

IT as a Value Driver in PE Growth Cases

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Most PE houses do not examine the tech setup of their growth-equity targets in any depth. Tech is treated as a checklist item — vendors, contracts, security — and the assumption is that anything broken can be addressed after closing. In growth cases, that assumption rarely holds.

Growth Equity sits between Venture Capital and the classic Buyout. Targets have product-market-fit behind them. The question is no longer whether the business works, but how fast it scales. This is also where tech stops being a back-office concern. Most targets we see in due diligence have built their market position on pragmatic IT — Excel, manual interfaces, a handful of SaaS tools next to each other. That setup carries the company through the early years. It breaks the moment the volume tips.

When it breaks, margin migrates into the back office, sales grows with headcount instead of with systems, and reporting becomes interpretation rather than steering. The thesis of this paper, in one sentence: the IT reality of a target decides whether the growth case becomes an exit case.

***„Any jackass can buy a company.
The trick is what you do with it
once you own it.“***

Henry Kravis

The Diagnosis: Where the Stack Actually Breaks

Three break points show up in almost every growth-equity target we see. The pattern is consistent across industries — what differs is the size of the damage, not the structure of the problem. All three are tolerable in steady state and lethal in growth: as long as the volume is small, individual employees compensate for the gaps in the system. Once the volume tips, no one can compensate anymore.

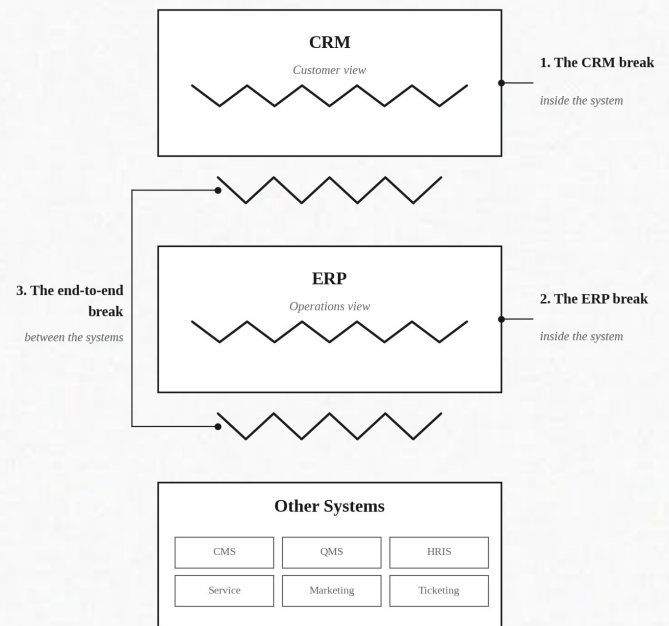
The CRM break: visibility on the customer.

The target no longer knows what it has sold to its customers and where each one stands in the lifecycle. Contracts, conditions, contacts and last touchpoints are scattered across the CRM, individual mailboxes and Excel lists kept by sales reps. As a result, account management runs on the memory of individual employees. Upselling and cross-selling become accidental. Forecasting becomes guesswork. Price adjustments become research projects. With every additional customer, steering the sales organization gets harder, not easier — sales grows with headcount, not with systems.

The ERP break: visibility on the operation.

The target no longer knows what is actually happening inside its own business. Master data is inconsistent, cost-center logic is unclear, consolidation takes weeks. This happens even in a single ERP system that has grown over the years without a clear data model — heavy customization, no clean master-data hygiene. The consequences hit operations directly: in production, reliable inventory and capacity data are missing; in procurement, orders go out on hearsay. With every additional order, location and product line, the gap between reality and system widens, and operations turns into an argument about numbers.

The end-to-end break: visibility across the business. The individual systems like CRM, ERP, and the tools companies run alongside them (CMS, QMS, ticketing, service, marketing automation, HRIS) each work on their own, but they do not talk to each other. Interfaces have been built over the years by changing consultants, and documentation barely exists. As a result, order-to-cash breaks at multiple points, the same customer exists in three systems with different spellings, and service tickets never reach sales. The cost curve is exponential, not linear: more customers mean more manual handovers between systems, more manual corrections, and more administrative staff. This is the most common case we see in due diligence, and the most expensive.



The break between systems is most expensive

The Four Red Flags That Should Move Your Valuation

A standard IT due diligence checks vendors, contracts, security posture and license costs. None of those answer the question that matters in a growth case: can the target scale, or will the stack break under the plan? Four diagnoses answer that question, and they should move the valuation directly. Three are technical. One is mental.

Red Flag 1: No end-to-end digitized processes. Without end-to-end digitization, there is no automation. Without automation, there is no useful AI. Targets that miss this step lose ground within 24 months. The most reliable indicator is not the system landscape on paper — it is the manual effort in the sub-steps of each process. How many handovers in order-to-cash are manual?

