How Commercial Excellence Jump-Starts Growth in Private Equity

The ability to ignite revenue growth is separating the best from the rest.

By Jason McLinn, David Burns and Mark Kovac

BAIN & COMPANY

This Bain Brief is excerpted from the Bain & Company Global Private Equity Report 2018, which was prepared by Hugh MacArthur, head of Bain & Company's Global Private Equity practice, and a team led by Brenda Rainey, director of Bain's Global Private Equity practice, with contributions from Johanne Dessard.

Jason McLinn is a partner in Bain & Company's Customer Strategy & Marketing and Chemicals practices. David Burns is a partner in the Customer Strategy & Marketing and Industrial Goods & Services practices. Both are based in Chicago. Mark Kovac is a partner in the Customer Strategy & Marketing practice and leads the global Commercial Excellence group. He is based in Dallas. All three work closely with private equity funds.

In 2014, Swedish private equity firm EQT turned its sights on Bureau van Dijk (BvD), a global information services provider headquartered in Amsterdam. Over the next three years, BvD's revenues grew at 10% compounded annually, while earnings before interest, taxes, depreciation and amortization (EBITDA) stayed strong, with a margin above 50%. Those results caught the attention of Moody's Corp., a strategic buyer that saw huge value in BvD's data business. Moody's ended up paying €3 billion for the company, with plans to expand its platform into the US and Asia. The successful exit handed EQT an outperforming return on a company it had owned for less than three years.

At the heart of EQT's success: a dedicated focus on developing commercial excellence capabilities such as sales, marketing and customer segmentation. EQT and other PE firms are finding that improving their portfolio companies' commercial capabilities raises the odds of organic growth, which has become an essential component of deal success.

At the heart of EQT's success: a dedicated focus on developing commercial excellence capabilities such as sales, marketing and customer segmentation.

With a record amount of capital chasing too few affordable deals, general partners (GPs) are under pressure to rethink how they evaluate and seize opportunities. Historically, PE firms have leaned heavily on cost-cutting strategies to underwrite future value projections and square their deal models. Or they've assumed that economic growth and other sources of market beta would be strong enough to propel multiples forward. Today's macroeconomic and competitive conditions, however, challenge either approach. In most markets, slowing economic growth or the outright threat of recession suggests that multiples are more likely to retreat from current record highs than to expand even further. At the same time, the most obvious cost-cutting opportunities are typically baked into inflated asset prices or have already been captured by a previous PE owner.

What's typically *not* baked into the price is the ability to deliver profitable organic growth—and to do it quickly. That involves focusing value-creation efforts on the top line and developing commercial excellence capabilities to help portfolio companies sharpen how they approach their chosen markets. Boosting revenues, especially in the face of economic headwinds, is unquestionably harder than improving a company's cost structure, because it often poses complex questions about which products to offer, how to price them effectively and how to optimize the sales effort. But accelerated top-line growth has the most powerful impact on exit multiples, which means that spotting growth opportunities early can help GPs bid for companies more confidently, generate more value post-acquisition and exit more easily.

Finding a route to growth

EQT's experience with BvD illustrates what a winning growth-oriented strategy looks like. When EQT bought the company, BvD had spent the prior decade under the ownership of three separate PE firms. The previous owners had expanded into untapped markets by taking advantage of a strong wave of demand for financial database products like BvD's trove of information on 200 million companies. They had also lifted EBITDA margins significantly. Given these improvements, it wasn't immediately obvious what else could be done to create meaningful new value in a short time frame.

EQT, however, saw ample opportunity to improve the company's commercial organization. Shortly after the acquisition, EQT and the senior management team

By moving well beyond straight cost reductions, nearly every company can improve both the top and bottom lines by serving customers with a simplified business model that reduces time to market.

embarked on a commercial acceleration program managed by a newly appointed global head of sales. The leadership team immediately reworked the customer segmentation model to reflect a detailed analysis of which clients offered the most value globally. It also surveyed customers to find out what really mattered to them and how to maximize value over the life of the relationship. This research guided efforts to prioritize customer groups and devise a tiered sales, service and pricing model to ensure that the organization spent significantly more time and resources on accounts with the most potential.

