Private Equity
Engaging for Growth

The 2012 Private-Equity Report

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THE 2012 PRIVATE-EQUITY REPORT

PRIVATE EQUITY

ENGAGING FOR GROWTH

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EXECUTIVE SUMMARY

PRIVATE EQUITY: ENGAGING FOR GROWTH addresses the challenges facing private-equity firms in a period when creating operational value from top-line growth will be increasingly central to competitive success.

Market conditions are accelerating the trend toward operational value as the primary source of value created by private equity.

- Although debt has become more readily available since the 2008 financial crisis, the total amount is unlikely to return to precrisis levels.

- The premiums that private-equity firms are paying for companies are rising, suggesting that it will become even more challenging to realize multiple-driven returns in the future.

Private equity’s ability to generate operational value will increasingly depend on a firm’s ability to develop and grow the business and improve the top line of its portfolio companies.

- The relentless focus on cost cutting in response to the Great Recession by companies throughout the economy means that there will be fewer “quick wins” available for bottom-line operational improvement.

- The Boston Consulting Group estimates that in order for a private-equity firm to generate an internal rate of return (IRR) of 25 percent in the current market environment, it will have to deliver an average annual growth in earnings before interest, taxes, depreciation, and amortization (EBITDA) of 11 percent.

Private-equity firms have been experimenting with a variety of models for operational value creation, each defined by the internal operational-value infrastructure created by the firms.
• Some do without internal operating capabilities altogether or prefer to rely solely on external advisors.

• Others have been hiring industry generalists and functional specialists at the partner level.

• Still others have created full-fledged operating teams with staff at multiple levels below that of partner.

**Increasing standardization of operational-improvement initiatives will be a key success factor—irrespective of the operating model a private-equity firm chooses.**

• Firms are developing explicit, replicable proprietary processes for creating operational value—along the investment life cycle and within the specific initiatives they undertake at their portfolio companies.

• While many firms are using standardized approaches on the cost side—in particular, for financial optimization and bottom-line improvement—relatively few have developed standardized approaches for the top-line initiatives, which will be critical to creating operational value in the future.

**As their staffs become larger and more complex in response to the needs of their portfolio companies, private-equity firms will also need to professionalize their management processes.**

• They should put into place comprehensive review, remuneration, and professional-development processes for many different kinds of talent (beyond the traditional dealmakers) and define appropriate new metrics for recruiting, nurturing, and rewarding these diverse groups of individuals.

• They need to fully integrate expertise in top-line operational value creation into the firm’s business model.

**Improving a private-equity firm’s capacity to create operational value will require a new kind of partnership.**

• Deal teams, operating teams, and portfolio company management all need to work together to ensure top performance.

• Interactions should be encouraged among deal teams, operating personnel, and portfolio companies; and a culture should be created in which all three groups feel like equal, value-adding contributors to the private-equity enterprise.

• The strength and quality of that three-way partnership will be the key determinant of a firm’s competitive advantage in the years ahead.
THE TREND TOWARD OPERATIONAL VALUE CREATION

For some years now, the private-equity industry has been focused on operational value creation—that is, increases in fundamental value at a firm’s portfolio companies. The days when private-equity firms could create value primarily through leverage are long over. Nor can the industry count on delivering superior returns through multiple arbitrage. As a result, operational improvement—on both the cost and revenue sides of a business—remains the chief source of value delivered by private-equity firms today.

Operational improvement is private equity’s chief source of value.

We believe this trend will only become stronger in the future. Although debt has become more readily available since the 2008 financial crisis, the total amount is unlikely to return to precrisis levels. Meanwhile, the premiums that private-equity firms are paying for companies are rising, suggesting that multiple arbitrage will become even more challenging in the future than it has been in the past. What’s more, the relentless focus on cost cutting in response to the Great Recession by companies throughout the economy means that there will be fewer “quick wins” available for operational improvement through cost cutting. In the future, private equity’s ability to generate operational value will depend less on bottom-line improvements and more on a firm’s ability to develop and grow the business and improve the top line of its portfolio companies.

Given the poor prognosis for economic growth in the developed world, this task represents a stiff challenge. We estimate that in order for a private-equity firm to generate an internal rate of return (IRR) of 25 percent in the current market environment, it will have to deliver an average annual growth in earnings before interest, taxes, depreciation, and amortization (EBITDA, a proxy for fundamental value) of 11 percent.

In order to learn how private-equity firms are organizing to deliver that degree of operational value, BCG recently interviewed more than 25 general partners, operating partners, and associated portfolio-company CEOs at 15 private-equity firms in the United States and Europe. (See Exhibit 1.) We identified three major developments in the industry:

- Private-equity firms have been experimenting with a range of models for delivering operational value, reflecting different organization structures and divergent understandings of the funda-
mental relationship between the private-equity firm and its portfolio companies.

- Irrespective of the operating model, there is a growing standardization of operational-improvement practices at some private-equity firms. That standardization, however, is limited mainly to initiatives that improve the bottom line at portfolio companies. When it comes to business-building activities that grow the top line and are critical for the future, most private-equity firms are still struggling to develop a replicable approach.

- Successfully creating operational value will require a new kind of partnership between general partners (also commonly known as deal partners), operating personnel, and portfolio company CEOs. That partnership will involve new ways of teaming, with more explicitly defined roles and responsibilities. And it will require the professionalization of key management processes at private-equity firms. Increased professionalization is critical to the long-term sustainability of the private-equity business model.

In this report, we describe private equity’s growth challenge, discuss the strengths and weaknesses of the various operating models currently found in the industry, and make the case for why even more standardization and professionalization are in the industry’s future.
PRIVATE EQUITY’S GROWTH CHALLENGE

Four years ago, BCG identified a shift in the private-equity industry away from leverage and toward operational improvement as the primary source of value creation. (See The Advantage of Persistence: How the Best Private-Equity Firms “Beat the Fade,” BCG report, February 2008.) Since then, private-equity firms have been experimenting with a variety of operating models in order to increase their capacity to create value by improving the operations of their portfolio companies.

So far, their efforts have been extraordinarily successful. We recently analyzed the operational performance of 89 U.S. and European private-equity deals that were closed between 1998 and 2008 and exited between 2005 and 2011. This sample represents all deals with a minimum enterprise value of €500 million (approximately $670 million) at exit and for which data were available from entry to exit. We found that more than two-thirds of these deals (70 percent) generated an absolute increase in annual EBITDA of at least 20 percent—and nearly half the deals generated annual EBITDA growth of 50 percent or more.

