
# Leveraging technology and the right financial management system in private equity

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**Mergers, acquisitions, and divestitures rely on real-time data and trustworthy evaluations. The right solution can be instrumental in attracting and executing a mutually beneficial transaction.**

Private equity plays a significant role in furthering Canada's reputation as a global business incubator. Venture capital and private investment are essential for new businesses to scale and grow and existing businesses to capitalize on opportunities. But the qualities of what makes a lucrative investment or acquisition target are always evolving.

While performance, profitability, and innovation remain priorities, we're seeing a growing focus on how enterprise technology influences the merger, acquisition, or investment process. Real-time financial analytics, data-based decision making, and seamless operational oversight offer a clear advantage when it comes to putting fresh capital to work quickly and effectively. And it's becoming increasingly evident that companies with modern, cloud-based systems are also far easier and more cost-effective to integrate throughout the merger process.

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# Is your target's financial house in order?

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Companies that embrace technology to monitor performance, manage operations, serve their customers, and respond to change are inherently more capable of responding to disruption.Never has this been more obvious or important than in today's pandemic-altered world. Resilience, adaptability, and sustainability (or lack thereof) can make or break a business. The right infrastructure can strengthen an organization's position in all three categories. Yet, it can be tricky to determine when financial management software is due for upgrade or replacement. Systems don't come with expiration dates and it's often difficult to pinpoint precisely when they've stopped serving a business's needs.

Indeed, most companies outgrow their systems gradually as workarounds and headaches become more frequent over time. Many business leaders simply don't realize better options with better features and more seamless integrations with other enterprise applications exist in the marketplace. Unfortunately, many investors and private equity professionals also don't fully appreciate the pipeline these systems open to more accurate financial data, real time analytics, and better-informed decision making.

Unlike legacy systems, today's cloud-based solutions only get better with time and can be tailored to deliver precisely what a company needs as it scales and grows. Given the cost of upgrading and integrating technologies, this can represent not only significant cost savings in the short run — but also a massive value add in the years ahead.

## What technology due diligence can a private equity firm do when it comes to financial and operational management systems?

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A functional financial management system should be well-suited to the size, complexity, and pace of a business. It should help leaders make financial decisions quickly and accommodate the growth (or sustainability) of the organization as it scales and expands its finance function. Trying to use an outdated system beyond its useful life can have long-term effects; either by preventing the business from seizing a prime opportunity or siphoning revenue for maintenance and upkeep.

It's not always easy, but it is possible to identify the ideal time to replace legacy accounting systems. Here are five indicators it's time to explore newer, stronger options.

01

### The system is down more than it's up

As a legacy system meets its innovation endpoint, it tends to create more challenges than a new installation would. Frequent unresponsiveness (or even worse, crashes) require costly workarounds and maintenance. Unsupported applications leave a company vulnerable to cyber threats — which are even more concerning in today's predominantly remote work environment.

*If functionality issues have become routine or data security is at risk, it's probably time to consider moving to a true cloud solution.*

02

### The finance team is siloed

One of the key features of today's modern financial management or enterprise resource planning (ERP) systems is the ability to integrate financial and operational management functions with other enterprise tools and business processes. Finance teams can collaborate seamlessly with other departments, enhancing productivity and safeguarding business resiliency.

*If the finance team is bogged down in slow manual processes, spreadsheets, data entry, and conflicting document formats — or consistently isolated from the rest of the business — it may be time to upgrade or change systems altogether.*

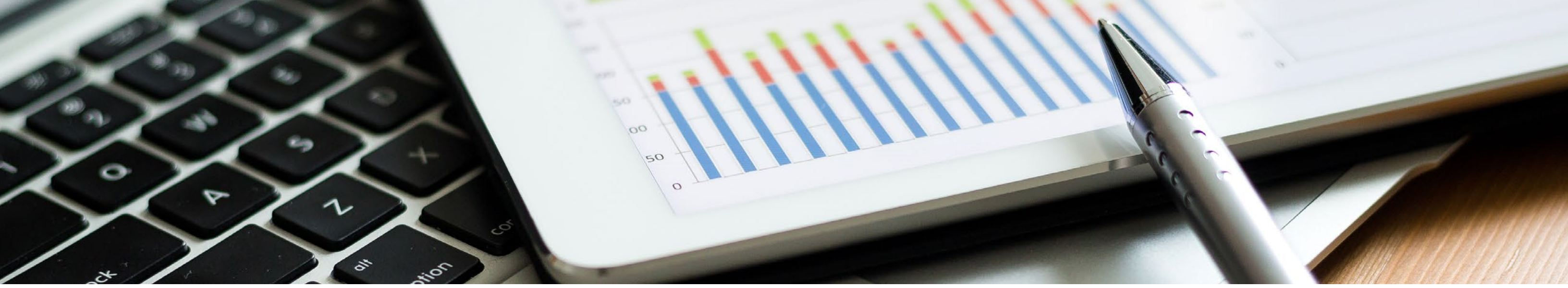
03

### Existing software is a one-trick pony

Financial management software has evolved to keep pace with even the fastest-growing organization. Now, through a single, intuitive, and user-friendly interface, users can:

- seamlessly add entities and dimensionalities,
- manage business units,
- tune into various markets,
- stay informed of various lines of business, and
- accommodate different currencies, tax jurisdictions, regulatory frameworks, and product costs.

