

What Private Equity Needs to Know About ERP for Life Sciences



By Rosy Lee

COVID-19 has been a catalyst for the attraction of private equity to healthcare and the life sciences, as the rise of vaccination and drug discovery and supply includes new points of care like telemedicine. [Data from Private Equity International](#) shows that in 2021, life sciences business raised US\$12.7 billion—more than double what was raised in 2020.

Life sciences firms are also quickly going through a digital transformation, as they need to accelerate time to market to meet rapid demand from users and hospitals and global partnerships, and keep up with changing expectation to stay competitive with new rival startups.

Before the pandemic, the life sciences sector was lumbering, slow-moving, and bureaucratic. These companies face complex challenges in compliance, security, and management of their supply chains and partnerships with contract development and manufacturing organizations (CDMOs). They also have issues with capital funding, due to the long research period required to create a marketable product.

As life science businesses have deployed a variety of financial systems, managing the resulting regulatory, security, and management issues in a complex supply chain can become a real obstacle for private equity firms who are interested in investing in this sector, both when it comes to initial due diligence and ongoing reporting.

To make the right decision in which companies to invest, and monitor and manage life science in their portfolio properly, private equity should consider the enterprise resource planning (ERP) platform used by the startup in evaluating whether to invest in a life sciences business or not.

Better Insights for Due Diligence

Due diligence in M&A deals requires data visibility, precise reporting, and real-time access to information. ERP reduces redundancy and delivers high-quality data in a simplified process. This leads to transparency and accountability for private equity.

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In addition, ERP enables the management of a complex [supply chain](#) on a day-to-day basis. The life sciences need to have real-time visibility, going beyond price and availability to include the necessary quality and regulatory aspects of materials.

ERP helps all life sciences businesses at all stages of growth control, can help private equity firms oversee a startup's progress, and provides the IT foundation necessary for scaling up. ERP designed specifically for this sector will have modules that serve each stage of the business.

Predicting Future Returns with Precision

Moreover, ERP offers simplified access to financial performance reporting. Combined with AI-backed forecasting tools, this enables private equity firms to understand how a company in their portfolio is doing now, and predict how it might be doing in the future.

Firms can leverage these capabilities to perform “what if” analyses of any potential future situations. This allows them to recast the entire business based on potential acquisitions and portfolio performance trajectories and make plans that account for any possible outcome.

ERP offers system-controlled alerts that can often help private equity firms predict potential problems before they occur. The system makes information visible as it becomes available, positioning investment firms to plan for the best possible exit.

A Single Platform and Standardization for the Entire Portfolio

By requiring the ERP system across a portfolio of life science companies, investors can ensure that their entire portfolio talks in the same language. Through a unified structure for reporting and forecasting, private equity can give finance teams the support they need to make strategic decisions more quickly.

A portfolio-wide ERP platform also helps private equity firms oversee life science challenges including hiring, product development, branding, production rollout, and regulatory requirements. The right ERP can provide insight to tackle potential problems and identify resources that should be invested to ensure that a project is a success.

Having one standard and unified platform across all firms will help investors navigate, monitor, and review all business performance and the progress of each company in a portfolio, even if they're located in different countries with different business cultures subject to different regulatory environments and using different currencies.

Flexibility and Scalability

Private equity firms invest across multiple regions. By selecting and deploying cloud-based ERP, investors can enable rapid and flexible scaling up or down to meet business needs for any expansion or decline in activity.

ERP allows workforces across different regions and business functions to access key data and perform core functional activities without requiring any changes to the system's architecture and business continuity, and without the need to disrupt existing operations and potentially derail productivity.

Private equity leaders can access all data in the portfolio from anywhere at any time through a web browser on a variety of devices. They should choose ERP partners that are within the proper business domain of expertise, and that are capable of configuring and customizing software to meet the needs of each life sciences business. These partners can speed implementation time with a template designed specifically for each subset of the life sciences industry, and for any life cycle stage.

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Final thoughts

Choosing the right ERP system, processes, and solution partner can increase the value of the portfolio company. These internal capabilities must be able to support substantial growth, efficiency, real-time reporting/analytics, cash management, Governance, Risk, and Compliance for the next investors to see that their investment thesis can begin immediately and be realized rapidly. These systems and processes must enable transformation and growth. If the exit strategy is IPO, an ERP system and business process that support public reporting and regulatory requirements can create value through improved financial confidence and reduced audit costs. In preparing for an IPO, private companies must assess their readiness in terms of internal processes and rectify any identified weaknesses.

IPO stakeholders will directly or indirectly, explicitly or implicitly, seek answers to the following questions:

1. How much faith can we place in the ability to grow the top line?
2. Are sales management capabilities solid, with the right systems, processes, and people in place to identify and capture opportunities?
3. Does the company have good operating and financial visibility?
4. Is the supply chain robust so that products can be developed, manufactured, and delivered according to world-class standards now and in the future?
5. Can the company manage risk appropriately? Are adequate governance, planning, reporting, and risk management processes in place?
6. Is talent engaged and ready to take the organization to the next level?
7. Can the company successfully hire, manage, and retain the talent needed to grow the business?

The life science business is volatile, and investors want to minimize the risk of vague data, tackle unexpected situations proactively, and, of course, increase their long-term return on investment in the business. The right ERP and consulting firm will be a quick win for private equity investors to gain visibility and insight into their entire portfolios.

Learn more about how Navigator can [help life sciences companies implement SAP](#) and help investors achieve these goals.