Exhibit 2 clusters these 89 deals into eight groups on the basis of the change in the amount of annual EBITDA each deal generated and shows both the average multiple the private-equity firms paid to acquire the companies in each group (the right-hand vertical axis and orange line) and the change in that multiple at the time the firms exited the deals (the left-hand vertical axis and green line). This analysis demonstrates that the deals with the highest absolute EBITDA growth were also those for which private-equity firms paid the highest multiples—suggesting that the firms already had a clear idea before the deal about how they would improve the target company’s EBITDA, how much EBITDA growth they were likely to generate, and therefore what a “fair” premium would be, on the basis of the target’s EBITDA growth potential. Because of the relatively high average premium, the median deal in this group created no value through multiple expansion.

We believe that market conditions are accelerating this trend toward making operational value the primary source of value created by private-equity firms. Exhibit 3 portrays three key trends in the private-equity market. First, premiums paid by firms are rising. This trend is driven in part by all the “dry powder” that has built up in private-equity funds during the global crisis and that is competing for a relatively small number of deals. Only about 13 percent of the money raised in vintage year 2010 funds—and just 1 percent of vintage year 2011 funds—has been invested so far. Second, when one combines these uninvested funds with the trillions of dollars that public companies have accumulated on their balance sheets and that are also available for
EXHIBIT 2 | Firms Pay Higher Multiples When They Expect Strong EBITDA Growth

Change in multiple from entry to exit (%)

<table>
<thead>
<tr>
<th>Change in EBITDA from entry to exit</th>
<th>Percentage of all deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 10% and 0%</td>
<td>4.5</td>
</tr>
<tr>
<td>Between 10% and 20%</td>
<td>4.5</td>
</tr>
<tr>
<td>Between 20% and 30%</td>
<td>6.7</td>
</tr>
<tr>
<td>Between 30% and 40%</td>
<td>1.1</td>
</tr>
<tr>
<td>Between 40% and 50%</td>
<td>9.0</td>
</tr>
<tr>
<td>Between 50% and 60%</td>
<td>22.5</td>
</tr>
<tr>
<td>More than 60%</td>
<td>48.3</td>
</tr>
</tbody>
</table>

Sources: Thompson One; BCG analysis.
Note: The sample consists of 89 U.S. and European private-equity deals that were closed between 1998 and 2008 and exited between 2005 and 2011.

EXHIBIT 3 | Shifting Market Conditions Make Operational Value Creation Important

Sources: Prequin; Morgan Stanley; S&P LCD; Factiva; BCG analysis.
Note: Values for total fund size for 2011 are as of August 4; values for purchase multiples and debt-to-EBITDA ratio for 2011 are as of June 30.

1Buyout and balanced funds only.
2Purchase price to EBITDA where purchase price includes senior debt, subordinated debt, equity, and other financing.
3Average debt multiples of corporate leveraged buyout loans with an EBITDA of greater than $50 million, including first lien debt, second lien debt, other senior debt, and subordinated debt.

Increased competition for deals causes purchase multiples to rise
Long-term multiple expansion is unlikely
Using leverage to create value is not an option
use in the M&A market, it is unlikely that premiums will come down anytime soon. Third, while leverage levels (measured as a ratio of debt to EBITDA) have recovered from their postcrisis lows, the market remains challenging at the end of 2011.

Low levels of debt and ever higher acquisition premiums mean that private-equity firms will be unable to count on leverage or multiple expansion as major sources of value in the immediate future. Thus, improvements in fundamental value, as reflected in growth in EBITDA, are the only sure source of value creation. What’s more, the wave of cost cutting at companies in response to the Great Recession has led to a paucity of opportunities in which fundamental value can be generated rapidly by cutting costs. Thus, a successful private-equity firm will increasingly have to generate EBITDA growth by growing its portfolio businesses.

Firms’ capabilities are under increasingly intense scrutiny.

How much EBITDA growth? We developed a simple model to estimate the amount of EBITDA growth that would be necessary in the current market environment for private-equity firms to realize an IRR of 25 percent.

We assumed an entry multiple of 8.5 times EBITDA (the average of reported deals in the first half of 2011) and assumed that that multiple would remain unchanged at exit, a practice that is typical in private-equity investment plans. We also assumed a debt multiple of 4.5 times EBITDA and an interest rate on that debt of 400 basis points over the London interbank offered rate (LIBOR). We assumed capital expenditures of 2.5 percent of net revenue. Finally, for simplicity’s sake, we assumed an all-cash tax rate of 26 percent of income, and no additional investment in working-capital productivity.

Using these relatively conservative assumptions, a firm would have to generate a compound annual EBITDA growth rate in its portfolio companies of 11 percent over a five-year period. To understand just how challenging a hurdle that figure is, consider that the only times in recent history that the earnings of either the S&P 500 or London’s FTSE index surpassed this five-year compound annual growth rate were in the five-year periods ending in 2006 and 2007 (for the S&P 500) and 2006 through 2008 (for FTSE), during the bubble that preceded the 2008 global financial crisis. Given the likelihood that the global economy (and, in particular, the developed world) has entered an extended period of below-average economic growth, this hurdle represents a substantial challenge to the private-equity industry.

The limited partners who invest in private-equity funds realize that the operational capabilities of individual private-equity firms will be critical in meeting this goal—and the firms themselves realize that these capabilities are under increasingly intense scrutiny.
A SPECTRUM OF OPERATING MODELS

Our interviews with private-equity partners and portfolio company CEOs identified six different “operating models” for operational value creation. (See Exhibit 4.) It is useful to think of these operating models in terms of three clusters, each defined by the degree of internal operational-value infrastructure the firms have created.

- Firms in the first cluster have not invested at all in building an internal capability for improving operations at their portfolio companies. Either they function like a traditional private-equity firm with no operating capabilities. Or they rely on a network of external advisors.

- Firms in the second cluster have built an internal capability at the partner level. They have hired either generalist operating partners or functional operating partners, or some combination of the two.

- Firms in the third cluster have invested significantly in the creation of operational teams at multiple levels of the organization below that of partner. Some firms rely on a relatively small in-house operating team; others, however, have built a large in-house operating team that can rival the number of members on the deal team itself.

