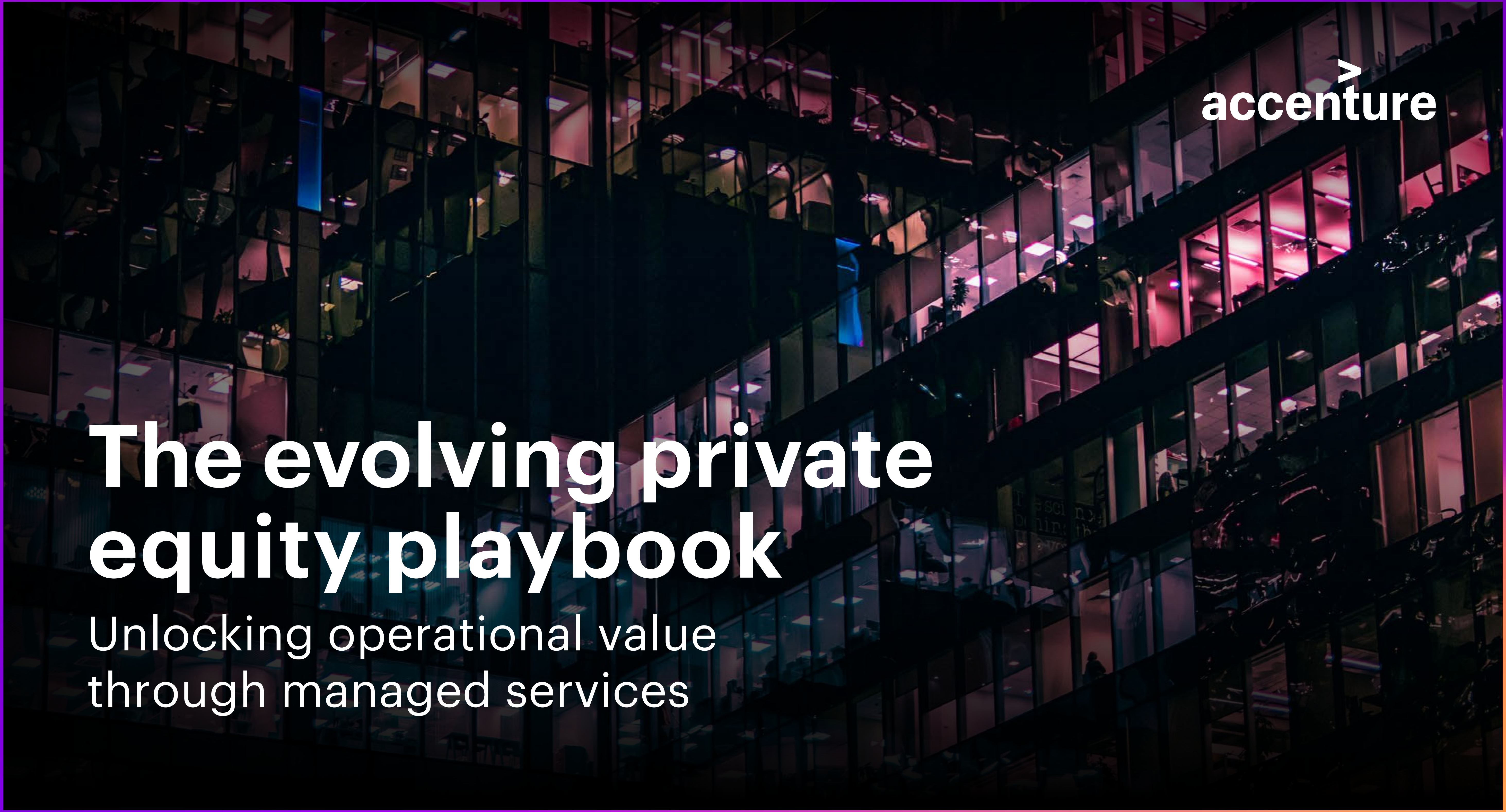

accenture

The evolving private equity playbook

Unlocking operational value through managed services

92%

of mid-sized companies have room for operational improvement.

Why are private equity (PE) firms leaving so much money on the table by not leveraging managed services consistently in their portfolio?

There are common misconceptions. *Most portfolio companies are too small to make managed services work. The time to value is too long to work in a PE setting. Managed services would reduce exit optionality.*

These myths have all been busted due to technological and commercial advancements, and as the outsourcing industry evolved from a commodity to a strategic play.

PE firms actively look for ways to optimize revenue, EBITDA and working capital in their portfolio companies by participating in risk-sharing arrangements with reliable and trusted partners.

We see three common scenarios for how companies leverage managed services:

1. Call for a strategic partner to optimize processes.
2. Seek a collaborative entity for technology enablement.
3. Partner with someone who can enable both business process and technology improvements.

In this piece, we focus on the first approach of business process managed services.

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Client example

Take our partnership with a PE-owned telco provider with revenue below $1 billion.

Our journey started with order fallout management and since then our partnership has grown through strategic managed services.

The company is currently transitioning more than six million households from copper to fiber. Accenture is a key value accelerator in this, supporting their capacity- and order-driven fiber rollout.

Accenture has generated an estimated $40 million in savings for the client since 2013, representing an

89%

internal rate of return per annum on an initial investment of $4.4 million to set up the service.

The current run rate improvements with an assumed multiple of 10-15x represent a $50-75 million increase in enterprise value. The partnership also provides additional value in areas including customer experience enhancements from improving delivery to promised date.

When the PE owner decides to exit the portfolio company, these strategic managed services will help ensure a smooth transition as they provide a vision, visibility and continuity to the new owners that can take over the managed services contract.

