ACG® New York
Association for Corporate Growth

TresVista

In September, we attended ACG's 'Technology and Business Services Conference.' Here are five of our top takeaways from the discussion of second panel in the event, which focused on 'Digital Drives Value—Where and How to Add Digital to Your Private Equity Playbook.' *Prepared by TresVista*

Video link: Part 1 https://vimeo.com/291803974 *Part 2* https://vimeo.com/291810511

5 *THINGS YOU MISSED*– DIGITALIZATION

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Digital Drives Value: Where and How to Add Digital to Your Private Equity Playbook

5 THINGS YOU MISSED – Digitalization

1 **Competitive Tool or Foundational Platform:** Even before a company ventures into digitalization, its fundamental move should be to understand the business requirements; e.g., some companies might want to look at revenue growth, while others might want to understand if there exists a model for employee engagement. The understanding of these business requirements is significant because digitalization is not a one-size-fits-all case, thereby leading to various options for different priorities in business. Nowadays, companies are focusing on providing a service rather than providing just discrete products to its customers—such as turbine manufacturers giving away turbines and charging for the electricity generated from them. For this to happen, it is essential to figure out how technology, as a tool, can help the business grow. Another important factor is the management's resilience towards embracing changes at the firm level—such management that does not respond to change and is difficult to work with, particularly in the mid-market sized companies, will face challenges.

2 **Prioritizing Technology for Value Creation:** In today's world, companies lack a proper strategy and often rush to adopt technology once they find an opportunity before even trying to understand its significance. This portrays a wide gap that needs to be filled by laying down the foundation as to why the company needs to go digital. For this to happen, the company must first understand the technology. Certain companies that operate in niche segments have integrated technology in their business model, taking their businesses to the next level which would have been hard otherwise. It is also important for the company to note that there exists numerous options to integrate software tools into business decisions. Failure to integrate would result in huge costs to fix the after-effects, which is difficult, particularly for small and mid-market sized companies as such companies have enough revenues to get the technology required, but not enough to get on-board a technology specialist who can drive the change.

3 **Investment Focus with Changing Digitalization:** Investment rationale had always been either 'Growth' or 'Value,' irrespective of the industry. For some, investing in companies that are technologically savvy might be quite expensive and might not yield any competitive advantage as well. They might be looking for business opportunities within specific segments/markets which are undervalued (e.g., a telemedicine opportunity within a healthcare industry). As a general rule, investors are not competitive when buying tech companies; particularly when looking to invest in small and mid-market sized companies, they tend not to be software buyers or EBITDA buyers. Rather, they are interested in the services that the company provides (e.g., although Salesforce is an $8-9 billion company, its ecosystem is around 3.5-4x) and then try to add value in terms of uniqueness/expertise in digitalization. Additionally, there is a generational gap between tech companies, which would further create an interesting opportunity for investors to look at—cultural mindset support vs. technology integration. On the flipside, growth investors are narrow in terms of looking for innovational capabilities, determining whether the company is capable enough to scale via innovation.

4 **Reasons for Technological Successes/Failures:** Despite the existence of many technologies, getting the platform to work to achieve the value that investors are looking to obtain from these technologies is crucial. One of the reasons why companies succeed with digitalization is by figuring out unique ways to use technology—matching the technological capabilities of the company to the unique experiences of its customers and making customer experience more effective by tailoring technology accordingly. Companies too hyped up on data analytics—who have built their data platforms and now sit on huge amounts of data with no idea how to analyze it—exemplify a technology implementation failure. Chasing digitalization just because it is a silver bullet would also lead to a fundamental disconnect in the drivers of value for the business.

5 **Private Equity Investors Recognizing Technology:** Private equity investors are at the beginning of the curve in terms of recognizing/adopting technology as evidenced by low volumes of technological adoption. Investors should open up to unfamiliar concepts, accept challenges, and embrace the need for cognitive diversity. One way of doing so is to ask every portfolio company how it is using analytics to manage its customers, suppliers, and costs more effectively, given the fact that analytics is the core of everything today. They should also take advantage of 'decision errors' within the industry such as the insurance industry having an error rate of 40-50% among underwriters and radiologists having an error rate of 20%. These errors create an opportunity window for technology to take over and maximize returns for investors.

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