None of these operating models is necessarily better than the others; each can be executed well—or poorly. Which model is appropriate for a particular private-equity firm depends on two factors.

The first is the private-equity firm’s preferred style for engaging and working with its portfolio companies. For example, is the philosophy of a firm’s general partners to hire high-quality managers, provide them with the right incentives, and then play only an oversight role? Or do the general partners tend to get more involved in the day-to-day management of the company, playing more of a hands-on role?

The second is the private-equity firm’s basic organization structure, culture, and design. For instance, are the firm’s funds large or small? Does it have many portfolio companies or just a few? Does it primarily target healthy companies or distressed businesses that have a high potential for turnaround? Does it focus on a specific set of industries or is it present in many sectors? Does it have operations in one country or in several? Do its deal teams consist mainly of people with financial backgrounds or do these teams include people with consulting or industry-specific expertise?

To understand how these two factors interact with the different operating models and what constitutes best practice for each model, let’s explore each of them in turn.
No Operating Capabilities

Despite the growing importance of operational value creation, some private-equity firms have chosen not to develop internal operating capabilities and to rely only selectively on external providers with operating expertise.

Firms in this category tend to influence their portfolio companies primarily through governance mechanisms such as the appointment of top management, the design of incentives, and ongoing involvement on the company board. Typically, they target relatively healthy companies that can operate without major hands-on intervention. And they focus carefully on building a strong management team—whether by giving existing managers a stake in the business or by bringing in an entirely new team. “We change management in nearly half the cases at the beginning of our ownership,” a general partner at one such firm said.

In a world in which operational value creation is becoming more important, we believe that this traditional private-equity model will likely struggle to perform. But there are a few exceptions in which firms are still making it work. A private-equity firm with no operating capabilities can still be successful, but only if it has other differentiating characteristics in its business model that make it an attractive partner—for example, privileged access to deals or a network advantage upon exit. In such cases, a firm can partner with other private-equity firms, but only in a minority role.

A Network of External Advisors

Other private-equity firms avoid building an internal operational infrastructure by choosing to rely on a network of external advisors—typically former CEOs and CFOs—to provide leadership on operational value cre-

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**EXHIBIT 4 | Our Interviews Identified Six Operating Models**

<table>
<thead>
<tr>
<th>Model</th>
<th>No internal capability</th>
<th>Operating partners</th>
<th>In-house operating teams</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>None</td>
<td>Advisors</td>
<td>Generalist</td>
</tr>
<tr>
<td>Description</td>
<td>Neither internal operating capabilities nor external advisors</td>
<td>External network of senior advisors with equity stake in the portfolio company or fund</td>
<td>Single layer of executives on private-equity-firm payroll with generalist expertise (for example, sector knowledge); they do not necessarily have an equity stake</td>
</tr>
<tr>
<td>Profile</td>
<td>Not applicable</td>
<td>Former CEOs and CFOs</td>
<td>Former senior executives; high-level general managers</td>
</tr>
<tr>
<td>Activities</td>
<td>Deal teams interact with portfolio company through board; no project management role; no involvement in day-to-day operations</td>
<td>Serve on portfolio company board, usually in the role of chair; may assist in diligence phase to build value creation plans</td>
<td>Will work on more than one portfolio company at a time</td>
</tr>
</tbody>
</table>

Source: BCG analysis.
These advisors, who may have functional or sector-specific expertise, typically have an equity stake in the private-equity firm’s fund or in one or more of the firm’s portfolio companies. However, they are not on the firm’s payroll.

**Portfolio companies should not view advisors as CEOs-in-waiting.**

External advisors typically fill two roles. In some cases, they identify potential deals. But more often they function as a coach to the CEO and, sometimes, an intermediary between the CEO and the private-equity firm—for example, by serving as chair of the portfolio company’s board. Although advisors are usually not involved in the day-to-day running of the business, their degree of engagement with the portfolio company can range from working closely with the CEO and senior management to being available for the occasional meeting as needed.

The most important success factor for this model is to develop strong relationships with genuinely high-caliber former CEOs or CFOs who are industry veterans in the sectors the private-equity firm targets. This is easier said than done. Although there may be many former executives who have held the title of CEO or CFO, relatively few have the skills and the flexibility to adapt to the private-equity environment and to make a material contribution to the businesses they are involved in.

Once a firm has found the right advisors, it must also empower them so that they can play a meaningful role in portfolio companies and in the fund—for instance, by involving them fully in the front end of the deal process in order to draw on their deep industry expertise.

Finally, the role of the senior advisor must be clearly defined so that he or she is not perceived as a CEO-in-waiting by the portfolio company’s management team.

**Generalist Operating Partners**

In this model, former senior executives with sector-specific experience join the private-equity firm as general partners. Like deal partners, these generalist operating partners are typically compensated through some combination of fixed salary, annual bonus, and carried interest (carry), which is a share in the profits that the private-equity firm makes on its investments. They may also receive options in the portfolio companies they work with, and they sometimes are required to coinvest as a limited partner in the private-equity firm’s fund.

Much like external advisors, generalist operating partners are usually former CEOs or CFOs with enough experience in the private-equity firm’s target industries to have credibility with portfolio company CEOs. They act as key interlocutors with those CEOs in the development of company strategy and generally serve as coaches and “sparring partners” on a whole range of issues on the CEO agenda. Another important role is to be the private-equity firm’s primary overseer of operational-improvement programs at portfolio companies. They do not, however, get deeply involved in the day-to-day running of the business.

One of the attractions of this model, compared with the external-advisor model, is that it brings substantial industry and operational expertise directly into the private-equity firm and therefore offers the opportunity to integrate this expertise more fully into both pre-deal due diligence and postdeal work at the portfolio companies. But for the model to work, it is critical that the generalist partners be fully accepted by the deal team. If generalist operating partners are simply imposed on the deal team by the firm’s management or have backgrounds so different from those of the deal team that the two sides never really connect, the model tends to break down. Therefore, it is critical to hire operating partners who already have or can develop the right mindset for work in private equity. Traditional “command and control” executives typically do poorly in this role.

Even more than senior advisors, a generalist operating partner runs the risk of being per-
ceived as a CEO-in-waiting by management at the firm’s portfolio companies. “Our experience is that it is difficult to bring in generalists,” one general partner told us. “The CEO immediately starts worrying, ‘Is this guy going to be my replacement?’” This risk can be mitigated by linking the incentives of generalist operating partners to overall fund performance, which gives a clear sign that they will be staying in their roles at the private-equity firm for the long term.

