

Smarter Divestment and M&A Projects

How an ERP in the Cloud Enables Efficiency, Simplicity and Security



- In the face of today's constantly shifting market trends, businesses are looking to expand, diversify or specialize on an unprecedented scale.
- Internal IT infrastructure must be able to keep pace with this continual restructuring.
- ERPs in the cloud support quick, easy and compliant mergers, acquisitions and divestments.

About the Author



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Management Summary

For most companies, divesting business areas or adding new ones through M&A initiatives has become an important strategic means for keeping pace with the market and current trends. But joining forces with a competitor, acquiring a smaller company, or divesting an entire business unit can be an enormous undertaking – and should be executed as efficiently as possible. The transfer or integration of enterprise software alone can often take months and cost considerable sums of money. It can also be risky, in regard to data security and compliance. But deploying an ERP in the cloud eliminates many of these fundamental challenges of divestment and M&A projects; the cloud provides a host of benefits that are simply not possible with on-premises systems.

With the help of use cases, this white paper demonstrates how companies can more effectively navigate a key transitional phase for their business. ERPs in the cloud accelerate and simplify the carve-out and integration of IT systems, while saving money and reducing legal and security risks.

1. Corporate Transactions in the Cloud

Carve-outs and M&A projects are extremely complex undertakings for any business. They come up against immense time pressure, tight budgets, and a host of other challenges. Of course, this hasn't stopped companies from completing successful corporate transactions on a variety of scales. But with all the recent advances in information technology, is there an easier, faster and more secure way to carry out such projects?



The cloud is the way forward in all areas of business IT.

One development that has proven versatile and ideal in a variety of business scenarios is cloud technology. And it is becoming increasingly clear that the cloud is the way forward in all areas of business IT. Information technology research firm Gartner¹ found that four out of five enterprises worldwide already use cloud services or intend to use them in the near future. With all these companies on board, it makes sense that divestments, mergers and acquisitions should take place in the cloud as well. But how exactly does a cloud ERP system simplify and expedite these processes?

How Does the Cloud Provide Competitive Benefits?

Software hosted in the cloud is a very efficient way for many businesses to organize their IT. Requiring nothing more than Internet access and a standard web browser, businesses can carry out complex corporate transactions on a secure, agile and powerful platform. Investing in internal infrastructure or extra headcount in IT is unnecessary.

- **Enterprise-class technology:** Even SMEs can run big-business software – no need for complex internal server infrastructure.
- **Mobility:** Processes and functions can be accessed remotely, from any device, at any time.
- **Flexibility:** Additional functions and user subscriptions can be added or removed as needed – enabling the software to keep pace with the company's growth.
- **Speed:** New configurations can be up and running within hours or minutes.
- **No capex, low opex:** Cloud services are subscription-based, meaning no up-front costs. And according to Strategy&² (formerly Booz & Company), the average total cost of ownership (TCO) over a ten-year period is 50–60 percent lower than for an in-house installation.

This white paper explores the multitude of benefits that the cloud offers for corporate transactions in terms of efficiency, security, compatibility and savings. The quick handover of software and effortless integration into the new company are just two of the reasons that make cloud-hosted business processes the most practical choice when folding in or carving out the IT of a purchased company.

¹ <http://www.gartner.com/newsroom/id/2581315>

² http://www.strategyand.pwc.com/media/file/Strategyand_ERP-in-the-Cloud.pdf

Figure 1: ERP From the Cloud Supports All Central M&A/Carve-Out Processes



2. Efficiency – for Greater Speed and Savings

Time Is of the Essence

For companies with traditional on-premises systems, integrating or carving out IT-supported business processes and functions can take months – sometimes over a year. This causes uncertainty and resistance to change, and could ultimately lead to business disruptions and downtime. Above all, the newly restructured company is not operating at full capacity.

In the case of M&A projects, systems may be only partially integrated during the transitional period, resulting in incompatibility between applications. A dragged-out transition has an effect on the staff, too. Employees at combined entities have many unique stressors and potential sources of resistance to ERP implementations, such as new roles and responsibilities, new reporting structures, or a learning curve on the new system. The greater workload means they cannot focus on core business tasks.



An ERP system in the cloud ensures a quick due diligence investigation of the business.

