All In: Achieving ERP Implementation Success Across Portfolio Companies

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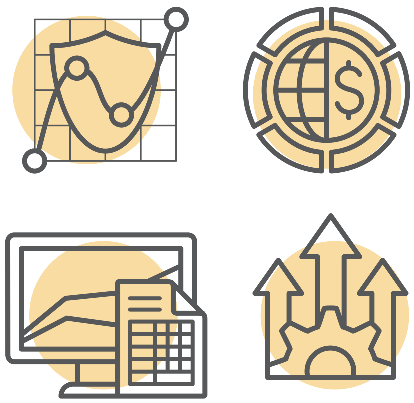
By Jason Muhlstein, Partner, Technology Consulting Services, and
Michael Vaccarella, Managing Director, Private Equity and Transaction Advisory Services



Who's it for?

Private equity firms looking to yield value and drive profitability by standardizing to a modern, cloud-based platform across their portfolio companies.

Summary:

Manufacturing portfolios–particularly those which consist of smaller, undervalued companies–are often attractive to private equity firms. Yet, a lot of these types of businesses rely on unsophisticated or antiquated ERP systems while others might have adopted ERP but have yet to receive performance benefits or sound returns. This paper explores some of the best practices for achieving ERP implementation success across portfolio companies.

In an age when technology should and must provide a competitive advantage, private equity firms face a unique dilemma. Many attractive prospects rely on unsophisticated or antiquated systems and have yet to tap into an enterprise resource planning (ERP) system. Other portfolio companies might have adopted ERP but have yet to receive performance benefits or sound returns since making their software investments—which, incidentally, is often also the case for private equity firms themselves.

ERP systems are intended to integrate all areas of a business, streamlining processes and providing accurate information for better decision making. They also represent powerful tools for planning, inventory control, and production.

In other words, implement ERP and life is supposed to get easier and better and make the portfolio more profitable.

The challenge comes when making decisions about which portfolio companies to upgrade, which to leave as is, and which to leave out altogether. The best answer might be none of the above.

Instead, standardizing to a modern, cloud-based platform across all portfolio companies is an extremely savvy move—one that can yield value and drive profitability right away, not just at some point in the future. After all, if ERP is designed to be the system of record for operating and managing an entire business, shouldn't it also be the system for operating and managing an entire portfolio?

For those private equity firms which understand this necessity, the next challenge comes in the form of implementation, a topic with a host of horror stories. More often than not, things go badly and become costly. And the more companies in the portfolio or the more acquisitions pursued, the greater the challenges.

This paper explores some of the best practices for achieving ERP implementation success across portfolio companies.

Under the Radar and out of the Tech Loop

By standardizing portfolio companies on an ERP platform and updating their businesses, firms can then drive profitability, make improvements scalable, and reduce IT expenses.

Manufacturing portfolios—particularly those which consist of smaller, undervalued companies—are often attractive to private equity firms. A lot of these types of businesses operate with extremely antiquated ERP platforms, if any. As a result, such under-the-radar acquisitions don't really know how or why they make money, they just know there's plenty of cash in the bank at the end of every month.

While many lack sophisticated reporting, they typically know that Company A, for instance, is their best customer and buys every month. By that, they also know they should sell to more companies like Company A, but they don't know how to do so because they lack formalized sales and marketing strategies and processes.

Standardizing to a modern ERP system offers tremendous business value, especially for private equity firms trying to pick up similar businesses in an industry that's ripe for consolidation. By adding all these various companies, standardizing them on an ERP platform, and updating their businesses, firms can then drive profitability, make improvements scalable, and reduce IT expenses.

Standardizing on a cloud-based ERP platform not only increases efficiencies and supports functionality (inventory management, order placement, invoicing, accounting/financials, etc.), but also enhances the customer experience. It modernizes the ways in which various portfolio companies can now conduct business with their customers, by enabling e-commerce and facilitating fast, online reorders, for example. And it creates better inventory management to meet the twenty-first-century customer's buying preferences.

Having an ERP system means having the ability to track customer buying patterns in order to increase sales and enrich customer satisfaction. Those small portfolio companies now gain more visibility into their inventories, and with the more modern technology, they can create advantageous selling algorithms and automatic reorders to enhance reoccurring revenue.

The benefits of standardization to the private equity firm are also significant. Firms gain visibility across the entire portfolio, making business management much easier. They can create the precise dashboards and the financial reporting modules they need weekly, monthly, quarterly, annually, however frequently they desire. It brings operational and financial insights together as a mirrored topic. There's no need for separate meetings. Instead it's the same meeting with the same dialogue—how to change operations to drive financials and how to record performance to improve operations.

