Private Equity International

# Operating Partners Interactive Working Groups

29 April | British Summer Time (BST)

## Virtually connecting operating partners in specific areas of interest

PEI

# The Operating Partners Working Group Day

The Operating Partners Working Group Day brought together over 100 operating partners to discuss specific areas of value creation in small group discussions. With the help of our partners, we have produced this report on the sessions at the event. Thank you to our sponsors and all those who took part in such fruitful discussions

# How value creation has evolved in the past year

Moderator: **Amit Vij,**
Global PE
Practice Leader,
**First Source**

**Alejandro Alcalde Rasch,**
Senior Director - Portfolio
Support, **APS Advisory**

**Fredrik Henzler,**
Co-Head Goods &
Products,
**Partners Group**

**Josephine Hus,**
Investment Professional,
**Permira Advisers**

**Amanda Good, Partner,**
Head of Global Value
Creation, Searchlight
**Capital Partners**

Amit Vij, head of the global Private Equity practice at Firstsource, facilitated a panel discussion last month of Private Equity Operating Partners. The discussion touched on priorities during the pandemic, ways of working, skill sets, ESG and use of third parties. Here are the key takeaways.

### Top themes: pace, flexibility, remote working and collaboration

"Speed of decision making has really accelerated. Conversations that were difficult to get off the ground 18 months ago are now at the forefront. Whether it's a decision on a digital initiative, the shape of the business, how you work, culture, all of that has totally been on the table. It's been really energizing for some management teams to have that impetus to make change quickly and make decisions quickly."

"One positive is the ability to do value creation remotely. For us as operating partners, that means a huge increase in productivity. Second, there was a lot of acceleration in terms of digital transformation. Some things that started prior to COVID or were really slow, have definitely taken pace."

"A lot of rules and suppositions have been thrown out of the window. The need for speed or to pivot has much stronger. Suddenly people realize what's possible: instead of debating for two or three years before you start changing anything, especially in German speaking companies, suddenly you can decide within two to three hours. That that is certainly something that we can take with us in future.

"In a lot of the portfolio companies that we worked with, it became much more of an all-in-it-together. Sometimes in the past they could feel like we were sitting at the back and just giving good advice used a carrot and whip to coach them into running faster going in new directions. It truly became a collaborative effort to get our portfolio companies out of this crisis as quickly as possible and back into normal mode."

### Implications for structure and skill sets

"Previously, our portfolio support group was made up of generalists, jacks of all trades. In 2019, before the pandemic, we realized we had two important gaps. One was digital and advanced analytics. This helps where consumer behaviors have changed, where we have companies needing proper ecommerce capabilities, and to speed things up and become more agile. The second was around HR: people development, people, recruiting and so forth. A third area, cybersecurity, became more important as we saw a lot of intrusion efforts into our portfolio companies during 2020."

"Digital experts, data analytics, and AI are key - we call this Value Creation 2.0. How do you go from being generalist, integration experts to become digital leaders? At my firm, our team of digital specialists has grown from one to six, all covering different aspects of digital and data analytics. We're hiring different types of people as well, such as engineers and data scientists, data architects, UX people. These specialists liaise with the tech teams of our portfolio companies to help them kickstart a project or kickstart the thinking of how they should look at data, how they should leverage their data, or what they shouldn't be doing. In some cases, we do a bit of analysis to almost pilot what the impact could be, and then hand it over to the teams or work with consultants to make this happen. I think having that kind of Centre of Excellence is a great resource to have for all the portfolio companies."

### Environmental, Social and Governance (ESG)

"ESG has gone from mainly compliance-based to negative selection, that is making sure that you don't invest in certain areas or topics. And not from just reporting, to improving performance. ESG has become fully embedded into the value creation. More and more ESG teams are part of the operating teams."

"For us ESG has gone from a tick-boxing exercise to being a differentiator and an important one. We evaluate ESG as part of our diligence in the beginning, and we structurally monitor ESG across our portfolio companies.

It is becoming a really important topic and is being demanded by LPs, and customers of our portfolio companies. I think we'll start seeing colleagues in the operating community who have ESG backgrounds."

"We track 12 different ESG KPIs across all of our lead investments, for example energy and waste per dollar of revenue. In the beginning, that was enough, but now clients count how many have improved over the last 12 months and challenge when they are flat or decreasing. This is good for us as owners, it's good for our clients, it's good for the portfolio companies, and it's also good for the stakeholders out there."

Managing costs to maintain value creation over the Covid period

"Costs was never our top priority last year. The immediate priority was safety, protect our people to keep our businesses running. The second priority was to meet our financial obligations, to pay salaries and serve credit facilities. So liquidity was key, and costs were part of that. The bigger issue for us was flexibility. Those who kept more flexibility could be much quicker off the blocks, and that was more important to us than optimizing costs to the final euro."

