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Camino Search

VALUE CREATION

The role of operating partners and commercial finance teams in value creation

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Value creation planning is key in private equity (PE); it plays a crucial role in enhancing investment value, boosting profitability, and achieving higher exit valuations.

This article is the first of our mini series looking at value creation in PE and the role of the operating partner. Coming from a broad human capital and commercial finance angle to the topic of value creation, this article will discuss the varying structures of value creation teams, as well as common practices and preferences within PE firms.

People, processes, and technology are the key levers for value creation that a PE fund will look at.

There are many layers to value creation that are best used in tandem, providing essential flexibility and resilience to effectively navigate turns in the market and planned growth or transformation.

These strategies include but are not limited to the following:

Mergers and Acquisitions
Facilitating strategic acquisitions to increase market presence, diversify product lines, and achieve economies of scale.

Reducing Cost Base
Reducing expenses through better procurement practices, outsourcing non-core activities, and streamlining operations.

Revenue Growth
Expanding sales through new product development, market entry, and improved marketing strategies.

Efficiency Gains
Implementing lean processes, optimising supply chain management, and leveraging technology.

Sales Function Improvement
Enhancing the effectiveness of the sales force, refining sales strategies, and investing in sales training.

Capital Structure Organisation
Refinancing debt to lower interest costs and adjusting the debt-equity ratio.

As a headhunter specialising in PE, it's impossible to overlook the pivotal role that talented executives and management teams play in driving value creation within portfolio companies. People are the key differentiators.

Value Creation Teams

In the context of PE portfolio companies, dedicated professionals are employed to enhance value creation, whether as part of a team or as individual operating executives and advisors.
Where there are dedicated teams focused on value creation, they will take one of two forms, either consisting of a group of generalists, or a collaboration of individual specialists covering complementary elements such as FP&A, pricing, systems transformation, and M&A.

PE funds such as Hg Capital, Francisco Partners, and Thoma Bravo typically have large value creation teams of advisors and operators that they deploy throughout their portfolios.

These are typically ex-operators who have grown PE backed assets, seen challenging times, managed successful exits and have been hired via a very thorough process by the PE asset with their playbook in mind, or ex-generalist consultants from leading consultancy practices.

When interviewing operating partners for this article, I discovered that for smaller fund operators targeting a new sector, the operating partner role will include due diligence as well as portfolio company work.

Within each asset they will assess whether the team is ready for the next stage and get them to where they need to be. Addressing the need for development post investment/acquisition.

Traditionally ex-Bain or McKinsey consultants were preferred, but in my experience there has been a huge shift towards utilising ex-operators following their successful portfolio career within these value creation roles. We've also seen a trend of ex-operators transitioning into investor positions that enable hands-on involvement in portfolio companies.
These portfolio operators provide direct support to portfolio companies, often taking interim C-suite roles while the team is being upgraded or upskilling first time C-suite leaders. For example, a first time PE CFO will often have a former CFO operating partner to lean on, someone who has been through several successful PE cycles and can implement the PE playbook.

> *"Recent uncertain times have seen more operators parachuted in to help distressed assets. We've seen an increase in exercise churn, C-suite processes taking longer, and a shift in the desired skill set compared to 2020 times."*

This partner will act as a mentor, analyse the business metrics and perform leadership team assessments amongst other duties. Often the topics of improvement discovered are simple to resolve but tricky to recognise as an executive within the business every day.

Recent uncertain times have seen more operators parachuted in to help distressed assets. We've seen an increase in exercise churn, C-suite processes taking longer, and a shift in the desired skill set compared to 2020 times. Operating partners are trusted by investors to take on the interim position rather than risking hiring a C-suite executive that they are not 100% keen on.

Outsourcing is the alternative, with firms bringing in external consultants and advisors to assess and enhance their portfolio companies either on a project or retainer basis.

The Role Of Finance

The commercial finance function acts as a strategic partner for the PE firm, integrating financial strategy with operational efficiency to drive growth and maximise returns. It guides investment decisions, enhances revenue strategies, and optimises costs to improve profitability and the financial health of the portfolio company.

Financial Planning and Analysis

Access to accurate and real-time data on financial performance, including revenue trends, profitability drivers, and cost structures is essential for the optimisation of resources, evaluation of investment opportunities, driving efficiency, and achieving long-term growth objectives.

Commercial finance teams lead the development of annual budgets based on strategic objectives and financial forecasting. They proactively collaborate with departmental heads to align budget allocations with business priorities and ensure financial resources are optimally allocated and have capacity to adjust in response to market dynamics.