An ERP system in the cloud, in contrast, ensures a quick due diligence investigation of the business before signing a contract for a fold-in or carve-out process. Once due diligence has been performed, the merged or divested company can be fully operational in as little as a few weeks – well within the standard 100-day timeframe that is usually agreed upon when a company is sold.

A cloud ERP solution like SAP Business ByDesign enables newly acquired companies to switch over quickly to an intuitive cloud environment – and rapidly resume business activities. First, the company gets the standard processes that are absolutely necessary to move from the system of the previous owner. Within a few hours, cloud connection to Microsoft Exchange or Outlook takes place. Standardized templates allow for easy and fast implementation within weeks.

Engaging an experienced, independent third party with global reach reduces risk for business continuity during transitions. The company being divested doesn't need to spend valuable resources on the process – it can remain focused on core business tasks. SAP Business ByDesign features a simple user interface, ensuring convenience and a quick learning curve. It also boasts integrated modules for finance, human capital management, customer relationship management, and supply chain management – helping a divested company become fully operational, quickly.



Cloud-based corporate transactions are easily completed within 100 days.

What Is SAP Business ByDesign?

SAP Business ByDesign is a standard, on-demand public cloud ERP offering from SAP, developed for the typical needs and capabilities of mid-sized companies and subsidiaries. The integrated suite boasts modules for managing everything from CRM, customer service, sales, supply chains and procurement to finance and human resources.

With SAP Business ByDesign, companies...

- achieve greater efficiency, transparency and control across all subsidiaries and business units thanks to streamlined, workflow-driven, end-to-end processes.
- can integrate existing third-party solutions.
- get real-time analytics, insight and reporting powered by SAP HANA.
- avoid hosting software and data themselves – SAP securely stores everything and takes care of maintenance and updates.
- pay only for actual usage – there is no up-front investment.

Supported by an underlying integration framework, SAP Business ByDesign can be deployed in any combination with SAP Business All-in-One Solutions, S/4 HANA, or SAP Business One. It can also help integrate third-party applications and other technologies such as service-oriented architecture. This framework contains built-in services, interfaces and industry-related templates, which shorten time to value.

Figure 2: SAP Business ByDesign Provides All the Key Benefits of the Cloud and More



Keeping Costs Down

An acquired company must integrate easily into an existing ERP, and a divested company needs to be able to stand on its own.

On the one hand, some businesses to be divested have no ERP software to begin with – they are still struggling to manage their organization using a mix of spreadsheets, off-the-shelf accounting software and various other applications. This complicates the due diligence process, leaving the true value of the company unclear – a red flag for potential buyers.

On the other hand, if there is already an on-premises ERP system, it can prove difficult to carve out. Simply setting up a divested company with entirely new software is not ideal either. It is expensive to purchase and operate, and the cost and effort of updates and maintenance often fall on the business.

Furthermore, lost profits are likely during a changeover due to downtime – so these need to be minimized with a fast transition. Duplication and redundancy of data are also potential dangers. Only 30 to 40 percent of business data is relevant – a firm



An integrated SAP system increases the overall value of a company.

needs to stay on top of data quality and data governance (e.g. not using legacy data counts to estimate costs), in order to avoid paying large sums of money to move redundant or unnecessary data. Reasons for high costs during corporate transactions are lack of efficiency and divergent decision making. Gaps in reporting and limited business optimization often directly hit a company's operating margins.

An ERP in the cloud helps realize a low total cost of ownership while maximizing ROI. The financial advantages of standardized solutions, such as those from SAP, include low cost of entry, low maintenance costs and zero capital expenditure (capex). Cloud solutions also help maximize resource utilization throughout the enterprise.

In light of the above, an integrated SAP system increases the overall value of a soon-to-be-divested company. The main reason being, the buyer doesn't need to build up its own knowledge of the software; the release change and updates are carried out automatically by the cloud supplier. The parent company can then divest for a higher sales price.



The buyer doesn't need to build up its own knowledge of the software – and the parent company can divest for a higher sales price.

An ERP solution like SAP Business ByDesign also provides decision makers with 360-degree visibility and full business intelligence, enabling complete and detailed reporting. This ensures transactions are carried out in the most efficient way possible, maximizing profits.

The Investor's Point of View

Every player in an M&A or divestment process has its own interests at stake. What is important to investors and how do cloud solutions ensure those needs are met?