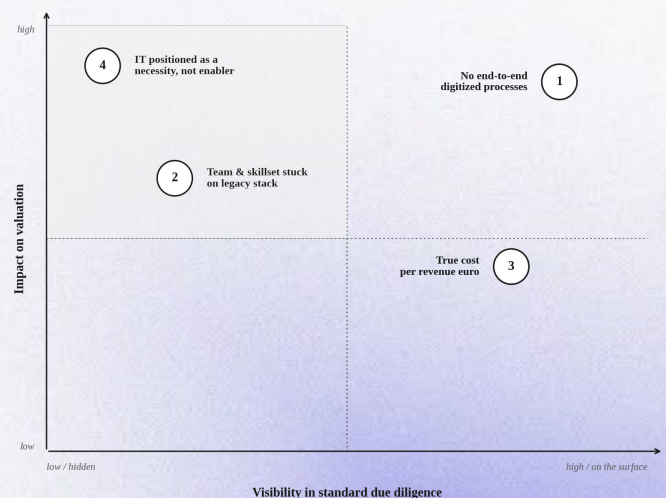
How many master-data fields are maintained by hand? How many reports are pulled together in Excel? Where this manual effort is high, end-to-end is not in place, regardless of how modern the individual tools look.

Red Flag 2: Team and skillset stuck on a legacy stack. Long tenure, little new blood. An old stack does not attract A-players, and the spiral turns downward over time. The diagnostic indicators in due diligence: tenure profile of the team, hire rate over the last 24 months, age of the stack — and above all the answer of the CTO or CPO to the question "what would you change first if you had a free hand?" A leader without a clear answer has not seen the problem. The fish stinks from the head: when transformation cannot be pushed through at the top, or is not seen at the top, the case turns only through personnel changes.

Red Flag 3: True cost of running the business per revenue euro. The standard reading checks tech-spend per revenue euro. A high ratio there points to legacy systems, old programming languages, and an oversized maintenance team. That is half the story. Equally expensive, often more expensive, are the manual personnel costs in functions that comparable companies have long since automated: order processing, master-data maintenance, sales operations, accounting, service routing.

The right question in due diligence is therefore not "how high is the tech-spend?" it is "how high is the total cost of running the business, tech plus manual labor, per revenue euro, compared to the best-of-breed peer?" A target sitting high on this metric is buying its own growth much more expensively.

Red Flag 4: IT positioned as a necessity, not as an enabler. Is IT understood inside the target as a necessary cost — or does it see itself as an enabling service to the business units, with a clear ROI? In the first position, every tech lever stays unused, no matter how modern the stack technically is. This diagnosis does not show up in any system. It shows up in reporting lines and in the tone of management's answers, which is why it is most often overlooked.

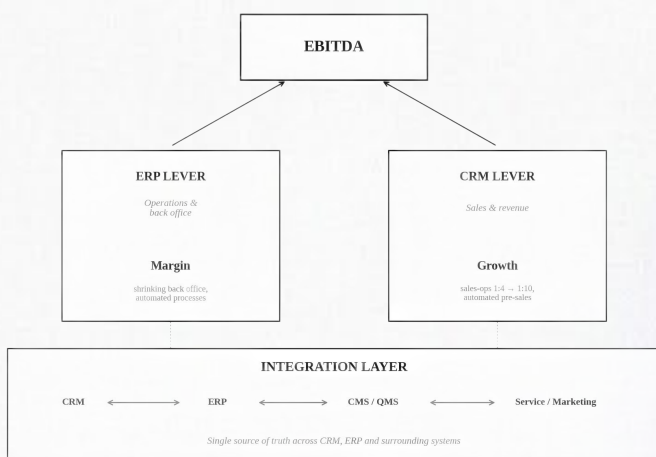


Three of four red flags sit where standard DDs do not look while moving the valuation the most.

The Levers: Where IT Actually Moves EBITDA

Reading the red flags correctly buys levers that can be pulled systematically during the holding period. Three levers, each answering one of the break points from chapter 2.

The ERP lever — operations and back office. A clean ERP base is the precondition for everything else. Consolidate master data, reduce order-to-cash to a few touchpoints, automate manual order-delivery reconciliation and master-data synchronization. As a result, accounting teams shrink, and master-data maintenance turns from a full-time job into a side activity. The effect on the P&L is direct and immediately visible in the margin. The less glamorous, but most reliably calculable lever.



ERP and CRM levers directly move EBITDA, but they only scale through the integration layer.