A key limitation of this model is that it is not easily scalable. Generalist operating partners can engage with, at most, about five portfolio companies during the same time period. When they try to cover more, their involvement is usually restricted to board-level interactions, where their ability to impact the business is relatively limited. In a typical midsize private-equity firm using this model, there might be at most a handful of generalist operating partners, which can make it difficult to have the necessary breadth of sector experience to support a multi-industry investment strategy.

### Functional Operating Partners

Another approach at the partner level is to hire executives with expertise in functional areas such as procurement or sales force effectiveness. Typically, functional operating partners are not as senior as generalist operating partners. They rarely serve on the boards of portfolio companies. Rather, they function more like consultants to portfolio company CEOs, working on specific operational-improvement initiatives and moving from one initiative to the next as each is completed (a fact that tends to make them more easily accepted by a portfolio company CEO). Functional operating partners receive a salary but, depending on the private-equity firm, do not always participate in the carry. It is also common for these specialists to receive a success fee that is based on the results of the specific operational-improvement projects that they lead.

This operating model works best when a private-equity firm has a large and frequently changing number of portfolio companies, so that functional value-creation initiatives can be systematically rolled out across the entire portfolio in a relatively standardized manner. The model also seems more appropriate for primary rather than secondary investments, because companies that are already owned by another private-equity firm tend to have far fewer opportunities left for cost cutting and other standard improvement activities.

To ensure that functional initiatives are applied systematically across the portfolio, it is critical for the private-equity firms that follow this model to develop mechanisms that embed the functional partner’s expertise deeply within the firm. Functional operating partners need to have strong incentives to contribute to the success of the fund and its portfolio companies. In our experience, it is generally more effective to link incentives, at least in part, to predefined targets in the different portfolio companies rather than to the overall success of an entire fund.

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Some firms have developed a full in-house operating capability.

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The primary limitation of the functional-operating-partner model is that it is focused mainly on well-defined, bottom-line operational-improvement initiatives. If there are unexpected discontinuities in a company’s business, requiring fresh thinking about strategy and top-line growth, that thinking is unlikely to come from functional operating partners. The private-equity firm will have to find it elsewhere.

### Small In-House Operating Team

The third and final level of operational-value infrastructure concerns those private-equity firms that have developed a full in-house operating capability. This capability takes the form of a multitier team of operating professionals (below the partner level) who leverage the work of the operating partner.

Owing to the high cost of maintaining such a team, this option is appropriate primarily for
the largest private-equity firms with operations in multiple markets and regions. These firms tend to have a minimum of 40 companies in their portfolio at any one time, with companies regularly moving into and out of their ownership. “Scale is absolutely critical for this model to work,” one general partner said.

In some of the firms we studied, the in-house operating team is quite small in comparison with the deal team, and it mainly plays a supporting role. Board-level engagement is restricted to deal team partners, who manage the deal from predeal through closing and, eventually, exit. The operating-team partners focus on specific management-level projects with the CEO, which the operating team then helps the company implement. In effect, the operating team functions as an in-house consultant that the private-equity firm can deploy as needed across its portfolio companies.

Building an in-house team expands the universe of potential targets.

The singular advantage of having an in-house team is that the private-equity firm develops a comprehensive understanding of the team’s capabilities and can deliver a consistent approach to operational improvement at its portfolio companies. The existence of an in-house operating team also expands the universe of potential targets for a private-equity firm. Specifically, it allows a firm to consider distressed assets with high turnaround potential that require intensive hands-on involvement and a level of attention that firms without an in-house capability cannot offer.

A major challenge with this model, however, is continuously refreshing the knowledge base and approaches of the team so that it keeps current with the latest best practice in operational value creation. Unless the private-equity firm invests in creating a sustainable learning environment (including clear career paths for associates to become operating partners themselves at some point), an in-house team runs the risk of becoming too insular and losing its best people. An in-house operating team can also be perceived negatively by a firm’s portfolio companies, especially if they are forced to use—and pay for—it (as opposed to solving problems themselves or going outside for help).

Large In-House Operating Team

At some of the largest private-equity firms we studied, the in-house operating team has reached such a critical mass of people and expertise that it plays a considerably more central role than do typical small in-house operating teams. In these firms, the operating team is so large that in any particular transaction, it functions more as an equal partner to the firm’s deal team. In some situations, deal management is a shared responsibility, with deal team partners taking the lead until closing and operating-team partners taking the lead during implementation of the value creation plan.

What we have observed is that once an in-house operating team reaches critical mass in terms of numbers, depth, and breadth of expertise, there is a subtle but significant shift in the private-equity firm’s culture. Operating-team members acquire more influence. The operating team’s organization structure and career paths increasingly mirror those of the deal team. And operating-team partners’ compensation is structured in the same way as that of deal team partners. “Operating teams need to be completely integrated,” said an operating partner at one such firm. “We have a clear and agreed-upon role to play at each step of the deal process.”

It should be clear from the above descriptions that these models are not all necessarily mutually exclusive. Indeed, a number of the firms we interviewed appeared to be in a state of flux about the evolution of their own model, and some have embraced creative combinations of different elements of these models. For example, one private-equity firm has invested in building a large in-house operating team. But it also regularly calls on an external network of world-class functional experts who are brought in as needed (as independent contractors) to solve specific problems at the firm’s portfolio companies.
OUR RESEARCH ALSO IDENTIFIED a trend that is increasingly shaping the industry and that we believe will be central to its future evolution—irrespective of the specific operating model that a private-equity firm chooses. That trend is increasing standardization.

By “standardization,” we mean the development of explicit, easily replicable proprietary processes for creating operational value. Driven by the maturing of the private-equity industry, standardization is taking place both along the private-equity value chain—that is, the general process by which private-equity firms identify, acquire, improve, and then exit their portfolio companies—and within the specific initiatives that private-equity firms deploy to create operational value at those companies.

We identified three standardized approaches to postclose planning:

- The postclose strategy day, in which the private-equity firm’s deal team and (if present) operations team meet with company management to reach agreement on the company’s general strategic direction and identify a limited set of critical strategic initiatives (without going too deeply into how those initiatives will be implemented).

