As a private equity professional, this scenario may be all too familiar. You acquire a company with tremendous potential for organic and add-on acquisition growth. The confidential information memorandum presents an attractive investment thesis and the financials are sound. But the headwinds of institutional muscle memory, legacy technology and the desire to maintain the status quo are much greater than expected, slowing down the change that’s critical to your strategy and exit timeline. The 100 day plan first stretches into months, then into years.

Buyers struggle in this situation, as they try to manage the competing priorities of growing the business, completing add-on acquisitions and increasing the multiple, while confronting antiquated, unwieldy legacy systems and growing an organisation that is resistant to change. Given these challenges, how do you efficiently and systematically create value?

**FOCUSBING ON GROWTH**

The best way to focus your thoughts – and investments – on creating value is to use a growth framework. This framework should address what matters most to the investment thesis, and help you to be more deliberate about the actions you will – and just as crucially, won’t – take.

Although the leadership and work needed to drive change can be difficult and time consuming, analysing and prioritising your efforts does not have to be. The Value Creation Framework (see panel) is a useful tool in understanding what drives value in your target or newly acquired business.

Using the framework means taking thoughtful decisions about each area, represented by each box. This allows you to consciously address all the relevant areas of the business and decide whether or not to take action. Often, private equity professionals are quick to intervene in the parts of the business where they have relevant experience or recent knowledge, but hesitant to address areas of unfamiliarity or ambiguity. These blind spots can be areas of significant value, and without targeted attention, they can be significant sources of delays.

Financial due diligence is a fundamental requirement of banks and investment committees during a deal process, with a Quality of Earnings report used to justify the value of the business. But full operational due diligence is not usually the norm. That’s where the Value Creation Framework can serve as an important tool, outlining 11 areas of the business, both front and back office, that are critical to unlocking the full value.

**REPLET WITH VALUE**

Regardless of the industry, front office operations include the executive office, design and development, sales and marketing, product/service delivery and customer service areas. These may or may not be distinct organisations, but as business process areas, they are replete with value levers.

For private equity buyers, an operational due diligence traditionally focuses on industry benchmarks such as order management costs, total supply management costs and IT spending as a percentage of operational expenses. While these benchmarks are useful, a specialist in operational due diligence will provide a more in-depth perspective. This includes a baseline analysis and value realisation exercise that helps identify opportunities and synergies, plus scenario planning and financial modelling.

Technology is central to the framework, and should be considered as part of both the front and back office. Without the right
technology, it will be virtually impossible to meet the growth objectives, cut costs and remain compliant, and forecasts will become more laborious. Social media, mobile platforms, analytics and leveraging the cloud are primary drivers of new value in the digital era – even in more established industries.

The back office consists of finance/accounting/tax, risk, human resources, legal and facilities & equipment. A strategic business decision generally takes into account the full financial, human capital and facilities/equipment ramifications. But risk is especially important, as indicated by its tendency to make the headlines. This makes the safety of a business’s intellectual property and consumer data a fundamental question in due diligence. Is your target PCI (payment card industry) compliant? Does it need to be? Has the company been hacked? Have they recently conducted a network or website penetration test to demonstrate how they have limited their vulnerability? Overall security and privacy should be as important to your diligence as the financials.

A full operational due diligence report does not have to include every aspect of the business, as long as the omissions are deliberate choices rather than accidental oversights. A full report is one that considers all the important aspects that contribute to the deal’s decision-making process. Full diligence helps provide clarity to a 100 day plan and the rough order of magnitude (ROM) sizing, including the required timing, effort and investment for value creation.

**POST-CLOSE PRIORITIES**

Post-close, the real work begins. As part of a 100 day plan, you should use your newly acquired access to every area of the business – all of its people and data – to adjust your targets, timing and expectations. This analysis phase is critical to validate your assumptions and address the all-important and time-honoured pillars of people, process and technology. Your proposed process changes will drive the technology change, which the organisation must be able to absorb and embrace.

After the initial changes, maximising portfolio value should involve additional deliberate actions instead of just watching the business grow EBITDA and exceed core industry benchmarks. Don’t overlook state and local tax incentives to optimise tax savings. Effectively outsourcing commodity human resources, finance/accounting and technology functions can support your add-on acquisition strategy and increase the value, particularly to a strategic buyer. Establishing a programme that includes internal audit, the proper certifications (e.g., PCI, SOC/SSAE/SAS, etc.) and external penetration testing demonstrates attention to detail and a lower risk profile to a potential buyer.

The deal process should include full operational due diligence and rough order of magnitude sizing. Using a comprehensive and repeatable framework for operational due diligence will assist in assessing all aspects of the business, including core operations, technology and the back office. You may not need to address every area with specific action. But the framework will allow you to be more deliberate in considering critical parts of the business, and to develop and coordinate a comprehensive 100 day plan that focuses less on the 100 days and more on those areas that drive specific value in line with your exit strategy.