Hard Truths and Best Practices

Clearly, private equity firms recognize the value an ERP system can bring, especially when implemented across the portfolio. And yet ERP success stories among firms are few and far between. Firms are either not choosing the right solution, not selecting the right partner, not able to implement successfully, or all of the above.

Ensuring that all business units and acquisitions get on the same standardized platform and limit customization requires vision and decisiveness.

They also may not be fully committed to the endeavor, a prime factor in failure. Organizations simply underestimate the level of effort and conviction it's going to take to achieve success.

In contrast, those which succeed go all in. They **appoint and empower a portfolio CIO and make across-the-board implementation a priority.** They know that real success can't be assured or attainable if each individual business unit drives its own ERP implementation or strives to adapt it in some unique way. Left to their own devices, companies will customize their way into futility.

Ensuring that all business units and acquisitions get on the same standardized platform and limit customization requires vision and decisiveness. But it also involves persistent change management to prevent the "people factor" from derailing the initiative.

Typically, acquisitions come into the portfolio with deep tribal knowledge, a long history, and unique perspectives on how they do business. Some companies will have invested in their own platforms and their beliefs in how it works and why it works. Yet inevitably, every organization has "over customized" their platform.

Change management expertise, therefore, is crucial, since the people part of implementation—the users and owners—can make or break the process. Ensuring adoption of the new, standardized ERP solution requires appropriately framing up the rationale, clearly outlining the requirements up front, and identifying necessary milestones along the way, as well as defining what success will look like.

Therefore, start from a base platform that covers all the common, efficiency-based business practices and customize only **if** there's significant business value in doing so. For instance, does it truly differentiate the brand in the marketplace? If so, is it worth the investment to build and maintain a customization? That kind of rigor and discernment is part art and part science—and entirely necessary.

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Moreover, **identify an all-in-one business solution that's easily expandable.** Using a system that doesn't already have what you might need—CRM or e-commerce, for example—will ultimately require adding disparate elements and essentially put you back where you started. By contrast, the right solution will already have all the components needed—for example, NetSuite® or Microsoft® Dynamics 365. They allow you to add modules and expand the platform within the platform.

It's also important to **identify an end-to-end solution up front.** The goal is to consider all the features needed and "bake in" all those possibilities up front. Then you can weigh each business against the overall solution and adapt it for each unit by simply deleting what's not needed versus customizing and adding from scratch each time an organization is rolled up.

After creating the platform, **plan the implementation in the diligence stage.** Firms that do so gain immediate visibility into the various business data of acquired organizations—not two years from now—and quickly roll them up to better understand performance in the interim stage, well before the finished ERP implementation. Consider what you want to get out of the old systems and how that might mirror your new system. Beyond doing diligence on the target, firms are setting up the first 100 days after close.

For greater automation and reduced IT overhead, **adopt standard, cloud-based platforms.** Gone are the days of incessantly investing in IT primarily to keep the lights on. Today, firms no longer need to sink capital into lots of hardware, software licenses, and the constant hiring of IT staff just to keep up with growth.

The strategy of the future is to keep IT overhead light and reduce the number of full-time equivalents required. Successful firms have identified the value of relying on consultants in the short term, fully knowing that the new, cloud-based, scalable solutions will allow them to run even leaner in IT going forward.

In addition, the IT professional of the future for private equity firms is a business strategist who understands how to leverage technology in areas where customers will see benefits, not on servers and switches.

A More Perfect Union

Firms that keep companies separate can't possibly benefit fully from the savings, the synergies, the purchasing power, or the performance results that come from better overall management. In contrast, those private equity firms which go all in and roll all companies into a modern, cloud-based ERP platform gain the most profitable competitive advantages.

Wipfli offers expertise in cloud-based ERP platforms including NetSuite® and Microsoft® Dynamics 365. We help private equity clients convert to modern platforms for a higher return on investment.

Jason Muhlstein leads the technology consulting practice in Wipfli's Twin Cities Market and helps private equity firms and portfolio companies convert to more modern platform technology solutions to drive scalability, efficiency, and revenue growth.

Contact Jason at **jmuhlstein@wipfli.com** | **952.548.6744**

Michael Vaccarella is a leader in Wipfli's private equity and transaction advisory services. He helps coordinate buy-side and sell-side transaction support and consulting for corporations, family offices, private equity funds, and their portfolio holdings.

Contact Michael at **mvaccarella@wipfli.com** | **630.368.7025**