- The 100-day program, in which the private-equity firm and company management develop a detailed action plan for operational improvements to be implemented in the first three months after the deal closes (sometimes with the help of an external consulting company).

- The value creation road map, which is a comprehensive long-term action plan for realizing the company’s strategic agenda—complete with critical milestones, a timeline, designated responsibilities, key performance indicators (KPIs), and links to the company’s budget and business plan.

In our experience, most private-equity firms use at least one of these three mechanisms for postclose planning. But, of course, these approaches are not mutually exclusive. Each has a different time horizon and each tends
to go progressively deeper into the nuts and bolts of operational value creation in the portfolio company. One key trend in the standardization of postclose planning will be to integrate each of these approaches into a more comprehensive planning process. In this integrated approach, the strategy day focuses on aligning the key players around the long-term strategic direction, the 100-day program focuses as much (or more) on figuring out how to implement the initiatives necessary to execute the strategy as it does on achieving quick savings, and the value creation road map guides the company’s activities throughout the holding period.

In today’s highly volatile economic environment, however, firms need to be prepared for the fact that portfolio companies may have to adapt their strategy multiple times throughout the holding period. As a result, postclose planning will increasingly extend until exit, with the value creation road map being revisited at multiple points as changing business conditions require. This iterative planning process will conclude with the ever more important task of exit preparation—that is, reviewing the business plan and key value drivers 12 to 18 months prior to a planned exit in order to test whether the company is attractively positioned for likely buyers.

When it comes to performance monitoring, we also found a range of standardized approaches. While nearly every firm we looked at has some standardized approach to tracking KPIs at their portfolio companies, the comprehensiveness of those KPIs varies greatly. Most firms track financial reporting, a process that in some cases has become completely automated. But only some regularly track operational KPIs (for instance, operating income or industry-specific indicators such as same-store sales in retail), which are absolutely critical for monitoring ongoing operational value creation. Finally, relatively few firms have taken the additional step of systematically tracking leading indicators that would allow them to identify problems in the business before those problems start showing up in downward-trending operational KPIs. Leading indicators might include macroeconomic factors (such as inflation rates) or industry-specific factors (such as order intake and stock levels in the automotive industry). In the future, we expect to see comprehensive standardized monitoring of portfolio companies, including automated monthly reporting, standardized cross-portfolio metrics, and company-specific leading indicators.

The professional development of the management cadre at a private-equity firm’s portfolio companies is probably the area in which there is the least amount of standardization today. Most firms do an initial assessment of management during the due diligence process or, if they choose to go outside for management, before they hire a new team. Many complement this initial assessment with ongoing performance reviews of the CEO. But relatively few have instituted standard reviews of C-suite employees across all their portfolio companies.

As operational value creation becomes more central, private-equity firms will need to take a much more active approach to encouraging the professional development not only of the top teams at portfolio companies but also of the broader management ranks. That will be a big challenge because private equity has had something of a blind spot when it comes to talent management. When value mainly came through leverage and holding periods were relatively short, the development of talent seemed like an investment that firms could safely avoid.

But as top-line growth becomes more important and holding periods grow longer, building a strong management bench even down into the middle ranks of portfolio companies will be core to successful value creation. Systematic professional development will help to ensure that firms are getting the most out of the people at their portfolio companies. What’s more, we believe that standardized approaches to people development will eventually cover all employees at portfolio companies. (See the sidebar “Bridging the Talent Gap.”) For example, one large private-equity firm we studied has a proprietary professional-development process that includes an employee-training program and online surveys to gauge employee satisfaction at portfolio companies, the results of which are integrated into the firm’s reporting system.
Private-equity firms need to think more seriously about how they develop a strong bench of talent at their portfolio companies. Consider the demographics. Talent is already in short supply for many positions. In a 2010 BCG worldwide survey, 56 percent of responding companies cited a critical talent gap for senior managers’ successors—in part because their internal talent pools were too shallow.

Despite slow economic growth in the developed nations, most companies are hard-pressed to find high-performing, high-potential individuals who will serve as tomorrow’s middle managers and senior leaders. In high-growth emerging nations, the challenge is to find sufficient numbers of skilled workers. The shortage of skilled people will worsen over the next decade, making it more difficult for organizations to penetrate new markets and compete effectively in volatile markets.

The new reality is that companies face a seller’s labor market, with highly talented individuals having more job choices than ever before and desperate companies engaging in “talent wars” that only bid up the price of talent, often far beyond an individual’s capabilities. In such an environment, it is more sustainable to build talent internally. Doing so preempts the need to expand expensive and time-consuming recruiting processes, and it reinforces the company’s value proposition to employees and potential recruits. On the basis of our survey, high-performing companies (as defined by revenue growth and profitability) fill 60 percent of senior-manager positions internally, as compared with 13 percent at low-performing companies. High performers have realized the need to have a holistic talent strategy in place to leverage this most valuable asset. That strategy has six building blocks.

**Talent Strategy and Returns Tracking.** The foundation of a solid talent strategy must be a company’s business strategy and growth objectives. By asking where the company is now and where it wants to be in the future, executives can identify the current gaps in talent quantity and quality and map a path forward on the basis of its business plan and resulting talent requirements.

**Leadership Models.** Leadership models also need to be grounded in the broader business context. Today’s volatile competitive environments call for adaptive leaders who embrace uncertainty and experimentation, and who manage through influence and empathy more than through command and control.

**Talent Sourcing and Diversity.** Competitive markets are now characterized by globalization and increasingly distinct and demanding customer segments. Companies staffed exclusively with similar-looking and similar-thinking employees lack the broad range of insight and experience needed to meet the challenges of a globalizing world. As companies diversify their employee base, they will also need to modify their value proposition in order to meet more diverse expectations.

**Talent Development Acceleration.** Today’s young talent demands a steady stream of developmental opportunities. A career trellis offering multiple options, as distinct from a single-track, vertically oriented career ladder, can help address that need. To more quickly build employees’ competencies and accelerate the pace of their business experience, companies can immerse their talent in unfamiliar markets, temporarily assign them to external groups, or provide limited-authority opportunities such as joint ventures. These initiatives help raise levels of engagement, reduce unwanted attrition, and ensure a continual flow of talent.