- First and foremost, an investor's goal is to generate more business value. An integrated, state-of-the-art IT solution provides just that.
- The IT should be simple to carve out. A business unit that can be divested quickly will fetch a higher price.
- Even if divestment is not the immediate aim, outfitting a separated business unit with cutting-edge cloud software grows value for a sale down the road.

Use Cases

Organizations looking to carry out more effective mergers, acquisitions or divestments should choose implementation partners who are experienced in both cloud and on-premises software. These consulting firms can recommend and help deploy complete cloud ERP solutions like SAP Business ByDesign, tailored to each individual project. Following are two examples of companies that have executed successful corporate transactions in the cloud.



Case 1: Specialty Chemicals Manufacturer

A global leader in specialty chemicals based in Europe wanted to divest a foam manufacturer in the US. They had only three months to fully carve out the IT – a tight timeline. Having recently adopted SAP Business ByDesign, their IT system was carved out and integrated into the new cloud ERP solution in just five weeks. Their implementation partner, itelligence, helped them free up resources from shared services, resulting in huge savings.

Mergers, acquisitions and divestments are routine for such a large company, and the chemicals manufacturer was impressed with the performance of SAP Business ByDesign. One feature they especially liked is the transparent cost allocation, which makes for easier budgeting. And they implemented the whole solution within budget, too. The company will continue to use the cloud-based software to quickly carve out the IT of divested companies in the future; in fact, they've already begun a second project using the same implementation partner.



The help of a trusted implementation partner saved more than half of the IT costs originally estimated for the transition.



Case 2: Private Equity Firm

Clyde Blowers Capital, a private equity firm whose strategy is to buy up engineering firms, upgrade them and then re-sell them, recently decided to enhance this process with SAP Business ByDesign. They needed an updated ERP system capable of supporting and sustaining future growth – on a global scale. The organization has ambitious implementation timelines: they aim to roll out all processes in a newly acquired company within three months. With the support of its experienced cloud partner, Clyde Blowers is able to implement SAP's cloud ERP solution rapidly and smoothly in each project, averting imminent business risks.

Another decisive factor for Clyde Blowers Capital was the fact that cloud solutions like SAP Business ByDesign require no up-front capital investment. Since they cannot always predict when they will divest a company, or even if the buyer will continue to use the system, a “rentable” solution in the cloud is the perfect answer.



All processes in a newly acquired company are rolled out within 3 months.

What Is SAP S/4HANA?

While SAP Business ByDesign is tailor-made for the midmarket and subsidiaries, the new SAP S/4HANA is a next-generation ERP suite designed for large enterprises. Just like its smaller-scale counterpart, it delivers in-memory performance, mobile-friendly interfaces, cloud deployment options and simplicity.

The solution is available as an on-premises product, in the private cloud, from the SAP HANA Enterprise Cloud (HEC), and in a public cloud configuration based on multiple databases.

3. Simplicity – What Cloud Solutions Are Made For

Complexity is likely the biggest pain point when it comes to divestments, mergers and acquisitions. The task of combining or carving out processes and systems can be daunting. A merger or acquisition can be especially challenging for vertically integrated companies with many diverse subsidiaries, business units and customers far flung around the globe, operating at various levels on the value chain.

In the case of a merger or acquisition, inconsistent data processes and practices between the two companies make for complications during integration. Significant data quality and interoperability issues may arise if they both lack mature data standards across systems and functional areas.



New generations of ERP in the cloud simplify business in many ways. They simplify decision making, access to data, and mergers and acquisitions too – from either side of the transaction.

During divestments, tightly integrated businesses can render carve-outs complex. When ERPs and services are centralized, it can be difficult to create a stand-alone unit. The business may also have a heterogeneous IT landscape and undocumented systems. It's essential to identify and carve out the right applications and components while leaving the right parts behind – which is no easy task. The new company must be able to stand on its own within a given time period, without continuing to rely on transitional or legacy systems.

Cloud-based software removes IT obstacles that stand in the way of a smooth divestment, merger or acquisition. On-premises systems often prove less flexible; the cloud's winning feature is that it delivers software on demand. There's no need to support IT resources or large servers – the cloud service provider stores the software and data, and takes care of all maintenance, service, data security and upgrades. This allows companies to keep their focus on their core business.