Contact for more info
**Amit Vij**
+44 (0) 7809 156045
Amit.Vij@firstsource.com
www.firstsource.com

> **Speed of decision making has really accelerated. Conversations that were difficult to get off the ground 18 months ago are now at the forefront.**

# Working Group A:
# Moving talent up the VCP agenda

Host: Conor Boden,
Senior Advisor,
Abu Dhabi Investment Authority and KLAR Partners

Warwick Nash,
Chair,
The Chemistry Group

With many private equity firms still in the earlier phases of institutionalising human capital functions, the remit of talent specialists remains varied. Focus areas range from building talent networks and recruiting board and C-level executives into the portfolio, and supporting management teams in areas such as employee engagement and organisational effectiveness, to developing best practices for PE firm deal teams to assist with talent assessment and board effectiveness.

### Pre-deal

For those involved in pre-deal activities, assessing a prospective acquisition's management team and culture is seen as both a challenge and an opportunity. Having a clear understanding of the management team's strengths and areas for improvement can provide benefits when identified as early in the diligence process as possible, but gaining an accurate picture of this can be tricky.

The participants in the working group agreed that the key to overcoming this is to devise a structured and systematic way of collecting information. This means providing guidance to colleagues who have contact with management teams so that they can record their impressions and submit their feedback in a more consistent and uniform manner, and then analysing and codifying that data so that it can be presented to the investment committee. This includes providing some signposts for deal teams to look for in more informal settings, particularly during times when competition for deals is high and opportunities to conduct more formal talent diligence are limited.

Presenting the collated data alongside competency-based checklists can help build out a more nuanced picture of the management team for the IC, identify areas of risk and how they could be mitigated.

### Post-deal

In the post-deal stage, developing a relationship with the management team, particularly the CHRO, is key. CHROs are, historically, an underutilised asset in portfolio companies, according to some participants in the working group. Bringing CHROs together to share best practice is one way in which PE firms can help add value across the portfolio.

Of course, not all portfolio companies have an existing CHRO in place or an HR function that aligns with the PE firm's growth plans. In situations where CHRO talent is scarce and firms are unable to fill the position, one option is to take a full-portfolio view and hire specialist advisors that can work with companies on a part-time basis, providing the benefits of scale and shared expertise.

Another issue facing talent experts post-deal is how to best handle situations where an existing CEO is not positioned to lead the company in its next stage of development. While support can be added via training and new hires to plug any gaps, these measures aren't always effective. To avoid losing time when a replacement looks necessary, participants suggested framing the conversation around odds of success: what are the odds of success by continuing in the current scenario? Can they be improved? If not, what is the opportunity cost of not acting decisively and effecting change?

The more objectivity and structure that can be injected into such processes, the better. Indeed, creating a shared structure and language for assessing performance that can be used by deal teams and portfolio companies, was identified as an objective that could provide significant advantages. Having a shared terminology could facilitate more productive discussions around talent management and development.

## Opportunities

In addition to the development of shared systems/language, ESG and diversity and inclusion are among the areas talent professionals are looking to focus on over the next few years, as investor pressure ramps up.

Other priorities include creating leadership models and tools for portfolio company management teams to tap into and, perhaps most importantly, continuing to build relationships both with portfolio company management externally and deal teams internally.

Author
Louise Fordham
Special Projects Editor
PEI
T: +44 207 566 5440
E: louise.f@peimedia.com
W: www.thisispei.com

# Working Group B: **How covid-19 & remote working is changing sales**

The working group on how the pandemic is changing sales had a lively and engaged discussion of the seismic shifts already seen and the opportunities and challenges for the future.

### Buyers and sellers locked down

At the start of the pandemic, the sales process was suddenly virtualised, with both buyers and sellers working from home. Existing sales models reliant on meeting people at conferences, walking the halls of customers, building face-to-face relationships, running full-day discovery workshops and shaking hands on deals were broken.

### We CAN sell virtually

The initial transition was, in general, surprisingly quick and successful for many portfolio companies' sales organisations. Digital enablement and technology adoption - which would otherwise have taken years - happened in weeks. It proved possible to sell any size and complexity of deal without being face-to-face. CFOs enjoyed the absence of travel and entertainment costs and salespeople discovered more hours in their working day. Buyers felt more in control. Webinars took off in a way they never had before and sales meetings became more frequent and shorter. Sales productivity often, contrary to expectations, went up.

### Not as easy as we thought

As the pandemic has continued, however, operating partners have been addressing multiple challenges. Some of the apparent increase in productivity turned out to be illusory as high volumes of customer interactions and digitally-generated leads often failed to convert to revenue growth in line with expectations. Some previously high-performing salespeople struggled to adapt and lacked the mindsets and skills to succeed in the virtual environment. Prolonged remote working, sometimes in a challenging home environment, has been hard for some to sustain without the buzz of the office and travelling to meet customers.