**Talent Engagement and Affiliation.** Nothing derails construction of a robust talent pipeline faster than unwanted attrition. And nothing reduces attrition as
Standardization of Operational Value-Creation Initiatives

The other area in which standardization is taking place is in the range of initiatives that can create operational value at a private-equity firm’s portfolio companies. Exhibit 5 presents a typology of 25 ways that a company can create operational value. Some involve optimizing the company’s financial structure—for example, its working-capital productivity, capital expenditures, or policies for the use of surplus cash. Others focus on creating efficiencies that improve the company’s bottom line—reducing overhead costs, delayering the organization chart, or reengineering key functions such as sourcing, logistics, and procurement. Still others focus on improving the top line—whether by fine-tuning the core business or by expanding into new channels, regions, or whole new businesses.

We asked the private-equity executives whom we interviewed which of these initiatives they regularly use at their portfolio companies. Their answers are portrayed in Exhibit 6. In an environment in which operational value will increasingly come from improving the top line, the good news is that nearly all of the firms are using at least some of the top-line initiatives. More than 80 percent of respondents said that their firms systematically focus on two: M&A and geographic expansion. And more than 70 percent said that their firms also focus on sales force effectiveness and pricing. The bad news, however, is that despite these exceptions, the majority of top-line initiatives bring up the bottom of the list. For example, less than 30 percent of the firms systematically focus on product bundling and cross-selling, less than 20 percent consider account management, and none focus on channel management.

Of course, just because a firm says that it uses any one of these mechanisms does not necessarily mean that it has developed a robust, replicable, standardized capability. In our experience, the areas in which firms are using fully standardized approaches the most are financial optimization and bottom-line improvements. Relatively few have developed standardized approaches to the top-line initiatives increasingly critical to creating operational value. “We’ve become good at taking cost out and standardizing our approach,” said one operating partner. “We are less experienced with the revenue growth levers.” Although it is true that some top-line areas seem inherently difficult to standardize—business model development, for instance, or brand strategy—we believe that best-practice models do exist for many of them. (See the sidebars “A Standardized Process for Pricing Improvement” and “A Standardized Approach to Product Innovation.”)
### EXHIBIT 5 | Companies Can Create Operational Value in Four Broad Areas

<table>
<thead>
<tr>
<th>Financial structure</th>
<th>Bottom line</th>
<th>Top line (core business)</th>
<th>Top line (expansion)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong> Working-capital optimization</td>
<td><strong>6</strong> Sourcing</td>
<td><strong>12</strong> Sales force effectiveness</td>
<td><strong>19</strong> Channel strategy</td>
</tr>
<tr>
<td>Inventory, receivables, and payables management</td>
<td>Outsourcing, offshoring, insourcing</td>
<td>Incentives tied to margin and growth</td>
<td>Expansion into new channels</td>
</tr>
<tr>
<td><strong>2</strong> Fixed-asset optimization</td>
<td><strong>7</strong> Procurement</td>
<td><strong>13</strong> Account management</td>
<td><strong>20</strong> Product innovation</td>
</tr>
<tr>
<td>Capacity, leasing, financing, and utilization</td>
<td>Cost savings and supplier base</td>
<td>Strategic accounts and end customer</td>
<td>New-product development</td>
</tr>
<tr>
<td><strong>3</strong> Capital expenditure optimization</td>
<td><strong>8</strong> Logistics</td>
<td><strong>14</strong> Marketing</td>
<td><strong>21</strong> M&amp;A</td>
</tr>
<tr>
<td>Postpone or avoid investments</td>
<td>Order handling, planning and stocks, warehousing, and distribution</td>
<td>Promotion effectiveness, brand management</td>
<td></td>
</tr>
<tr>
<td><strong>4</strong> Surplus cash policies</td>
<td><strong>9</strong> Operation, production, and manufacturing efficiencies</td>
<td><strong>15</strong> Pricing</td>
<td><strong>22</strong> Brand strategy</td>
</tr>
<tr>
<td>Dividends, share buybacks, and debt repayments</td>
<td></td>
<td>Strategy, levels and structure, execution</td>
<td></td>
</tr>
<tr>
<td><strong>5</strong> Restructuring or divestment</td>
<td><strong>10</strong> Overhead cost reduction</td>
<td><strong>16</strong> Product line development</td>
<td><strong>23</strong> Geographic expansion</td>
</tr>
<tr>
<td>Value- and activity-based cost reduction</td>
<td></td>
<td>Continuous improvements to existing products</td>
<td></td>
</tr>
<tr>
<td><strong>11</strong> Delaying</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>12</strong> Sales force effectiveness</td>
<td></td>
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</tr>
<tr>
<td>Incentives tied to margin and growth</td>
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<tr>
<td><strong>13</strong> Account management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic accounts and end customer</td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>14</strong> Marketing</td>
<td></td>
<td></td>
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<tr>
<td>Promotion effectiveness, brand management</td>
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</tr>
<tr>
<td><strong>15</strong> Pricing</td>
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<tr>
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<tr>
<td><strong>17</strong> Product bundling and cross-selling</td>
<td></td>
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<td></td>
</tr>
<tr>
<td><strong>18</strong> Channel management</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Channel merchandising, sales aspects of logistics</td>
<td></td>
<td></td>
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<tr>
<td><strong>19</strong> Channel strategy</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Expansion into new channels</td>
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</tr>
<tr>
<td><strong>20</strong> Product innovation</td>
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<tr>
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<td><strong>21</strong> M&amp;A</td>
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<tr>
<td><strong>22</strong> Brand strategy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>23</strong> Geographic expansion</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>24</strong> Business model development</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>25</strong> Service</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Model, organization, and processes</td>
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<td></td>
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</tr>
</tbody>
</table>

Source: BCG analysis.