 SAP Business ByDesign can even be implemented through remote access.

Other benefits that the cloud provides are flexibility and scalability from both a functional and technical point of view. A cloud-based ERP can be integrated with a company's existing on-premises ERP, forming a hybrid cloud solution. This hybrid cloud can be used for one year as an intermediate step to integrate the newly bought company into the ERP landscape of the buyer. Cloud ERPs like SAP Business ByDesign leverage the SAP HANA platform to ensure standardization of data and data structures for efficient data transfer.

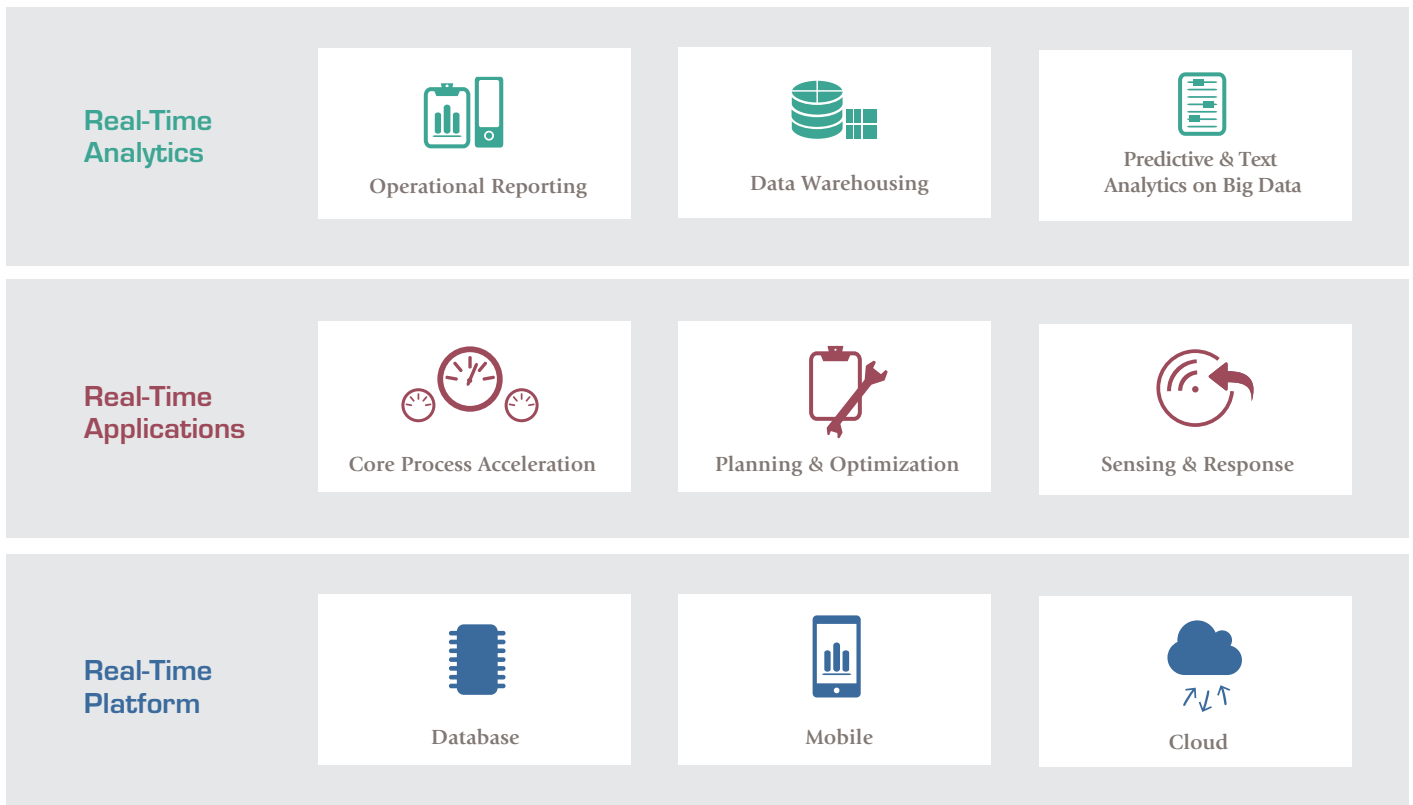
A key component of flexibility is mobility. Multiple apps come included with cloud subscriptions, which can be used on iPads, iPhones or Android devices. And SAP Business ByDesign can even be implemented through remote access.