Next, leadership turned to how the organization approached customers. It aligned the sales team to the new key account structure, allowing the company to deploy salespeople with specific subject-matter expertise and other specialized skills where they were needed most. Based on a bottom-up review of what was working best, it also created consistent marketing strategies suited to the different account categories and developed a new account planning template to focus the entire team on the same winning tactics. Paying careful attention to how much buy-in this new system was generating, the leaders revamped the sales organization to better fit the new go-to-market approach and created a more attractive career path for junior team members. BvD also instituted an employee Net Promoter® program to measure loyalty and advocacy among the people the company was counting on most to carry out the new strategy.

Each of these moves contributed to the results that prompted the sale to Moody's and the strong exit.

Hard work, big payoff

Our experience suggests that nearly every company can improve both the top and bottom lines by serving customers with a simplified business model that reduces time to market. In a business-to-business (B2B) setting, we typically see a 10% to 20% top-line acceleration, and a 10% to 15% EBITDA uptick, when companies target multiple commercial capabilities, and even bigger benefits when they infuse digital tools or processes. Our analysis also demonstrates that median return on investment is 20% to 30% higher when companies use a commercial acceleration program vs. simply improving costs *(see Figure 1)*.

Figure 1

A combination of commercial acceleration initiatives can produce significant value

Discrete and focused initiatives
Increase share of wallet with priority clients to reach full potential
Refocus channel programs and incentives
Identify the most profitable segments and stop overserving laggards
Exploit attractive adjacency markets
Implement controls to limit price leakage
Adjust pricing relative to perceived value and "true" profitability
Analytically derive and reinforce winning sales rep behaviors

Benefits	
Top-line acceleration	10%–20% top-line improvement
Margin expansion	10%–15% EBITDA uptick
Exit multiple growth	20%–30% deal ROI improvement

Source: Bain & Company

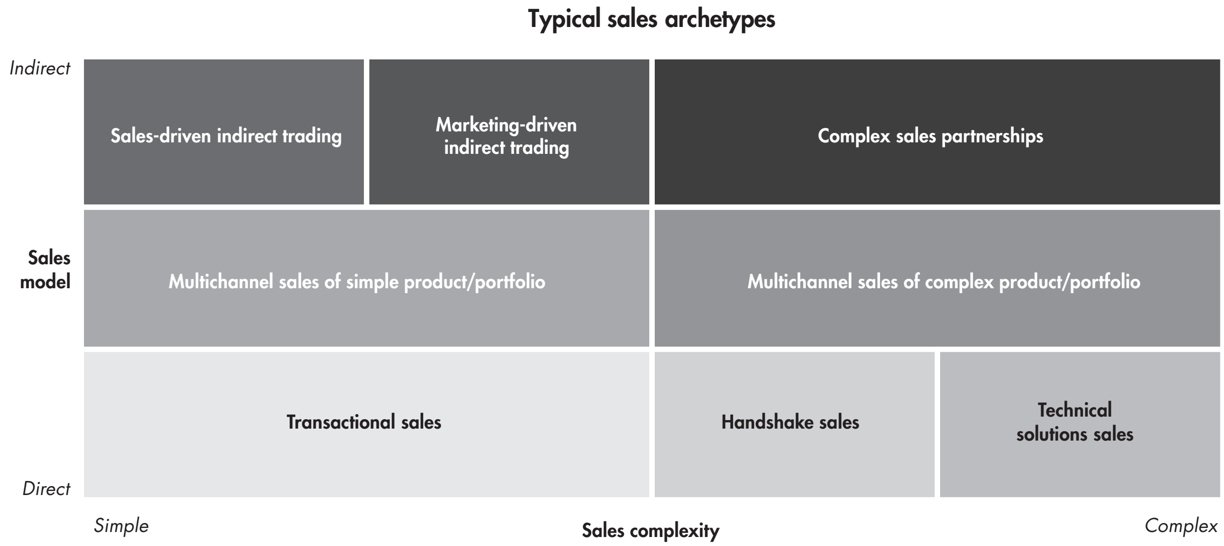
For most PE firms, this requires developing new capabilities as well. Many factors affect revenue growth, from the strength of the company's overall vision to the most basic frontline interactions. The sheer complexity of the issue is one reason PE firms have tended not to focus much on the go-to-market model. They often perceive that commercial acceleration is more art than science and that targeting these capabilities would take too long, be too risky, and require a deep change to culture and mindsets. By contrast, cost reduction is more straightforward and easily measured—you know what you're starting with, and you know where you'll end up if you execute a few tried-and-true efficiency strategies.