### Permanent value creation opportunities

Going forward, there was consensus amongst the group that none of their companies' sales organisations will be going back to things exactly as they were before. Instead, there was optimism that the best of the pandemic-related changes in sales will become

Host:
**Moti Shahani,**
Managing Director,
**Blue Ridge Partners**

Co-host:
**Josephine Hus,**
Investment Professional,
**Permira Advisers**

It's comforting to know that everybody has similar salesforce effectiveness issues and no-one has solved all of them.

permanent and will present major reinvention opportunities to drive long-term improvements in sales productivity and significant value creation.

There are still many unanswered questions. How to configure the go-to-market model for the emerging 'hybrid' environment of office/home working for both buyers and sellers? How to select and manage sales talent for the new ways of working? What new pipeline, activity, behaviour, planning and process metrics to focus on?

As one operating partner put it: 'It's comforting to know that everybody's got the same problems and no-one has solved all of them. This is like a therapy session!'

Contact for more info
Moti Shahani
Managing Director
Blue Ridge Partners
mshahani@blueridgepartners.com

# Working Group C:
# Working effectively with the investment team

Host:
**Susanne Vanner,**
Partner, Transaction Strategy & Execution,
**EY**

Co-host:
**Alejandro Alcalde Rasch,**
Senior Director - Portfolio Support,
**APS Advisory**

*We asked how operating partners can make themselves indispensable and work closely and effectively with investment teams.*

## Right-of-passage

Operating partners have had to 'earn their seat' at the decision-making table. Many have achieved this over the past 5-10 years. A minority still struggle for recognition from the deal team, despite exec committee support.

## Pre-deal prioritisation

All participants are involved in both pre- and post-deal phases, and having 'value-adders' as part of the pitch is helpful. But it can be a time-drain to work on deals that don't complete, so prioritisation is key. There is a need to make sure that you are really working on things that will make it to the investment committee.

## Operators on the board

A majority of operating partners take a board seat (63%), but the picture is nuanced. Most take a board seat for critical phases, but don't sit there for 7 years. For some, there is a constant re-deployment of resources across the portfolio.

Others say the observer role is a "more effective and happier part" of the job. That's because many operating partners act as mentor and coach to management. The mission is to help make the management team successful in the eyes of the deal team. Taking a board seat can complicate that.

There is some divergence on the right tenure of board involvement for operating partners. Some favour dropping in at inflection points – typically early-on and for exit preparation. Others believe it is important to be at all meetings, as a sounding board on general business issues, while the deal team focuses on more financials.

One middle-way is to bring in external sector veterans to complement more specialist functional skills.

### Attain recognition

Some saw the role of operating partners as getting a kick out of making someone else the hero. So how to demonstrate value? Ad-hoc performance improvement can be difficult to show and not everything is quantifiable.

Value will show eventually, but newer partners should focus on the tangible benefits. Turning around a problem-deal can make an obvious and large contribution.

In one example, when an investment director got feedback from a portfolio company CEO about something the deal guy wasn't even aware of – renegotiating a contract, say – that was seen as good PR.

### Strategic shift

There is a subtle but significant shift within PE firms – driven by 'agile' approaches – to be more systematic about the skillset at the table, as well as team dynamics. Some are hiring HR leaders to assess team capabilities and lead change. This more systematic approach could be a big driver of value over the next cycle.

**Susanne Vanner,**
Partner,
Transaction Strategy & Execution,
**EY**

Connect with Susanne: LinkedIn, Email

> **"Newer partners should focus on the tangible benefits. Turning around a problem-deal can make an obvious and large contribution.**

# Working Group D: **Building a roadmap for technological change**

Host:
**Catherine Sherwin,**
Managing Director,
**Alix Partners**

Co-host:
**Lisa Weaver-Lambert,**
Data and Digital
Operating Partner

The challenge of embedding digital change into wider transformation plans was discussed during a virtual roundtable event attended by a group of directors and partners of private equity firms.

A key area of debate was the importance of being able to quantify returns on digital investment. Several attendees argued there were few examples of large digital transformation programmes with a clear payback on the investment, particularly in non-digital sectors like heavy industry. It was also observed that, because large transformation programmes frequently take several years to implement, it can be difficult to quantify how much value has been created by the transformation alone, and how much is due to other factors.

One attendee remarked that there was a need for CIOs to be able to demonstrate more clearly, through data, how value is created or costs are reduced when implementing technological transformation.

Most attendees were agreed that large transformation programmes carry a higher risk of failure than multiple, smaller projects, and that larger, multi-year programmes can often become too complex for organisations to deliver, even with the benefit of private equity support and experience. In addition, for leveraged buyouts where a lot of debt is being placed on the company, it is essential there is a robust management team in place to oversee larger (and longer) transformation programmes.

On the other hand, there was acknowledgement that smaller digital change projects, such as upgrading and implementing new CRM systems, or improving data processing, can still deliver significant improvements and significant value.

Another recurring theme throughout the discussion was the importance of technological due diligence in informing investment decisions. Often this due diligence is not done in a meaningful way. There was consensus on the need to ask probing questions (as early as possible) about what stage a technological transformation programme has reached, how scalable the proposed solution is, and what value will ultimately be realised from it.