All of this boils down to one basic premise: **simplicity**.



Simple

Figure 3: Speed Is What Makes SAP HANA a Market-Leading Computing Platform



Use Cases



Case 1: Specialty Chemicals Manufacturer

The multinational company has complex M&A and divestment processes to begin with, so they wanted to improve the manageability and agility of carving out small companies. To further reduce complexity, they decided to use the standard functionalities in SAP Business ByDesign. When the carve-out of the foam manufacturer was completed, the US employees were really happy to get new and efficient software that served their purpose, with a simple user interface.



Case 2: Private Equity Firm

Clyde Blowers Capital's vision for the future is extremely demanding in ERP terms. It encompasses a broad range of activities, including design and the manufacturing and supply of complex pumping solutions involving internal and external suppliers. They chose SAP Business ByDesign for its outstanding functionality and simple implementation. Mobile flexibility even allowed them to receive 60 percent of the consulting services from their implementation partner on a remote basis.

What Is SAP HANA?

SAP HANA is a scalable in-memory database management system and business solution, designed to handle both high transaction rates and complex query processing on the same technical platform. It helps companies gain a deeper understanding of their business and markets. For example, they can analyze customer behavior and preferences at unprecedented speeds, identify trends ahead of the competition, and seize new opportunities in real time.

SAP HANA enables businesses to:

- make up-to-the-minute decisions by instantly exploring and analyzing transactional and analytical data from virtually any data source.
- respond more quickly to changes thanks to high-speed data provisioning.
- aggregate data from both internal and external applications and data sources without disrupting ongoing business transactions.
- outline preventative and efficient business practices by detecting, analyzing and adjusting to the never-ending stream of data.

4. Security – Top Priority for Any Business

In light of recent high-profile data breaches and hacking incidents, data security is one of the biggest concerns for businesses. Transferring on-premises software leaves all kinds of opportunities for mistakes and unintentional leaks. Software often contains special processes and knowledge, so system investments should be secure. It's essential that the right parts of the system get carved out so that the selling company keeps its customized ERP software instead of sharing it with the buyer.

Compliance is the other major issue during mergers, acquisitions and divestments – especially for international transactions. There are legal, regulatory, contract and reporting requirements to adhere to. This can be challenging when the varying agendas of multiple parties are at play; effective communication is essential.

The cloud allows international companies to easily cover compliance requirements. SAP solutions support global best practices, enabling the traceability required to audit operations and fully comply with both corporate policies and external regulations. M&A processes have quite stringent legal requirements – the cloud enables synchronization of IT and legal change of control. For example, cloud ERPs like SAP Business ByDesign are certified, ensuring straightforward cooperation with international auditing companies like KPMG, Deloitte and PricewaterhouseCoopers. Integrated and just-in-time reporting in SAP Business ByDesign complies with group standards. In addition, the solution has embedded procedures which regulate and warn of any compliance conflicts, and if necessary, stop the reporting process.



Embedded procedures alert the user to any compliance conflicts.

Above all, a cloud from a reputable provider is secure. International companies can rest assured they are complying with the highest security standards – secure systems operation is guaranteed. SAP Business ByDesign prevents handing over special software, knowledge or proprietary technologies. For an extra layer of data protection, an on-demand SAP ID service can be integrated, enabling secure single sign-on across the landscape.

Use Cases



Case 1: Specialty Chemicals Manufacturer

The chemicals company wanted to avoid handing over business-critical data, proprietary technology, special software or insider knowledge as a result of the divestment. SAP Business ByDesign ensured that only the right components were carved out and delivered to the divested company – the rest were left secure and intact. The software-as-a-service itself was successfully implemented in line with all quality requirements. The firm has since added SAP Business ByDesign to its standard IT infrastructure, and now has simpler, quicker and more secure M&A and divestment processes overall.



Case 2: Private Equity Firm

Clyde Blowers Capital protects its data on a compliant infrastructure that is constantly monitored, with various levels of authorization. If an employee leaves the subsidiary, SAP Business ByDesign instantly blocks that user's access on all devices, keeping the data secure. Special workflows were embedded in Clyde Blowers Capital's system landscape that ensure all rules and regulations are covered, even when roles like business unit management are temporarily substituted.