### EXHIBIT 6 | Private-Equity Firms Do Not Routinely Use Top-Line Initiatives

<table>
<thead>
<tr>
<th>Initiatives</th>
<th>Percentage of firms that systematically use this initiative</th>
</tr>
</thead>
<tbody>
<tr>
<td>M&amp;A</td>
<td>91</td>
</tr>
<tr>
<td>Geographic expansion</td>
<td>82</td>
</tr>
<tr>
<td>Sourcing</td>
<td>82</td>
</tr>
<tr>
<td>Overhead cost reduction</td>
<td>73</td>
</tr>
<tr>
<td>Procurement</td>
<td>73</td>
</tr>
<tr>
<td>Sales force effectiveness</td>
<td>73</td>
</tr>
<tr>
<td>Pricing</td>
<td>73</td>
</tr>
<tr>
<td>Working-capital optimization</td>
<td>64</td>
</tr>
<tr>
<td>Capital expenditure optimization</td>
<td>45</td>
</tr>
<tr>
<td>Surplus cash policies</td>
<td>45</td>
</tr>
<tr>
<td>Fixed-asset optimization</td>
<td>36</td>
</tr>
<tr>
<td>Logistics</td>
<td>36</td>
</tr>
<tr>
<td>Operation, production, and manufacturing efficiencies</td>
<td>36</td>
</tr>
<tr>
<td>Delaying</td>
<td>36</td>
</tr>
<tr>
<td>Restructuring or divestment</td>
<td>27</td>
</tr>
<tr>
<td>Product bundling and cross-selling</td>
<td>27</td>
</tr>
<tr>
<td>Channel strategy</td>
<td>27</td>
</tr>
<tr>
<td>Business model development</td>
<td>27</td>
</tr>
<tr>
<td>Account management</td>
<td>18</td>
</tr>
<tr>
<td>Marketing</td>
<td>18</td>
</tr>
<tr>
<td>Product line development</td>
<td>18</td>
</tr>
<tr>
<td>Brand strategy</td>
<td>18</td>
</tr>
<tr>
<td>Service</td>
<td>18</td>
</tr>
<tr>
<td>Channel management</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: BCG analysis.

Note: The sample consists of 29 interview subjects at 15 private-equity firms.
How do the various operating models differ in their use of standardized approaches to operational value creation? On the basis of our research, firms that use external advisors show no consistent pattern. In fact, the initiatives they employ seem largely dependent on the experience of the particular advisor. Firms with generalist operating partners typically have a balanced mix between bottom-line and top-line initiatives, although they tend not to be as comprehensive in addressing bottom-line opportunities—owing mainly to lack of time. Firms with functional partners have a clear focus on standardized approaches to bottom-line improvement, but to the degree that they do address top-line initiatives.

A STANDARDIZED PROCESS FOR PRICING IMPROVEMENT

A standardized process for pricing improvement focuses on two clear goals: improving a company’s pricing model through better policies on how prices are set and improving the pricing platform used to implement those policies throughout the organization.

There are three ways to improve a company’s pricing model. The easiest is through quick, no-risk fixes for pricing policies and anomalies—for instance, tightening the terms of payment, setting strict guardrails (such as minimum profitability levels), increasing prices on products or product features that have low visibility, and monetizing giveaways. Such initiatives can be decided upon quickly and rolled out for immediate impact.

Other changes are more strategic—for example, shifting price levels on key items by changing list prices or redefining the terms of trade promotion. Such moves are not to be taken lightly. It is critical to analyze carefully how both customers and competitors are likely to react to the changes. Exploring the impact of such changes takes some time, but once a decision is made, implementation is fast—and so are results.

The third, and most comprehensive, way to improve a company’s pricing model is by creatively rethinking its overall pricing structure. For example, a company could decide to overhaul its product lineup or completely rebuild its discount structure. It might also consider innovations such as pricing for performance, subscription pricing, or dynamic pricing (which is pegged to an external variable, such as time of day). These types of changes require managers to carefully segment their customers and opportunities. Piloting and testing are crucial before pricing schemes are rolled out; therefore, implementation takes longer than for other, less complex moves.

Improving the pricing platform is a more cyclical effort in which the company reviews its progress and redesigns its processes when necessary. The process includes redefining the roles and responsibilities of key stakeholders; establishing a clear process for collecting, analyzing, and interpreting market data; integrating pricing into key business processes; investing in tools and technology to support stakeholders in pricing; and designing incentives for general managers and sales teams that incorporate explicit price-realization targets.

Given the complexity of pricing improvement, it is best for these initiatives to be implemented in phases. Start by sizing the prize and developing a road map for pricing improvements. Then optimize price levels in the pricing model and redesign processes in order to improve the pricing platform. In the final two phases, return to the pricing model to reshape the pricing structure (a new product lineup and new pricing schemes, for example) and hardwire the new pricing platform.

For additional information on pricing improvement, see “Pricing Fluency: A Program for Pricing Excellence,” BCG article, December 2009, from which this sidebar is excerpted.
After years of focusing on cost, quality, and productivity, private-equity firms are increasingly concerned with generating growth. As a result, they want more innovation from their portfolio companies. But they often admit that they don’t know how to put an innovation agenda into practice.

A starting point is to realize that innovation is an act, not an idea. Successful innovation—which is to say profitable innovation—depends on the entire set of actions that are required to turn an idea into cash returns. Combined, these actions are what we call the innovation-to-cash process. Because this process cuts across organizational boundaries and presents many difficult choices, it must be explicitly and thoughtfully managed. In particular, companies need a way to evaluate and manage the inherent tradeoffs—consistently and across a whole portfolio of different innovation efforts.

Despite the many uncertainties of innovation, it is possible to assess, at the outset, the likely impact of different approaches to managing the full innovation-to-cash process. This is accomplished by examining a particular innovation’s “cash curve.” A cash curve depicts the cumulative cash investments and returns for an innovation over time. It runs from the very beginning of development until the point at which the product or service is removed from the market. (See the exhibit “A ‘Cash Curve’ Offers a Window on Product Innovation Initiatives.”)

By carefully modeling the impact of different choices on the cash curve of an innovation, managers have insight into the relative impact of key drivers of value. This approach also provides a mechanism for raising important questions about risks and for discussing possible interventions to reduce the risk of failure.

The financial analysis of innovations, which is fairly common, combined with a dynamic view of the cash curve, which is relatively rare, blends strategy and execution. It can make the difference between developing another inconsequential product or service and winning big—because it gives the top management team a language for and an appreciation of interrelated financial, market, and technology risks. In the end, executives have common ground to make better tradeoffs and break current compromises.

For a fuller treatment of this subject, see “Making Innovation Pay,” BCG article, May 2004, from which this sidebar is excerpted.
levers (which is rare), they often take a relatively unsophisticated “plain vanilla” approach. The profile of firms with operating teams is similar to that of firms with functional partners, although the teams, of course, are significantly more involved in the actual implementation. (See Exhibit 7.)