The CRM lever — sales and revenue. The less visible, but larger lever. Sales-ops ratio moves from 1:4 to 1:10 — meaning one sales-operations role supports ten sales reps instead of four. Pre-sales work — research, qualification, first contact — runs through automation. Sales teams concentrate on key accounts and on closing deals, not on warming up cold contacts. This is where mid-market sales burns the most money today, and where the larger long-term value sits.

The integration lever — the data layer. The actual multiplier. When the systems of the growth company — CRM, ERP, plus the tools alongside them (CMS, QMS, service, marketing, HRIS) — talk to each other cleanly, a single source of truth emerges. That is the precondition for any serious steering of the business, and the precondition for the AI multiplier in chapter 5.

The ERP and CRM levers are not an either-or. They only scale through the integration layer. Pulling only one of them leaves most of the value on the table.

The Multiplier: Why AI Splits the Field Now

AI on top of a target that has not pulled the levers from chapter 4 produces no measurable value. Not less value — none. The ERP, CRM and integration layers are the foundation. Without them, AI is a license fee.

Foundation first, agents second. AI on a cluttered stack only builds the next wave of technical debt. Real value emerges only after the ERP and CRM levers are pulled and the integration layer is in place. On that foundation, AI shifts from efficiency optimization to structural change: not "the clerk gets a few percent faster," but "the clerk role no longer exists." Flat-rate AI licenses for all employees do the opposite — they confirm the old structure rather than dissolving it. McKinsey's 2025 survey of 1,993 organizations across 105 countries makes the point in numbers: 88% now use AI in at least one business function, but only 6% qualify as high performers attributing more than 5% of EBIT to AI use.¹ Adoption is broad. Value is rare. The difference between the two is the foundation.

Three places where AI doubles the lever today. On the CRM layer: pre-sales research, lead qualification and first contact run autonomously through agent systems.

The sales-ops ratio does not move from 1:4 to 1:10 — it moves from 1:4 to 1:15. On the ERP layer: order-to-cash, master-data maintenance and accounting routines run largely without human touchpoints. On the integration layer: reporting becomes conversational. Management and division leads pull their own analyses in real time, and the classic business-analyst layer largely disappears.

Europe vs. US/Asia: the spread is widening, and it is widening now. In 2024, U.S.-based institutions produced 40 notable AI models. China produced 15. Europe produced three. The Draghi report on European competitiveness called this the "innovation gap" and warned that closing it requires structural change at the EU level. Translated to PE casework: competitors outside Europe are deploying autonomous AI agents at scale, while most European mid-caps are still debating flat-rate licenses for their employees. Targets that do not make this jump within the next 24 months will fall behind in their competitive set — not gradually, but in a binary way.

The Investment Case: From DD to Multiple Realization

The consequence of everything above is operational: IT competence has to move forward in the deal process. Not as a richer post-closing roadmap, but as an integrated step before the price is set.

Step 1 — DD: IT as its own diligence track.

In most PE processes, tech-DD still sits as an annex to commercial DD. In growth cases, it has to run its own diagnostics (chapter 3) and produce its own findings. Without this step, the levers stay invisible and the price gets paid blindly. ***Tech is a DD track for every target, not just tech companies!***

Step 2 — From finding to investment case:

scope, cost, multiple effect. Before closing, three things have to be clear. First, the scope: which systems stay, which get replaced, which get integrated, and what changes in the processes and the organization around them. Tech transformation without process and organizational adjustment produces no measurable value. Roles, responsibilities and team sizes change — that is the point, not a side effect. Discovery belongs in front of this step: in every second case, it turns out only there that the actual problem does not sit in the system, but in the process upstream of it.

Second, the cost and timeline: based on our case work, 9 to 15 months of external implementation, with payback between 1.5 and 3 years in small- and mid-cap. Third, the multiple effect: external implementation costs are adjustable out of EBITDA over the implementation window, and personnel costs decrease in parallel. At exit, the buyer pays a higher multiple for a mature, data-driven organization. End-to-end digitization is the hygiene factor. A proprietary special sauce — for example a software tool built for a fragmented market — adds on top of that.

Step 3 — Post-closing: implement ASAP, so the stack carries the next phase.

The task is not for the stack to survive the holding period. The task is for it to credibly demonstrate that it will carry the phase after the exit. The next buyer is not buying an asset that just barely works — they are buying a platform that supports their own growth plan. The earlier the new architecture is in place, and the longer the company has been running productively on it, the more credible that demonstration is at exit. Pushing the upgrade into the last year before exit means selling a construction site, not an asset.

Let's challenge your investment thesis before you sign.

If your next case is moving toward LOI, the IT realities of the target are already inside your valuation — whether or not anyone has priced them in. Colayer reads those realities and translates them into scope, cost and multiple effect, before the price is set.

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