

IT AS INVESTMENT AID

In this article, Anglia Business Solutions looks at how IT can be viewed as an investment aid from two perspectives. Firstly from the customers' viewpoint, this being the most important factor in the health of a business. And secondly from an inward investment aspect, as organisations in the fresh produce industry seek to benefit from the wave of industry consolidation

LET'S START with the customer experience. In the past, the state of the supplier's internal systems and processes was seen as their business. As long as the goods were delivered to the required quality and on time, everybody was happy. However, somewhere along the line, the landscape changed. Nowadays, not only have the goods got to arrive on time and to the agreed quality, but a few new conditions have been thrown into the mix.

Apart from the downward squeeze on margins, suppliers now have to cope with being able to trace where products came from and what was used to grow them. Recent events in the US will bring traceability into even sharper focus in future. (This, of course, is where E.coli found in bagged spinach caused two deaths and a nationwide outbreak of food poisoning).

In addition, food companies are in the front line when it comes to advising customers on product contents. Swinging fines are now being applied for mislabelling products on top of the costs of withdrawing the offending goods.

From the customer's perspective, a supplier repeatedly getting it wrong can be symptomatic of poor internal systems and processes. It highlights the fact that the company may lack the necessary disciplines and agility to continue to service their needs.

As a means of remaining competitive, retailers are constantly seeking ways to reduce their costs. Dealing with fewer suppliers who can take responsibility for outsourcing more of their services is now a widely used business tactic to achieve efficiency improvements. Poor systems and processes hinder this initiative and can result in the loss of a valuable customer as they question whether to continue to invest further resources into the business relationship.

These issues of inadequate IT systems are not lost on those asked to fund investments on acquisitions or major restructuring programmes. Neil Eastwood is a Partner at PriceWaterhouseCoopers who has supported multiple private equity and corporate organisations in acquisitions in multiple industries,

including food. As he reports: "The effectiveness of IT systems is generally dictated by their ability to support the business, their cost, and their ability (or agility) in supporting future needs. This holds equally true in the deal environment."

The purchase premiums being paid in today's competitive market frequently lead to aggressive margin targets post deal to support debt payments. The ability of IT to support cash generation without large-scale investment or excessive time delays will often define the attractiveness of a target. Potential acquirers or investors will typically seek to understand how well the target organisation uses IT to manage all aspects of the business. A well engineered solution that provides accurate and timely customer and product information is a definite asset throughout the due diligence process.

The IT of a purchased company will often be replaced by the acquirer's systems post transaction. The ability to isolate and migrate clear and logically organised data from the acquired company will be a major factor in the migration cost to the new parent company's systems.

Any cost of systems remediation post transaction will typically be subtracted from the value paid – often with a multiplier applied.

There are no hard and fast rules dictating which systems are most attractive in the deal environment. The ability to maximise cash through tight supply chain and order to cash capability will generally add more to value than a particular package. That said in a tight margin industry such as food, an off-the-shelf package may be viewed more positively by an acquirer than a bespoke or highly customised system.

In summary, the quality of an organisations IT systems is a major factor in the attractiveness to a potential buyer or investor as well as being a significant contributor/detractor to value – possibly only second to the quality of management.

For further information on any of the above contact sarahn@angliabs.com. ○