Often, the roundtable heard, the success of tech due diligence hinges on having the right people in senior leadership teams to whom these questions can be directed – people with an understanding of the role of technology in driving change. It is also vital that recommendations that follow from due diligence are acted upon, as there can sometimes be agreement on the measures needed, but without a clear mechanism for ensuring these are followed through.

Finally, there was discussion about how the status of a digital transformation programme – i.e. how close to completion it is - can influence investment exit strategies.

While there was broad agreement that investors would not be attracted by scenarios where a company was in the middle of, or just about to begin, a major system implementation, it could be advantageous to exit when a transformation programme has a little way left to run, as from an acquirer's perspective, that could represent further value yet to be realised.

One attendee remarked that they would not be concerned if a digital transformation was not finished, as long as they could see a positive trajectory and as long as those in leadership positions had the right mindset in terms of understanding and implementing new technology.

A key conclusion of the roundtable was that transformation programmes are likely to fail unless the right people and the right structures are in place. When such programmes work, it is usually because technology is a boardroom priority, and the CEO either has a deep understanding of technology or is at least inquisitive enough to ask the right questions and consider new approaches.

Contact for more info
Barney O'Kelly
UK Marketing Director
AlixPartners
D +44 20 7332 5050
M +44 7415 095874
bokelly@alixpartners.com

alixpartners.com | linkedIn | twitter | facebook

# Working Group E: **How to work with portfolio companies to create value through ESG**

A mix of generalist operating partners & ESG specialists came together virtually to discuss the growing importance of ESG within value creation in private equity. The operating partners who joined were in agreement that ESG is now partially or fully integrated into the value creation plan. It is now a business imperative for private equity firms to be able to implement and articulate their ESG policies to all stakeholders. The role of ESG in due diligence and the importance of making sure elements are reflected in the value creation plan are also increasing.

Being able to show the value of your ESG work on the bottom line remains a challenge and a member of the group asked how other participants are moving their ESG work to be more about enhancing value than reducing risk.

The group broadly agreed that bringing management onside is no longer an issue. With a modern breed of CEO and deal partner committed to ESG, there is no longer a need to convince. A number of participants spoke sustainability based KPI's being linked to bonuses and/or carry. With portfolio companies being set ambitious targets that unlocks carry if those targets are reached.

Diversity is a business imperative and the group agreed that there is no need to 'prove the business case'. A number of participants spoke of portfolio company initiatives such as a 'Women's Summit' where all portfolio companies were asked to invite 5 senior women. Improving inclusion once you have progressed with diversity continues to be a challenge. Allyship and reverse mentoring were both innovations that the group agreed were useful, whilst there were some comments that 'unconscious bias' training does not work.

With the COP meetings in Glasgow later this year, climate is increasingly a priority as asset owners are prioritising this with the development of the asset owners alliance. Members of the group spoke about carbon emissions targets and the challenge of setting targets when companies are growing.

An open discussion covering a lot of ground. It is clear that the operating partner of today is taking ESG seriously.

Author
**Charles Gould**
Head of Event Production and Strategy - EME
**PEI**
T: +44 203 879 3893
E: charles.g@peimedia.com

Host: **Amit Vij,**
Global PE
Practice Leader,
**First Source**

Co-host: **Shami Nissan,**
Head of Responsible
Investment,
**Actis**

# Working Group F: **Using digital and analytical tools to enhance procurement savings**

Host: **Jamie Loder,**
Director – Private Equity,
**4C Associates**

Co-host: **Riccardo Basille,**
Principal,
**Permira**

### Cloud Purchasing

Several GPs mentioned that they now have a dedicated team that are migrating their data into the cloud. In the technology land scape, the two key areas highlighted are:

- Supply Chain risk
- ESG

For ESG GPs are seeing a shift to data that enables and identifies areas where you can invest in order to deliver environmental solutions. This extends to cloud migration where they will look at the carbon footprint of the cloud provider. Another area that GPs are looking at is where they can work with suppliers of clean energy.

Several GPS raised the point that it is a struggle to use S2P in a way that ensures the appropriate standards are met by vendors with respect to ESG.

One of the operating partners said they had invested a lot in spend analytics which they had been selling to their portfolio companies on an optional basis but had now made obligatory for them to take part which is core to driving their ESG agenda. In other words the ESG agenda has been the driving force behind portfolio wide spend analytics which of course has much wider application.

### S2P Technology

4C Associates asked the participants if they were using one of the larger S2P companies (Coupa, Ariba, Ivalua) to cover their entire needs or rather were they using a mixture of specialist software.

One GP participant said they have used some or all of the three main providers in the past but found them disappointing. As a result, they use a mix of specialists and then bespoke programmes on Microsoft Dynamics.

One participant made the comment that they are conscious that S2P can only be used effectively with those who are trained to use the software and so without this training and implementation investment the value is often lost.