Firms that have learned to spot deficiencies in a company's commercial operation find that they open new opportunities. That's because many companies, especially in the B2B realm, have yet to reach full potential when it comes to turning an adequate commercial organization into an excellent one. In our research, about 60% of all companies say they haven't done a good job of focusing their value proposition on their most critical target accounts. Few invest in the kind of pricing capabilities that eliminate lost revenue and maximize EBITDA margins. Fewer still regularly zero-base their sales capacity and coverage to ensure that the company has ample resources aligned to the most valuable opportunities.

Vulnerabilities like these are dangerous at a time when digital innovation is revolutionizing how companies identify, understand and serve customers. New entrants and the most agile incumbents are rapidly exploiting customer and pricing analytics to transform their commercial capabilities. Big Data, for instance, has dramatically improved the precision of market and customer segmentation efforts as firms tap into large streams of

Figure 2

The right commercial acceleration approach depends on sales process complexity and the degree of indirect selling



Source: Bain & Company

transactions, CRM data, social media activity and other windows on customer behavior. For PE firms making investment decisions, this sea-change moment is both perilous and filled with opportunity. Underestimating a company's exposure to disruption in these areas can be a major pitfall. But diagnosing opportunities to rebuild and modernize commercial capabilities can produce step changes in top- and bottom-line performance, allowing companies to open more markets, generate more sales and do so more efficiently.

Breaking down the challenge

While solving these problems within an average holding period can appear daunting, the most effective firms break down the challenge into the elements of commercial excellence they can address quickly. Deciding which problems to tackle first is often critical; firms need to get out of the gate quickly with a set of initiatives that will address the issues that really matter. An effective way to begin thinking about how to orchestrate change is to sort target companies by two factors: the complexity of their sales process and whether they have a direct or indirect model *(see Figure 2)*.

Some commodity companies, for instance, have a direct salesforce and relatively simple transactions. They often suffer from traditional pricing models that don't capture the upside of value-added products and services. For larger, more complex companies, where the sales cycle may stretch to years and involve a web of products and sales channels, the pricing issues typically entail optimizing prices across channels or reining in nonstandard discounts.

Top-performing firms train themselves to narrow their focus in this way because it accelerates efforts to find the right solutions. This approach is complicated by the wide variety of options out there, especially in the digital realm. Take customer segmentation: Hundreds of vendors supply companies with analytics tools and solutions that will slice and dice data into meaningful segments. Top-tier firms not only quickly zoom in on the main issues a target company faces, they have also built relationships that allow them to understand which tools to apply to which problems, and how to make them work to help create value. Analytics and other digital tools allow PE funds to gain a much better understanding of a target company's commercial capabilities.

Improving due diligence

Because it often takes one or two years for commercial acceleration efforts to bear fruit, the most effective PE funds start early—typically in due diligence—so they can launch a full set of initiatives right away. The firms most adept at sorting through these issues have developed a diagnostic capability that can be used repeatedly in the due diligence process to evaluate upside. That diagnostic then suggests which initiatives the company will have to launch to reach its new aspiration and which tools or technologies it should apply to accelerate results.

In our research, about 60% of all companies say they haven't done a good job of focusing their value proposition on their most critical target accounts.