Strategic Pricing

Pricing strategy is one of the biggest levers for growth in PE, ensuring that pricing models are optimised to maximise revenue and profitability. "Pricing is a major focus for PE funds in an effort to counter inflation and ensure sustainable growth, setting prices that maximise revenue while considering costs, competition, and customer value to ensure a balance between financial goals and customer satisfaction," says Senior Talent Partner, Muneeb Mir.

At Camino Search, when we're taking post PE investment mandates, the investors often make us aware that pricing alterations will be the key differentiator in their value creation plan, increasing customer retention and driving profitable revenue growth.

Human Resources Management

Commercial finance professionals collaborate with HR teams in headcount rationalisation and workforce planning. They ensure the right talent is in place to drive growth and review compensation packages as retention tools conducive to maintaining a motivated and committed workforce.

They collaborate with HR to align performance goals with business objectives and assess the ROI of training and development initiatives, ensuring investments in employee skills and capabilities contribute to business growth and profitability.

Mergers and Acquisitions

Pre-aquisition, the commercial finance team conducts thorough financial due diligence on potential acquisition targets. They assess the target company's financial health, including its historical performance, financial statements, cash flow projections, and potential risks to evaluate the strategic fit and financial implications of the acquisition.

Post-acquisition they oversee the integration of financial systems and processes between the acquirer and the target company, significantly impacting the success of the merged entity. From harmonising accounting practices to consolidating financial reporting, and ensuring compliance with regulatory requirements and accounting standards.

Systems Process and Optimisation

Selecting and deploying the right financial systems that enhance efficiency, accuracy, and transparency in reporting and operations is a key area of focus in value creation. The finance team will evaluate options based on organisational needs, scalability, integration capabilities, and cost-effectiveness, then oversee their implementation and integration.

Capital Structure Optimisation

Commercial finance teams analyse and optimise the capital structure of portfolio companies, balancing debt and equity to minimise the cost of capital while maximising financial flexibility. This involves refinancing existing debt to lower interest costs, managing working capital, and optimising cash flow.

They develop financial models to simulate various capital structure scenarios and assess their impact on financial performance and shareholder value.

The Private Equity Playbook

PE funds adopt a structured approach to value creation, focusing on enhancing the operational efficiency and strategic positioning of their portfolio companies. This involves applying strategic initiatives and best practices from previous successful portfolio companies, known as the PE playbook, from go-to-market strategy, to sales process improvements, talent development, acquisition integration and customer success to name a few.

Following a recent conversation with a PE operating partner in my network, we agreed that "optimising individual functional areas yields modest growth, but optimising all areas simultaneously creates a multiplier effect that drives hyper-growth." The key to significant growth lies not in perfecting planning, sales, marketing, R&D, operations, or human capital individually, but in excelling in all these areas at once.

With the exception of dealing with a distressed asset, funds will adopt a 100-day look around period instead of a rigid 100-day plan. They conduct value creation workshops, engaging with operating teams, sales, and executive leaders, setting aside predetermined agendas to gain insights into why things are the way they are.

Value creation strategies vary between high-performing and struggling assets. "In a high-performing asset, the approach to value creation focuses on alignment with the CEO's vision, providing top-down support, and fostering a collaborative environment where coaching is essential. The goal is for leadership to feel ownership of the plan and to develop solutions with guidance. In contrast, a struggling asset requires a more prescriptive approach, often involving changes to key senior leaders and a directive rather than a coaching style", says a PE operating partner in my network.

Similarly, there's a notable difference in dealing with experienced versus inexperienced executive teams. In my experience, inexperienced executives tend to love a hands-on approach, such as the notoriously structured playbooks from Thoma Bravo and Vista Equity Partners, where they're learning from the best sponsors in tech. Experienced operators on the other hand, can find this quite suffocating.

In the next edition, on July 25th, we will explore in more depth the role of private equity operating partners. For more information on value creation, please contact Harry Hewson.

Camino Search

Value creation.
Powered by people.

About Us

TALENT THAT TRANSFORMS BUSINESSES

Camino Search is your trusted partner and advocate in the market. Your success is our priority, and we're here to support you every step of the way.

From advising start-ups and SMEs on their first finance hires through to full team builds, we source the industry's leading talent through our extensive network, cutting-edge software and data-led market analysis.

We are committed to working at pace without compromising on quality, consistently maintaining efficient yet thorough processes, leveraging our international and regional networks.

More than just recruiters; we are true talent partners and trusted advisors, guiding both individuals and organisations towards their goals, dedicated to making a meaningful impact.

The Author

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