Another GP participant concurred with the view shared by others that the larger S2P providers are not attractive parties because of limited ability of procurement teams in the portfolio to cope with the technology upgrade and also the low level of returns from such a big investment.  This participant also noted that the companies in his portfolio using SAP and Oracle are not using the full functionalities that have been made available to them. Part of the resistance Patrick has found with onboarding these tools is due to the effort required to migrate onto these systems.

A procurement focussed operating partner stated that none of their portfolio companies are using the S2P systems. He believes that none of his portfolio companies are sophisticated enough to get value from them.

4C commented that many of the larger S2P providers are targeting mid-market companies and will offer simpler services at a cheaper price.

A GP operating partner commented that they have investigated a number of different procurement technologies but didn't find any that were compelling enough to accelerate.

Another operating partner said that having spend analytics across the portfolio allows them to monitor suppliers that are being used at scale across the portfolio enabling negotiations at scale with suppliers. They know what their portfolio needs from the data which allows them to go out to market a cherry pick the best vendors.

Other GPs reiterated that ESG has probably been the main driver of better spend analytics.

One participant stated that they are using Sievo for procurement data analytics but many other platforms available.

A procurement operating partner said they have looked at several S2P suppliers but found the solutions expensive so they are developing technology solutions themselves. Also they don't want to be held to ransom as they become more dependent on a S2P supplier. They run spend analysis during acquisitions and throughout the value creation plan.

One of the GPs stated that they place an emphasis on the proficiency of the procurement teams to handle the negotiations with suppliers so that they improve the maturity level and therefore the outcome.

### Working Capital and Cash Management

One operating partner commented that working capital and cash management has become an interesting area. This is about bringing the procurement and treasury teams closer together to achieve a better cash outcome for the company. For several of their portfolio companies, they manage early payment discounting and are looking at solutions for supply chain financing on a more regular basis. This is being helped by the available technologies that can automate some of the work required.

4C Associates referenced new technologies emerging that offer a range of solutions across the entire SCF spectrum (slide 11). This includes – discounting, invoice factoring and other debt products designed to drive working capital benefits.

One of the GPs commented that the digital part has been a challenge particularly with P2P systems. They have found for a mid-size business the benefit hasn't been worth the effort.

4C Associates asked if the participants had seen a barrier even with moving away from paper purchase orders for example?

One operating partner commented that this was the case. For example, they deployed one of the market leaders to install a P2P platform. The disappointment of that was they needed to also use optical scanning tech for paper invoices because they couldn't onboard all of the suppliers onto the platform. So they basically had some suppliers on the platform and some not leading to more admin than before.

Another operating partner agreed that the places where they deploy P2P tech is with large revenue companies, small EBIDA businesses.

One of the GPs represented in the discussion agreed. Their businesses are not large enough to gain the benefit of having a P2P platform installed. Furthermore, the people within the business don't have enough experience with implementing the tech.

**ERP**

4C Associates asked whether, when they are buying a business, where is their focus across the ERP suite?

A procurement operating partner stated that it was mainly on the sales (order to cash) but on the procurement part they are not very sophisticated.

Another operating partner stated that salesforce is around 90% of their portfolio companies. Coupa for example is in only 1 in 10.

One of the GPs represented said that it was very rare for a request for a P2P system in their portfolio companies. The majority of the focus is on the order to cash side.

An operating partner asked what they can provide to their mid-size companies so that the procurement team can negotiate better?

The answer from the floor identified better information, better benchmarking, better training and better cross organisational awareness as key skills.

A GP commented that they had found the most effective tool has been providing auction tools to the portfolio clients for free and assisting them with holding said auctions for the first few until they are comfortable. He was making the portfolio companies do it and pay for it themselves in the past, but this was found to be much less effective than providing it for free.

The final comment was about knowledge sharing across the portfolio and how this was one of the most powerful value drivers.

Contact for More Info
**Jamie Loder ACA**
jamie.loder@4cassociates.com
**4C Associates**
+44 7977456667

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Strategy & Marketing Consultants

# Working Group G: **How to improve customer retention and optimise for customer lifetime value – key principles & best practices**

Host:
**Mark Billige,**
CEO,
**Simon-Kucher & Partners**

Co-host:
**Marty Guinoo,**
Operating Partner,
EMEA Lead,
**Apax Partners**

### Introduction and framing

Well-understood 'text-book' view: businesses need to consider various acquisition, growth, retention and reward levers throughout the customer lifecycle to drive revenue growth and optimise customer lifetime value. However, Simon-Kucher research reveals that net dollar retention is very polarised, with the highest-performing companies driving>120% net dollar retention and ~1/3 of companies being in a 'bail water' mode where they have to constantly use acquisition to compensate for severe attrition. Acquisition, retention and monetisation are three vertices in a strategic pricing trade-off triangle.