The Benefits of the SAP Cloud for Corporate Transactions

Meet the needs of subsidiaries: SAP solutions come pre-configured to support industry-specific needs, policies, and processes. No matter what markets a subsidiary serves – and no matter where they do it – SAP provides fit-for-purpose solutions that enable coordination on a corporate level.

- SAP has developed software that supports best practices specific to the industries in which many subsidiaries operate.
- Tools, methodologies, and pre-configured business scenarios help standardize business processes, map data between SAP solutions, and integrate SAP and third-party applications.

Speed up end-user acceptance: SAP solutions come pre-packaged with built-in localization to meet the needs of geographically dispersed subsidiaries. Solutions can be rolled out quickly, and with simple user interfaces, wizards and integrated business intelligence analytics, employees will master the software-as-a-service in no time.

Increase enterprise-wide agility: SAP solutions provide horizontal breadth, vertical depth and standardized template design. This helps strike the right balance between corporate and subsidiary needs. Options for centralized hosting or decentralized installation in the subsidiary's region – SAP's operations are divided into four global regions – mean each subsidiary can implement the way it wants. In addition, SAP solutions help better manage mergers and acquisitions as a company grows.

5. itelligence and SAP

itelligence is a globally experienced implementation partner with deep knowledge of cloud solutions from SAP. In recognition of their special expertise, they received a 2015 SAP Pinnacle Award in the category of Cloud Global Value-Added Reseller of the Year. The company has advised many businesses looking to streamline their divestment and M&A processes, with successful outcomes using SAP Business ByDesign.



itelligence is a globally experienced implementation partner with deep knowledge of cloud solutions from SAP.

For Clyde Blowers Capital, itelligence really stood out from the crowd during a grueling partner selection process. The expert consultants demonstrated proven skill in implementing complex manufacturing systems, and SAP had credible solutions for all the processes envisaged. SAP Business ByDesign was the only ERP system that met Clyde Blowers Capital's requirements and delivered excellent time to value.

itelligence | NTT DATA Business Solutions created the it.transform method, which provides the methodology and tools to plan, structure and carry out a corporate transaction. In keeping pace with the trend toward the cloud, it.transform is now moving away from solely on-premises software and increasingly basing its methodology and advice on cloud solutions like SAP Business ByDesign.

6. Summary and Outlook

Cloud technology will soon be the industry standard in corporate IT. Mergers, acquisitions and divestments can be carried out more simply, faster and more securely using cost-effective and flexible cloud or hybrid configurations. Businesses based solely on on-premises solutions will become less attractive for buyers, who will instead select a company that can offer a seamless merger or carve-out process. These transformation projects are not simply IT projects – they affect every level of a company. All processes, data and existing technology must be organized.

Many companies that have carried out a project using software like SAP Business ByDesign have subsequently implemented it into their standard IT infrastructure, and will continue using it to facilitate their future mergers, acquisitions, and divestments.



7. Read More

Are you looking to carry out your own merger, acquisition or divestment?

The experts at itelligence have published an array of material covering everything you need to know about the cloud.

Our Cloud Publications:

- ➔ **White paper:**
Business Processes from the Cloud? Who Can Profit from It?

- ➔ **Success story:**
Buying and Selling Companies Faster with SAP Business ByDesign®

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About itelligence

In the digital age, you need an IT partner you can rely on. Someone who understands the digital and real-life challenges of your industry and helps you rethink your business. A partner who is with you every step of the way.

With over 25 years' experience, itelligence knows SAP software inside out. We work closely with our clients to identify their specific needs and fulfil them. Numerous SAP awards, certifications, and our SAP Platinum Partner status are testament to our success. From consulting to implementation and managed services, we have over 5,000 employees with the expertise to take your business further.

As part of the NTT Data Group, we can draw upon a global network of over 9,000 SAP specialists. And our presence in 24 countries around the world ensures we are always close to your business. What's more, our strong ties to SAP mean we stay up to speed with the latest innovations and can help you get more from them. No matter what industry you are in – we are the IT partner for your digital transformation. Think ahead. Go beyond. Visit www.itelligencegroup.com for more information.