The trend toward increased standardization in private equity presents the industry with a paradox. The more the industry embraces standardization—both in the deal process and across the spectrum of ways to create operational value—the less likely it is that either arena will become a source of differentiation. However, those firms that push standardization furthest and fastest will free up their senior people to focus on activities that potentially can confer a long-term competitive advantage—specifically, activities that do not lend themselves to standardized approaches and that require a complex mix of strategic and operational skills (for example, top-line expansion levers such as channel strategy, brand strategy, and business model development).
The Shift to Operational Value Creation is creating one final challenge for the private-equity industry. As the staffs at private-equity firms become bigger—and include people with backgrounds and disciplines that go beyond the financial expertise of the industry’s early years—these firms’ organizations are becoming more complex. This complexity will force firms to professionalize their management processes.

In a sense, the private-equity industry faces a situation not so different from that of a successful start-up that has become a big company. The ad hoc practices that worked well during its early years are no longer effective. Instead, the company has to take a more structured approach to key internal issues. So, too, do private-equity firms today.

More professional management does not necessarily mean more bureaucracy; it can be achieved in ways that preserve the flexibility and fast decision-making of the traditional private-equity organization. What it does mean, however, is paying closer attention to key internal processes that govern how employees are developed, how they are compensated, and how they work together.

Professional Development
In the early days of private equity, the career path for people in the industry was straightforward. They did deals; if the deals were successful, they were promoted; the more successful the deals were, the more money they would make.

Today, things have become more complicated. As private-equity firms grow bigger and include not only financial but also industry and functional experts, questions of professional and career development come to the fore. And in a tougher economic environment, it is no longer enough to assume that outsized pay packages will attract the right kind of people. Much like their portfolio companies, firms will have to define appropriate metrics for recruiting, nurturing, and rewarding many different kinds of talent and put into place a comprehensive review process that reinforces those metrics.

Communication, Decision Making, and Teaming
Another key area in which practices need to be professionalized concerns interactions between a private-equity firm’s deal-team staff and operating personnel. Effecting change in this area is more a matter of organizational culture than formal processes. Probably the biggest obstacle to successful operational value creation in private equity today is the perception on the part of at least some operating personnel at some firms that they are not treated as equal partners in the private-
equity enterprise. In our interviews, we heard phrases such as “lack of empowerment” and “second-class citizens.” Until industry and functional experts are full members of the private-equity team—sitting on boards, involved in making key decisions, considered equal partners in realizing the private-equity firm’s mission, and compensated according to their actual contribution to value creation—a firm’s commitment to operational value creation is not really complete.

To address this problem, firms need to encourage clear communication, especially regarding decision-making responsibilities and teaming expectations. There needs to be clarity about who on the deal and operating teams makes a particular decision and who should provide input before a decision is made. There also need to be clear expectations about reporting structure, roles, and responsibilities.

A New Partnership

In the end, improving a private-equity firm’s capacity to create operational value—especially when delivering that value depends on top-line growth—will require a new kind of partnership. In the traditional world of private equity, the partnership was between the private-equity firm’s deal team and the management of its portfolio companies. In private equity’s next phase, deal teams, operating teams, and portfolio company management all need to work together to ensure top performance.

Industry and functional experts must be full members of the team.

The precise outlines of that partnership will differ depending on the size of the private-equity firm and the particular operating model that it pursues. But whatever the source or form of a private-equity firm’s operational expertise, it will succeed at top-line operational value creation only if that expertise is fully integrated into the firm’s business model and if there is seamless teaming among the private-equity firm’s deal and operating teams and the portfolio company’s management. Ultimately, the strength and quality of that three-way partnership will be the key determinant of a firm’s competitive advantage in the years ahead.
The Boston Consulting Group publishes many reports and articles on private equity and value creation that may be of interest to senior executives. Examples are listed here.

**FOR FURTHER READING**

- **M&A: Using Uncertainty to Your Advantage**  
  A Focus by The Boston Consulting Group, December 2011

- **Value Creation Beyond TSR**  
  A Focus by The Boston Consulting Group, December 2011

- **No Time Like the Present to Plan an IPO**  
  A report by The Boston Consulting Group, October 2011

- **Risky Business: Value Creation in a Volatile Economy**  
  The 2011 Value Creators Report, September 2011

- **Riding the Next Wave in M&A: Where Are the Opportunities to Create Value?**  
  A report by The Boston Consulting Group, June 2011

- **The Debt Monster**  
  A Focus by The Boston Consulting Group, May 2011

- **The Art of Planning**  
  A Focus by The Boston Consulting Group, April 2011

- **Does Practice Make Perfect? How the Top Serial Acquirers Create Value**  
  A Focus by The Boston Consulting Group, April 2011

- **Making Your Company Inflation Ready**  
  A Focus by The Boston Consulting Group, March 2011

- **Best of Times or Worst of Times?**  
  A joint White Paper by The Boston Consulting Group and the Royal Bank of Scotland, January 2011

- **Why Companies Should Prepare for Inflation**  
  A Focus by The Boston Consulting Group, November 2010

- **Threading the Needle: Value Creation in a Low-Growth Economy**  
  The 2010 Value Creators Report, September 2010

- **Accelerating Out of the Great Recession: Seize the Opportunities in M&A**  
  A report by The Boston Consulting Group, June 2010

- **Cross-Border PMI: Understanding and Overcoming the Challenges**  
  A Focus by The Boston Consulting Group, May 2010

- **Megatrends: Tailwinds for Growth in a Low-Growth Environment**  
  A Focus by The Boston Consulting Group, May 2010

- **After the Storm**  
  The 2010 Creating Value in Banking Report, February 2010

- **Time to Engage—Or Fade Away: What All Owners Should Learn from the Shakeout in Private Equity**  
  BCG White Paper, published with the IESE Business School of the University of Navarra, February 2010

- **M&A: Ready for Liftoff? A Survey of European Companies’ Merger and Acquisition Plans for 2010**  
  BCG White Paper, published with UBS Investment Bank, December 2009

- **Searching for Sustainability: Value Creation in an Era of Diminished Expectations**  
  The 2009 Value Creators Report, October 2009

- **Be Daring When Others Are Fearful: Seizing M&A Opportunities While They Last**  
  A report by The Boston Consulting Group, September 2009

- **Fixing What’s Wrong with Executive Compensation**  
  BCG White Paper, June 2009
NOTES TO THE READER

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