### Solving the trade-offs through effective segmentation

- Getting the balance between retention, acquisition and monetisation levers right hinge ultimately on effective and actionable segmentation
- "Not all customers are equal" – particularly when it comes to retention, trying to keep every single customer and being scared to lose a single one is often the wrong strategic stance; some churn, if it is the right type of churn e.g. customers with high cost-to-serve, can in fact be favourable
- Key to ensure that actions such as price increases are done in a differentiated rather than 'blanketed' way
- Where customer base is diverse in terms of needs, differentiation of the product itself is key for retention

### Customer scoring model

- A multi-dimensional customer scoring model is critical to systematically drive customer-level actions
- Such a model needs to include not just size of

customer, but the nature of spend and behaviours e.g. product mix, cost-to-serve, growth, advocacy/referrals etc. – not who are the 'biggest' but who are the 'best' customers because these are more often than not, very different

- Such a model can ultimately underpin virtually all commercial actions and sales operations, including pricing actions such as discount guidance but also sales and service models e.g. level of service attention
- Same model can also be used to score new leads/prospects to drive differentiation in acquisition efforts

### Value of 'marquee customers'

- Customers that may not be the most profitable (in some cases, not profitable at all!), but may be critical to win the trust of other customers that trust that logo
- Often very difficult to determine to what extent it is worth sacrificing margin to retain these customers
- Difference between the profitability on a marquee customer and that which would have been expected from a non-marquee name customer with otherwise similar characteristics can be thought of as effectively a marketing cost (with commensurate expectations of return on that cost e.g. incremental sales)

### Loyalty programmes

- Key to first clearly define objectives: e.g. retention, increase transactional frequency (especially in a nonsubscription business), nudge purchases of specific products, increase total average spend, create virality
- In some sectors, loyalty programmes help businesses link customers to transactions/spend where they previously couldn't, e.g. restaurants, which unlock deep customer insight benefits
- Best-in-class loyalty programmes have benefits beyond the financial, e.g. priority service, status and experiential rewards (think lounge access in airlines)

### Lock-in value of long(er) contract lengths

- There tends to be ostensible "create customer lock-in" argument to strive for long(er) 3-5 year contracts by giving additional discount, but is this always the right strategy?
- It potentially adds an extra hurdle and risk to negotiations, and may not be optimal especially in a business where there is a low churn rate and customers that would naturally renew anyway, not to mention the potentially sacrificed price / annual price increases
- Self-selection problem – often the customers that do sign up to longer contracts are the ones that intended to stay for a long time anyway (and likely would've renewed / been willing to accept more annual price increases)

Contact for more info
Xi Bing Ang
Senior Director
Simon-Kucher
Mob: +44 773 8730 473
xibing.ang@simon-kucher.com

# Working Group H: **Board effectiveness masterclass**

Key points covered:

### What is the Core Purpose of Boards in PE?

- Shape and pursue strategy.
- Ensure financial goals in the PortCo are achieved.
- Manage risk appropriately.
- Align management team talent and structure with investment goals.
- Protect reputation, "stewardship" of the company (more EU vs. US).
- Provide supplemental "problem solving" through Board expertise (much more US vs. EU).
- Forum to make major approvals of capital, talent & structure.
- Provide focus on connecting to innovation and market evolution.

One take away: Europe-based PE Boards are more about "behaviour and stewardship" while US-based Boards are more about "expertise" and "problem solving". Ultimately the end goal is the same, maximise investment returns, but using a different playbook and mindset to get there.

### Does size, scope and maturity of the PortCo impact Board effectiveness?

In a word, yes, and substantially. Reasons for this are:

- Smaller, founder-led companies can often dominate the Board with "allies".
- Mature PortCos are often on their second or third version of the Board and have course corrected their way to more precision and Board effectiveness.
- Small organisation's Board are often very small (3-4 members) and have zero independence.
- Larger companies (especially in EU-based PortCos) have larger Boards, NEDs and much more formal roles and mindset.
- The template investors bring to a Board's composition and governance can also enable effectiveness – the more clarity the firm brings in expectations and mechanics for the Board, the faster the transition to effectiveness.

### Where does Corporate Governance fit in Board Effectiveness?

It is always part of any effective Board.

- This should be first, but take as little time as possible. It should be a maximum 20% of a Board's focus,

Host:
**Phil Whichello,**
Director, Head of Private Equity (EME),
**YSC**

Co-host:
**Elizabeth Wallace,**
Head of Portfolio Talent,
**Hg**

unless there are problems.
- If you go back in time PE underserved governance, now in Europe especially governance is a Board core function.
- COVID has increased governance: Boards are putting a higher focus on purpose, care, empowerment, health and wellbeing.
- Attention put by investors on key topics like ESG has also created greater momentum around Governance.
- Ultimately Board sophistication matter greatly both for governance and for overall Board effectiveness.

