic data to work with, KPMG professionals presented the investor with critical insights into issues like customer conversion rates, comparative store performance, price sensitivity, customers with potential for cross-selling, vehicle mix, utilization rates and brand perception. These analyses gave the buyer a clearer picture of future revenues. The team also assessed the financial and operational levers of the target company using sector value driver diagrams to identify potential opportunities for improvements that could create greater value post-deal. The findings were presented to the buyer using a visual dashboard and other 'live' infographics, so they could effectively and efficiently consider the insights.

Another piece of the due diligence jigsaw puzzle

Considering a company's digital assets during the due diligence process, along with its commercial and technology assets, potential acquirers can access a richer, more complete view of future revenue and earnings of a target company. It also offers a clearer line of sight into the potential drivers for growth and value creation beyond the deal's close. For sellers, more comprehensive due diligence can help gain a truer picture of value to set an optimal price for the deal.

Due diligence of digital assets may be most relevant to business models where digital assets and processes are at its core — such as ecommerce businesses and online recurring revenue businesses. However, analysis of digital assets can enhance due diligence for any business.

To analyze, at intervals, huge volumes of data requires cutting edge expertise in statistics finance and computer science, encompassing machine learning, natural language processing and data-driven modelling. It also requires deep sector knowledge to convert the findings into meaningful insights within weeks, not months, so demanding acquirers, such as private equity firms, can make decisions with conviction at deal speed.

Transformation never stops. Neither do we.

At KPMG we believe that business transformation is too good an opportunity to miss. In our view, combining the right tech and leading processes with people whose insight is as broad as it is deep are essential ingredients to a successful transformation.

KPMG professionals have worked at the heart of global businesses for many decades, helping clients realize the full potential of their strategy, people and technology. We work together to achieve real-world outcomes. Because when strategy, people and technology are in harmony, great things happen.

Making a world of difference

KPMG people can make all the difference on your transaction and transformation journeys. Together, we can help you to level up your performance, grow your business, orient your organization around the customer and new business models, optimize functions for a new era, manage enterprise risk and regulation for a safer future, pursue opportunities to better realize or preserve value, and create an environment for managing ongoing change.

The power of plus: An enhanced, value-focused approach to due diligence

KPMG Diligence+ brings together global methodology and sector-specific value drivers to deliver holistic insights to enable dealmakers to make rapid, confident decisions to grow their business.

This approach seeks to transcend traditional financial due diligence to assess an expanded universe of risks and rewards. Leveraging proprietary data analytics and insights, along with deep sector and functional experiences KPMG professionals work to identify the levers that can create value across a business.

KPMG firms' support extends beyond a deal's close, by orchestrating dedicated teams of professionals across the globe to deliver measurable performance improvements that can create quantifiable value across a business.

Learn how KPMG firms can power your next deal at kpmg.com/diligence

KPMG Connected Enterprise

Rebuild your business, end to end, around your customers.

KPMG Powered Enterprise

Drive outcome-driven functional transformation.

KPMG Trusted Imperative

Build and sustain the trust of your stakeholders.

KPMG Elevate

Unlock financial value quickly and confidently.

Authors

Christoph Kaiser
EMA Head of Transaction Services
KPMG in Germany
T: +49 173 5764860
E: ckaiser@kpmg.com

Christoph Kaiser leads corporate transactions for KPMG, providing systemic analysis of business models and corporate structures to support lasting impact.

Contacts

Craig Mennie
Global Head of Transaction Services
KPMG Australia
T: +61 2 9335 8671
E: cmennie@kpmg.com.au

Tim Bryan
Head of Transaction Services
KPMG Australia
T: +61 2 9335 8954
E: timbryan@kpmg.com.au

John Cho
National Leader, Deal Advisory
KPMG in Canada
T: +1 416 777 3994
E: johncho@kpmg.ca

Elaine Yu
Head of Transaction Services
KPMG China
T: +86 21 2212 3543
E: elaine.yu@kpmg.com

Vincent Delmas
Head of Transaction Services
KPMG in France
T: +33 1 5568 7502
E: vdelmas@kpmg.fr

Paul Ford
Head of Transaction Services
KPMG in Japan
T: +81 3 3548 5394
E: paul.ford@jp.kpmg.com

Nicola Longfield
Transaction Services Lead
KPMG in the UK
T: +44 207 311 4383
E: nicola.longfield@kpmg.co.uk

Timothy Johnson
Americas Lead, Deal Advisory
KPMG in the US
T: +1 312 665 1048
E: tejohnson@kpmg.com

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com

Designed by Evalueserve | Publication name: Due diligence and the digital footprint | Publication number: 139116-G | Publication date: February 2024