When one large PE fund began its due diligence on a software company in Latin America, it wanted to make sure the company's commercial organization could sustain its healthy growth rate into the future. Diligence confirmed three main points. First, the churn rate among the company's customers was higher than the competition's, raising a red flag. But the company also had the right capabilities in place to bring the rate down to a more comfortable level. Second, while global entrants could conceivably target the company's core market, the threat was minimal since foreign firms couldn't deliver competitive prices without investing significantly in building a local presence. Finally, research showed the company wasn't penetrating markets as effectively as it might, presenting an enticing and unexpected opportunity. Surveys revealed that many potential customers were unaware of the company or its products, something that could be addressed with stronger marketing. Based on this intelligence, the firm ultimately won the deal. Drawing confident conclusions allowed it to bid aggressively, comfortable that the software company's current revenue growth was secure and

Figure 3

Commercial excellence programs usually focus on a few initiatives within five key themes

Customer segmentation and value proposition	Sales coverage	Sales behaviors	Category management and adjacencies	Pricing
Best in class: Analytics used to define segments and keep them current	**Best in class:** Coverage model tied to customer requirements; right talent in place	**Best in class:** Analytics used to pinpoint winning sales behaviors	**Best in class:** Assortment tailored to maximize profitability	**Best in class:** Prices set to capture value delivered; pricing discipline maximizes margin potential

Source: Bain & Company

that there was significant upside via a targeted set of initiatives aimed at filling the white space in the market.

Precision post-acquisition

Precision and depth in due diligence provide the best foundation for launching a focused post-acquisition strategy that moves in quick sprints. Making rapid progress depends on breaking the effort into short-term initiatives that the firm can implement in the early months of ownership, even before solidifying the longer-term value-creation strategy. This involves confirming the intelligence gleaned in the diligence phase regarding pricing and salesforce effectiveness. It also means digging in on customer segmentation and bringing a much more rigorous, data-driven approach to assessing the lifetime value of current and potential new accounts.

Our experience suggests that commercial excellence programs usually incorporate five main themes, as shown in *Figure 3*.

The objective is to create a practical set of prioritized initiatives that can have significant impact and produce early wins. The list depends on each company's individual circumstances, but the low-hanging fruit often involves aligning the sell/serve model to where the value is, optimizing governance and strategy around pricing, addressing potential cross-selling opportunities or the retention model, and tweaking the portfolio of products or services to better align with customer needs. Longer-term issues—but still addressable in year one—include revisiting the salesforce culture, adjusting compensation and making sure the best people are focused on the biggest jobs.

Spurring new growth was CVC's objective in 2014 when it acquired majority ownership in Praesidiad (formerly Betafence) from its partner, Gilde Buy Out Partners. The global fencing solutions company had a promising high-security perimeter protection business, which targeted lucrative applications like electricity grid and power infrastructure, oil and gas facilities, large data centers and border installations. CVC knew, however, that putting the company's base fencing business on another track by accelerating its performance would create the most compelling value story. That business was becoming commoditized, and Praesidiad needed to differentiate itself from low-cost competitors. So CVC's operations team and the company decided to survey more than 1,000 of its customers to find out how Praesidiad could better serve them.

The surveys indicated that there was ample opportunity to improve product features such as gate quality, ease of installation and weight. Customers and distributors also asked for greater order transparency and a more robust online experience, with features such as product visualization so they could build systems online. At the same time, the company worked with its sales team to analyze its customer base, looking at how much of the business was run through distributors and how much it sold directly to large customers. Armed with that information, it could determine which route to market was best for which products in which countries, allowing the company to tailor the value proposition and commercial programs for each channel and customer. Step by step, these efforts accelerated the company's revenue growth and set it up for the next stage of global development. By July 2017, CVC had sold the Belgium-based company to The Carlyle Group, generating a healthy return.

It's often essential post-acquisition to delineate which aspects of capability building will take place over a period of years and which aspects of those initiatives can be implemented immediately.

Which tactics today, which tomorrow?