## Do you measure your Board's effectiveness?

- Sometimes, usually based on performance and/or perceived dysfunction. The size of the PortCo/investment, and the sector in which it sits, will also drive the level of measurement.
  - Light touch:  do some interviews, conversational diagnosis.
  - Medium touch:  launch a formal "review" with some data and some structure.
  - Strong touch: big concerns about the Board, collect formal data, surveys and structured interviews.
- When PE firms dig into this topic, many Boards will self-indict as "not as good as we need to be".
- There is an overall theme that this should be done more and with more formality.

## What is the future of PE Boards and Board Effectiveness?

- ESG Performance will increasingly drive overall investment and community value.
- DEI is more of a concern.
- PE Boards will still have regional differences (steward vs. problem solver).
- "Performance Plus" will be the new standard of measure for PortCos, financial return PLUS some ESG return/benefits as well.

For more information to that provided in the session from YSC's recent research into how Boards can be a value drive for Private Equity, please contact Phil Whichello.

**Phil Whichello,**
Head of Private Equity (EMEA),
YSC Consulting,
phil.whichello@ysc.com
Mobile: +44 7932 240997

**Elizabeth Wallace,**
Head of Portfolio Talent,
HG Capital
Elizabeth.Wallace@hgcapital.com
Phone: +44 20 7360 9206;
Mobile: +44 79 2027 2934

# Working Group I: How PE firms can create value through digital transformation

Host: **Srinivasaa HG,**
VP, Europe Business Head, Digital Engineering & Appl Services,
**Wipro Digital**

Co-Host: **Gregory Salinger,**
Chief Digital Officer,
**Apax Partners SAS**

Over the last 12-15 months, the world we know has shifted significantly – from how we lead our daily lives with family and friends, to how we work; from the way enterprises connect with their customers and suppliers, to the way our emergency services serve the nation and our local communities. The pandemic has accelerated the need for businesses to be digital first.

In the private equity world, deciding what type of digital transformation to invest in; can set the portfolio company for a brighter digital future if it is rightly done.

In this discussion, the group looked at how the pandemic may have impacted the way investments are made, approach taken and also the pace of execution when it comes to digital transformation within organisations.

Initially, three key observations were brought out by the group around how digital interventions and how transformational levers have shifted from pre-pandemic levels to now:

- For those organisations where digital was just there to help keep the organisation running, there was an overnight shift to seeing digital as the key driver to doing business. For example, shifting staff to remote working, going purely online to sell retail products. For some it was seamless, for others it was more complicated, and the organisation's digital maturity had a big part to play.
- The pandemic has been a big accelerator for digital transformation with an increase in innovation and a move to more agile ways of working. In the B2C world the shift may have been incremental with moving to a true omni-channel

approach for retailers for example, whereas for traditional B2B organisations this has been an opportunity to reinvent the way they work and accelerate their digital transformation roadmap by 2-3 years. The gap has been widened between those organisations who were already ahead in digital and those lagging who are still trying to get the foundations in place.

- The stakes on digital transformation have increased – customers expect seamless online experiences on the front end but also expect the back end to integrate perfectly to ensure an overall positive experience.

From a PE fund perspective, this is an opportunity to accelerate the transformation of portfolio companies and reinvent their operating models. This is the time to look at where in the business they can reallocate resources, where they can accelerate more advanced initiatives such as leveraging data and AI and look at how the organisation truly operates. By evaluating these aspects, it allows the PE fund to articulate an integrated value creation plan that is digitally enabled in every part of the business.

It is clear that some businesses already have digital initiatives under way including RPA to take away nonvalue adding tasks from staff but also AI which can help with elements such as tracking movements in the marketplace and pricing.

However, is digital transformation just a buzz word? Should it just be transformation? Every project needs to and will incorporate digital – it is about improving efficiency, costs, and spearheading growth.

One member called out that in mid-cap organisations, showing ROI for any investment is key to the Board and management team as often there seems to be a lack of understanding as to how the investment will benefit the organisation without this key metric. This is easier with technologies such as RPA where it is straightforward to calculate productivity metrics, however with initiatives such as CRM, which is key to the customer journey, it can be more difficult. Perhaps positioning this as an opportunity to gain competitive advantage and stay relevant is the way forward and that enabling digital initiatives are a key way for customers to see the organisation as a digitally enabled market leading player. It is safe to say that businesses that invest in digital will also yield higher multiples upon exit and will ultimately ensure that the business has a modern technology platform to drive growth more effectively – whether that be in the form of agility through a modern architecture, easier to integrate bolt on acquisitions etc.

Calculating or estimating the impact on the top and bottom lines can be done roughly, but fundamentally those organisations who are more digitally advanced tend to have better financials and a higher growth trajectory.

At the end of the day, it is a strategy conversation and one that needs to happen horizontally across the business with the backing from the CEO, management team and PMO function. The only way to drive true impact is to have the whole business aligned and horizontal views across the different business functions. In one member's experience there is a distinct lack of coordination between the consultants, IT service providers and portfolio organisations who must work holistically together to enable a customer centric and digital first operating model that is fit for purpose. Perhaps a dedicated Transformation Office is the key.