*If financial and operational systems aren't up to the task of scaling the business, it's likely time to evaluate alternatives.*



04

**The business is drowning in rogue spreadsheets**

The pandemic has forced many businesses to adopt alternative structures and revenue models (e.g. e-commerce) which older accounting systems weren't built to accommodate. Finance teams are often left to make do by manually entering data into endless spreadsheets — which, in turn, leaves companies vulnerable to increased audit risks and billing errors.

*If a company is considering a new business model — or any other practice that requires novel billing and revenue-recognition abilities — evaluate whether existing software is up to the task.*

05

**Leaders are only seeing part of the picture**

Financial management software should support timely and informed decision making, both over the near- and long-term. It should also deliver a holistic view of the business and allow decision makers to easily assemble, present, and analyze data. Some leading platforms even allow for continuous consolidations and dashboard views across a group of companies. Older legacy systems aren't so easily integrated.

*If the company is relying on spreadsheets and cumbersome manual workarounds to see the bigger picture, it may be time to consider a system that can deliver the necessary reports, consolidated financial statements, and key metrics when and where they're needed.*

## What's the ideal situation?

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A general ledger (GL) accounting system was likely the best option for your target at the time they bought it, and it's probably served the business well over the past several years. However, any of the red flags above indicate it's probably not the right transactional foundation moving forward. With that said, knowing how to re-imagine its finance operations — let alone get the right systems in place — can be just as tedious as pinpointing when it's time for a prospect to upgrade to make a change.

There are many options on the market that support faster financial closes and process automation, while providing access to deeper, real-time business insights. Some (notably, cloud-based enterprise resource planning (ERP) solutions) are scalable and designed to operationalize business needs. You can narrow these options down by determining which solution the business needs now, and in the years ahead.

# Cloud accounting software or an ERP solution?

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Platform integration is a major part of a successful merger or acquisition process. Technology can drive growth, development, and divestiture opportunities when the time comes — or erect barriers, depending on the actionable information it reveals.

At face value, the options on the market may all feel like interchangeable business platforms. The line between cloud-based accounting software and ERP is certainly blurring, but it's still distinct enough to merit careful consideration of which one is right for your business.

This is a long-term investment that needs to support where the business is right now and where you plan for it to be in the years ahead — whether that involves acquiring or investing in acquiring new startups, or working with mature businesses with several years of data to consider. Changing technologies is a massive investment, and making the right choice is a key consideration to ensure the cost / benefit scales tip in your favour.

## Accounting Software

Cloud accounting and bookkeeping solutions like MNP's ease outsourcing service offer core functionality that support everything from accounts reconciliation to payroll management and real-time reporting. This type of software / service takes care of day-to-day transaction management and is a good fit for owner-managed organizations transitioning from a manual spreadsheet-style setup. It also provides a single home for all financial data and brings the traditional inputs and outputs of transactional information under one roof — allowing the business to maintain its growth trajectory while quickly getting new team members up to speed.

In an acquisition scenario, a cloud accounting solution can help you identify, integrate and streamline the various accounting channels and assets involved — and monitor revenue streams, contracts and costs, payroll, profits and losses, etc. at the same time.

There are a range options in market offering an equally diverse range of features. Determine what's most important to the key stakeholders. Then, cross reference your goals with business software peer review sites like G2, TrustRadius, and Capterra to refine your search. Once you're confident in your choices, a qualified technology program partner can help you through the next steps of vendor selection, implementation, and optimization.

## Enterprise Resource Planning Solution

ERPs offer a more robust solution for companies experiencing significant financial growth and development — especially those looking to acquire or divest of entities. These systems provide all the core financial functionality of cloud accounting software but take things a step further with customizable operational modules and components. By combining financial and operational data, ERPs give leaders and decision makers greater management oversight and data transformation capabilities. Some added benefits of an ERP include:

- Multi-entity management or continuous consolidations, allowing for each entity to be viewed both singularly and as a whole
- Automation of manual accounting processes, allowing for accurate and real-time data collection and analysis
- AI and Machine Learning functionality
- A springboard to more centralized Financial Planning & Analysis (FP&A) process for roll-up reporting and planning, replacing excel based manual processes
- More flexible and configurable reporting and embedded Business Intelligence (BI)

## Where do you go from here?

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You have much to consider in deciding how to move forward. Factors like culture, current financial systems maturity, operating system requirements, technical infrastructure, vendor biases, and organizational structure will all influence which platform is best suited to a given business. So will the available financial and human resources, as well as your near- and long-term objectives.

The decision is rarely clear cut. But you don't have to make it on your own. The right partner can guide you through the process and should deliver as much value as the system itself. A capable technology adviser can help you by:

- Assessing the current setup and recommending a solution that makes sense
- Mapping the best path forward with the least amount of organizational disruption
- Understanding the features, benefits, and usage costs of specific tools
- Smoothly implementing your desired solution
- Providing team training to keep the organization(s) aligned
- Creating operational governance practices to streamline and optimize processes
- Offering ongoing support to maintain and enhance the solution over time

MNP Technology Solutions' digital enterprise advisors can guide you through your options and ensure you achieve what you need now — and as you grow.

**Contact Dan Caringi to learn more about the benefits of cloud-based financial management solutions and begin moving in the right direction today.**


## About MNP

MNP is a leading national accounting, tax and business consulting firm in Canada. We proudly serve and respond to the needs of our clients in the public, private and not-for-profit sectors. Through partner-led engagements, we provide a collaborative, cost-effective approach to doing business and personalized strategies to help organizations succeed across the country and around the world.

Dan Caringi, Partner
Enterprise Resource Planning, Financial Planning
416.626.8650
dan.caringi@mnp.ca

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