It's often essential post-acquisition to delineate which aspects of capability building will take place over a period of years and which aspects of those initiatives can be implemented immediately. After San Francisco's GI Partners used an M&A strategy to build three companies into SoftLayer Technologies, it formed a commercial acceleration plan based on both short-term and long-term objectives. A new market entrant with a large capital budget was challenging

SoftLayer, a fast-growing cloud services company. The cloud services sector was also experiencing a change in pricing structure that was causing market confusion. So, after focusing on growth through acquisition for several years, GI shifted its attention to a set of measures aimed at spurring internal growth.

GI determined that SoftLayer would benefit from building out its product management, marketing and outbound sales organizations. The company lacked a robust product roadmap and needed to develop teams capable of opening new markets and attracting the interest of new types of enterprise customers. Building some of those capabilities would take several years; others could be accomplished more quickly. The company set up a sales outreach program targeting its top 2,000 customers and launched marketing campaigns around cloud trials to produce incremental revenue gains. It also focused on a large, coordinated product launch designed to generate excitement.

Within the year, SoftLayer's outbound sales and marketing efforts had developed new and much stronger relationships with several hundred of its customers, opening the door to new sales and reducing churn. The marketing promotions worked to convert trial customers into paying ones. Top-line acceleration created momentum behind longer-term capability-building initiatives. With SoftLayer showing attractive growth in 2013, GI sold it to IBM (which eventually renamed it IBM Cloud), generating a solid return on its initial investment.

Delivering results like these consistently will challenge PE firms that have relied historically on efficiency measures and market beta to drive multiple expansion. But at a time when multiples are already dancing at historic highs, the ability to ignite revenue growth is likely to separate top-tier performers from the rest of the pack in coming years. The first step in developing the right capabilities is to recognize that creating value via top-line expansion is well within reach. By focusing on the nuts and bolts of commercial excellence, firms can develop straightforward, repeatable strategies for diagnosing problems in diligence and quickly tackling them upon securing ownership, opening up a new set of viable targets among the large number of companies that underperform commercially.

Shared Ambition, True Results

Bain & Company is the management consulting firm that the world's business leaders come to when they want results.

Bain advises clients on strategy, operations, technology, organization, private equity and mergers and acquisitions. We develop practical, customized insights that clients act on and transfer skills that make change stick. Founded in 1973, Bain has 55 offices in 36 countries, and our deep expertise and client roster cross every industry and economic sector. Our clients have outperformed the stock market 4 to 1.

What sets us apart

We believe a consulting firm should be more than an adviser. So we put ourselves in our clients' shoes, selling outcomes, not projects. We align our incentives with our clients' by linking our fees to their results and collaborate to unlock the full potential of their business. Our Results Delivery® process builds our clients' capabilities, and our True North values mean we do the right thing for our clients, people and communities—always.

Key contacts at Bain & Company

Americas	**Jed Buchanan** in Chicago *(jed.buchanan@bain.com)* **Rebecca Burack** in Boston *(rebecca.burack@bain.com)* **David Burns** in Chicago *(david.burns@bain.com)* **Jamie Cleghorn** in Chicago *(jamie.cleghorn@bain.com)* **Mattias Geise** in New York *(mattias.geise@bain.com)* **Mark Kovac** in Dallas *(mark.kovac@bain.com)* **Jason McLinn** in Chicago *(jason.mclinn@bain.com)*
Asia-Pacific	**Wade Cruse** in Singapore *(wade.cruse@bain.com)* **Chris Harrop** in Melbourne *(chris.harrop@bain.com)* **Hyukjin Lee** in Seoul *(hyukjin.lee@bain.com)* **Kazuki Okoshi** in Tokyo *(kazuki.okoshi@bain.com)* **Lalit Reddy** in Bangalore *(lalit.reddy@bain.com)* **Bruno Zhao** in Shanghai *(bruno.zhao@bain.com)*
Europe, Middle East and Africa	**Bart Delmulle** in Brussels *(bart.delmulle@bain.com)* **Arndt Kaminski** in Munich *(arndt.kaminski@bain.com)* **Daphné Vattier** in Paris *(daphne.vattier@bain.com)* **Tom Whiteley** in London *(tom.whiteley@bain.com)*

For more information, visit **www.bain.com**