

Digital Transformation Readiness

A Critical Component of Due Diligence in Private Equity Acquisitions

Industry



Private Equity

Services



Architecture



In an increasingly fast-paced, digital-first world, the ability of a company to adapt and thrive amid technological change is more than a nice-to-have – it is a necessity. This means, for private equity firms in particular, the evaluation of a target company's readiness for digital transformation has become an essential ingredient in the due diligence process – providing a critical lens to assess the future growth potential and scalability of an acquisition. This assessment affects not only the valuation, but also shapes the post-acquisition strategy and the ultimate success of the investment.

Based on our experience, we suggest a holistic approach to due diligence assessments covering:

1. Technology Assessment

The first foundational step in technology due diligence is to thoroughly assess the current state of the target's technology infrastructure. This comprehensive evaluation involves scrutinizing the hardware components, software applications, and cloud solutions that are currently in use. It's crucial to identify any legacy systems that may be in place, understanding their impact on overall operational efficiency and

future scalability. Additionally, this step examines how well current technologies are integrated within the organisation, highlighting any potential gaps or redundancies. By conducting a detailed technology assessment, stakeholders can gain valuable insights into the strengths and weaknesses of the existing infrastructure, which is essential for making informed decisions about future investments and improvements.

2. Digital Strategy & Leadership

Understanding the extent of the target's alignment between digital strategy and overall business strategy and objectives is key. This should be underpinned by assessing the commitment of both the executive team and board to digital initiatives – including budget allocations and strategic priorities. The target's track record should also be assessed – with past.

3. Culture & Innovation

The target's culture and risk appetite will play a critical role in its ability to undergo successful digital transformation. Cultures which foster innovation,

continuous learning and adaptability to change, are much more likely to flourish. Cultural indicators might include participation in industry think tanks, partnerships with technology start-ups, the presence of internal innovation incubators, workforce digital literacy programmes, approach to risk taking, and mature change management methodologies that are adopted across departmental boundaries.

4. Data Capabilities

Data is a key cornerstone of digital transformation. Assessing how the target collects, stores, manages, and utilises data will provide key indicators for readiness to use more advanced analytics, artificial intelligence, and machine learning – all of which can be pivotal to digital transformation. Additionally, reviewing data governance structures, policies, and compliance with data protection regulations, such as GDPR, will give a sense of readiness for the journey ahead.

5. Digital Integration

Understanding how well, and to what extent, digital technology is integrated into the target's products

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and services can be a strong indicator of digital maturity. This could include, for example, the digital features of products and services, the use of digital channels for customer engagement and service delivery, or the integration of emerging technologies like artificial intelligence and blockchain.

For Private Equity firms, the readiness of a potential acquisition to undergo or continue a digital transformation can significantly influence the post-acquisition success and value creation opportunities. By thoroughly assessing the digital maturity of a target during due diligence, investors not only gauge the current value, but also forecast the adaptability and

future growth potential of the company – making digital transformation readiness a due diligence criterion that is here to stay.

If you would like to speak to Paul Atherton further regarding this insight, send your enquiry to:

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About Mason Advisory

Mason Advisory has offices in Manchester and London and employs over 100 staff, with plans to continue its expansion. We enable organisations to deliver value through digital & technology transformation, solving complex business challenges, and helping clients set strategy through the intelligent use of IT resources including architecture, cyber, data, digital, operating model and organisational design, service management, and sourcing. We operate in sectors such as financial services and insurance, legal and law, government, health and social care, emergency services, retail, FMCG, transport, and not-for-profit.

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