Middle Market Methods™

Value Creating Solutions in Private Equity

2010: 4th Quarter

www.middlemarketmethods.com jalanier@middlemarketmethods.com 770-806-8718

Value Creation Roadmap: 100 Day Plans vs. Strategic Plans

By John A. Lanier

Most private equity firms at least give lip service to some version of a 100-Day Plan. Given the laundry list of post-close action items, the effort makes sense. Even so, does the 100-Day Plan actually create value? Not likely. However, the 100-Day Plan mitigates risk, so chalk this up to good defense.

Whereas defense may keep teams from losing the game, offense scores the points that win the game. This reality should shift leadership focus to strategic planning.

But wait a minute! Doesn't the investment thesis cover strategy? Of course, but the investment thesis does not "operationalize" strategy. Strategy is only vindicated when it results in accelerated EBITDA growth. "Operationalizing" strategy (the investment thesis) is tactical and must be owned by the portfolio company leadership team.

The Value Creation Roadmap combines the action items of a 100-Day Plan with the tactical priorities required of the investment thesis.

Middle Market Methods™ suggests a planning session for the benefit of the portfolio company leadership team—not the private equity firm deal team. Using a different moniker for the endeavor also precludes confusion. How about calling it *The Value Creation Roadmap*?

What should *The Value Creation Roadmap* accomplish? The *first objective* is introducing the key process owners of the business model to the investment thesis. Depending on who negotiated the deal for the company, these leaders and their subordinates may still be in shock about the change of ownership, much less the expectations of them for EBITDA growth.

When business model process owners initially encounter the typical "3X in 3" investment thesis, they often reflexively emote—followed by awkward moments toward reestablishing comportment. This reaction, however, may be the best due diligence the deal team encounters. This is the *second objective* of *The Value Creation Roadmap*: identifying what the leadership team knows that the investors do not know about the scalability of the business model. By engaging those who actually run the core processes of the company, valuable insights are gleaned, including (i) corroborated due diligence, (ii) clarified due diligence, (iii) invalidated due diligence, and (iv) missed due diligence.

Okay. Now what? Given a finite resource pool, leadership teams need to prioritize the initiatives that, in colloquial terms, accomplish "the mostest with the leastest" (sic). This is the *third objective* of *The Value Creation Roadmap*:

establishing the "vital few." As Larry Bossidy and Ram Charan remind leaders in *Execution: The Discipline of Getting Things Done*, less is more, i.e., teams do better in knocking out a choice few deliverables at a time.

What happens when the "vital few" require bandwidth or skills beyond the realm of reality for the portfolio company? The answer addresses the *fourth objective* of *The Value Creation Roadmap*: identifying capabilities vs. necessities. This is a "moment of truth" for the private equity deal team. By sourcing among the private equity firm's subject matter expert network, the deal team builds relational bridges with the portfolio company leadership team while simultaneously supporting the value creation endeavor.

Of course, some firms have operating partners who may cover the supplemental skill sets needed by the portfolio company initiative. Even so, a bullpen of relievers is advisable for three reasons. First, the operating partners may also have exhausted their bandwidth. Second, some types of deliverables are so infrequent that the firm is better served by outsourcing than staffing. Third, an outsider may occasionally have more situational flexibility than a member of the firm.

Initiatives invariably have a bevy of tasks—including a critical path for those tasks. Additionally, there is an optimal execution order across initiatives and their requisite tasks. This is where good project management pays off. The execution recipe should be codified in a Microsoft Project plan.

The investment thesis must be "operationalized."

Project plans have tremendous utility. Not only do they facilitate choreography and coordination, but they also aid general management, performance management, meeting agendas, and communications. This is the *fifth objective* of *The Value Creation Roadmap*: execution leadership.

Did we forget the 100-Day Plan items? Of course not! They are in the mix. The point is that when 100-Day Plans are done independent of strategic exercises, potential dysfunction ensues. Why? Both draw from a common resource well.

What about timing? After the LOI, there is a tipping point at which stakeholders deem closure to be imminent. This is when planning should commence. "Homework" assignments kick off in a two-week window on either side of the projected closing date. Ideally, *The Value Creation Roadmap* session occurs within 30 days of closure.

In summary, a corollary to Harvey MacKay's (*Swim With the Sharks Without Being Eaten Alive*) line reminds us that we don't plan to fail; rather, we fail to plan. The best timing window for the Value Creation Roadmap suggested above is an 80-20 scenario. Keep in mind, however, that 80 percent is more than twice Ty Cobb's lifetime batting average. The results of prioritized planning are potent.

The best practices promoted by *Middle Market Methods*™ result from 10 years of validation in middle market private equity. Let *Middle Market Methods*™ show you how to turn *The Value Creation Roadmap* into exit multiples.