The discussion then moved onto sustainability where the feeling was that it is a topic central to the agenda of forward moving businesses, but it hasn't necessarily been heavily impacted by the pandemic. Consumers are increasingly looking for businesses to be transparent on their sustainability and carbon reducing activity and goals and those who are embracing this are seeing increased loyalty and a slight competitive edge, however the jury is still out on whether this is a revenue accelerator. A comment was made that ESG practices can influence participation in or progressing in RFPs, so the view is that it can be a big risk in terms of value creation down the road, but if done properly, ESG can be an accelerator in the same way as digital in terms of value creation. Those who have embraced sustainability and moved away from 'good enough' will do well.

An open and engaging discussion highlighting how critical being a digital first organisation is in the current environment and to future investments.

Contact for more info
**Srinivasaa HG**
Vice President, Europe Business Head
**Wipro**
+44.776.803.3144
[srinivasaa.hgs@wipro.com](mailto:srinivasaa.hgs@wipro.com)

> **The pandemic has been a big accelerator for digital transformation with an increase in innovation and a move to more agile ways of working.**

# Working Group J: **Value creation in times of uncertainty**

Host:
**Dave Sharman,**
Partner – Value Creation Services,
**Deloitte**

Co-host:
**Mark Saunders,**
Chief Executive Officer,
**Mamas & Papas**

Mark Saunders is the CEO of Mamas & Papas, a UK-based retailer of parenting goods. Mark talked about his experiences turning around the business's performance both before and during the COVID pandemic.

Prior to his appointment, M&P was suffering from a lot churn in the executive team, a lack of future direction and several failed attempts in the past to implement cost reduction projects. During Mark's tenure as CEO, M&P has gone from negative to positive EBITDA whilst also navigating through the challenges posed by the COVID pandemic. Mark attributed the success of the turnaround to three key elements:

**1) A good plan that was well executed:**
M&P brought in Deloitte as external advisors to help them with their turnaround plan. But compared to previous attempts by the company to turn around the business, the key to ensuring that this time was a success was a relentless focus on executing as many items on the plan as possible. For example, there would be regular sessions to go through the plan on a line by line basis to ensure thorough scrutiny on implementation progress.

**2) Decisive decision making:**
M&P made the tough decisions as fast as possible and then moved quickly to implement them to ensure business continuity. For example, days before the first lockdown, Mark made the decision to reduce working hours and salaries for everyone in the organisation (including the exec team), then very quickly communicated this to everyone across the business and implemented soon after allowing for cash preservation at a critical time.

**3) Some good luck:**
One of M&P's largest competitors went into liquidation and other related competitors reduced their presence in the market allowing for an increase in market share.

**Concerns about the near-term operating environment:**

Expecting a large amount of job losses when the furlough scheme ends and a tough 12 - 15-month operating period in the UK economy.

Continues to be uncertainty for the global economy regarding COVID as other countries are battling through their second waves.

Many businesses are having a tough time forecast/modelling the near-term future. Trying to think about how demand will ramp up and whether it will be a temporary or permanent boost is currently difficult to determine and causing stress on existing forecasting algorithms.

Another concern in 2021 has been the rise of shipping costs. Whilst Q1 saw the height of the spike, it is expected that the average increase in shipping costs is here to stay for the near-term future.

**Using the crisis to your advantage:**
Prior to the pandemic M&P had successfully reduced some of its property costs, however, the COVID crisis forced them to take even more cost out. Although over the first two lockdowns landlords were reluctant to cut rents, by the third lockdown M&P had successfully convinced some landlords to reduce rents for the lockdown period or provide deferrals. This was achieved through a mix of tough negotiating and opening the management accounts so landlords could partner with the business to offer a reasonable compromise.

The pandemic also allowed M&P to move faster with their decision making. For example, whereas in the past decisions might have been delayed due to lack of people's availability or meetings being postponed, the pandemic created a real sense of urgency that allowed the business to get on with implementation as fast as possible.

Although the lockdowns prevented trading within their stores, M&P used it as an opportunity revamp the interiors.

**Remote working trends:**
M&P are going to move to a 2 day from home working arrangement going forward and will trial this for a 6-month period.

However, there is general consensus that many people will want to return to the office for at least a few days a week and that this is particularly valuable for more junior colleagues where face-to-face interactions and learning is crucial to their development.

But some structural shifts seem like they will stay such as younger workers living in lower-cost locations and commuting to high-cost working locations for a few days per week.

**Digital pivot:**
Like many businesses, M&P had to accelerate their digital pivot to pick up sales online to make up for the loss in retail. However, going forward, the future is likely to be a better blend of omnichannel where customers are using physical retail locations to make purchasing decisions which are then executed through online platforms.

For example, following the latest lockdown, online sales have grown in proportion to retail sales suggesting that customers have been visiting stores to identify purchases they want to make and then ordering through the online platform.

Contact for more info
Dave Sharman
Partner - Value Creation Services
Deloitte
dsharman@deloitte.co.uk