Key takeaways

An increasing amount of capital is chasing a finite number of assets. In this environment, the focus is increasingly on operational value creation levers as firms are holding assets longer and leaders look to drive more fundamental change.

Operational value creation is paramount

75%

of efforts should focus on operational value creation, say PE leaders, with financial engineering taking up the remaining 25%.

Operating models and scalability are the top challenges

58%

of PE leaders rank broken operating models and an inability to scale operations among their top three challenges to value creation. Improving these will put a strain on talent, which may not even be available.

Companies struggle to fully develop their operations

8%

of mid-sized companies reach the highest level of operations maturity where talent, data, AI and business-tech collaboration drive efficiencies, profitability and growth.

Reaching the highest level of operational maturity improves profitability

2.3x

higher operating margins are expected to be achieved by 2025 for mid-sized companies reaching the highest level of operational maturity.

Strategic managed services drive operational maturity and bring cost and productivity benefits

>40%

run-rate cost savings can be reached for functions supported by strategic managed services, along with greater innovation and infusion of needed skills.

Companies using strategic managed services grow faster

2.5%

higher revenue growth and 1.5% greater operating margins are typical for companies that engage with a managed services provider.

The need for operational value

Competition from an increasing number of PE firms sitting on trillions in dry powder is fiercer than ever, requiring a different approach for the industry.

Firms are increasingly engaging in deals that are more complex. Many come with operational challenges:

- Operating models are more fragmented and under pressure — lacking scalability for organic growth and equally unable to support inorganic bolt-ons.
- There are too many transitional service agreements (TSAs) that go on too long and drain value and focus from the NewCo.
- The ability to drive end-to-end experiences and services for customers and employees is compromised because the operating platform has no unified business process.

These circumstances are challenging PE leaders to go beyond financial engineering to delve deeper into operational value creation. By focusing on operational value levers, they can advance their portfolio companies' operational prowess.

Currently, less than 10% of companies of all sizes achieve operational maturity. In these companies, talent, data and AI are critical to driving enterprise-wide reinvention through their operations. These firms achieve higher margins, faster innovation, better ESG performance and higher customer satisfaction scores.[2]

The good news is that the levers for operational value creation are known (see Figure 1). Many are tested and proven. The true complication is in the ability to execute on a wide range of levers in a short timeframe.

14%

increase in average hold period compared to ten years ago along with the rising cost in capital put return on investment under pressure.[1]

Private equity leaders recognize financial engineering is not enough to meet investor expectations. According to a study by Accenture, they believe it should account for just 25% of their efforts.

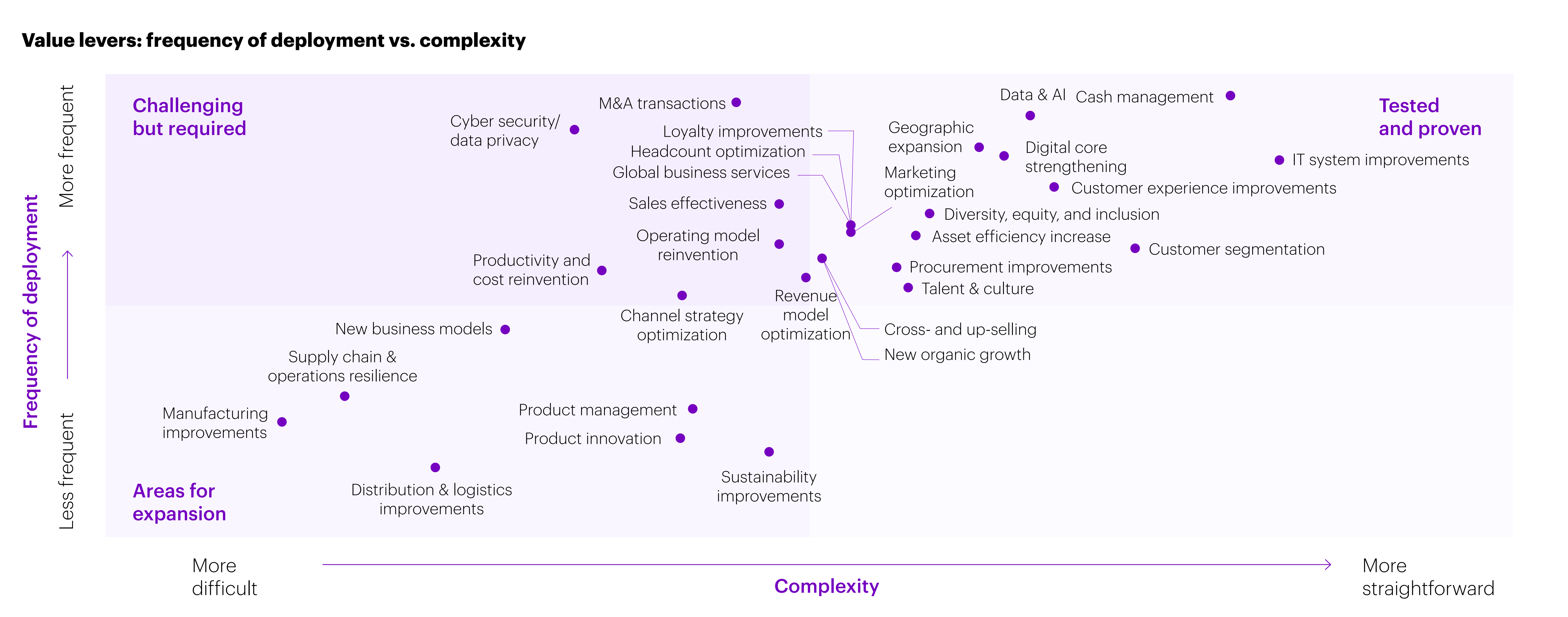
The remaining

75%

should focus on operational value creation.[3]

Figure 1:

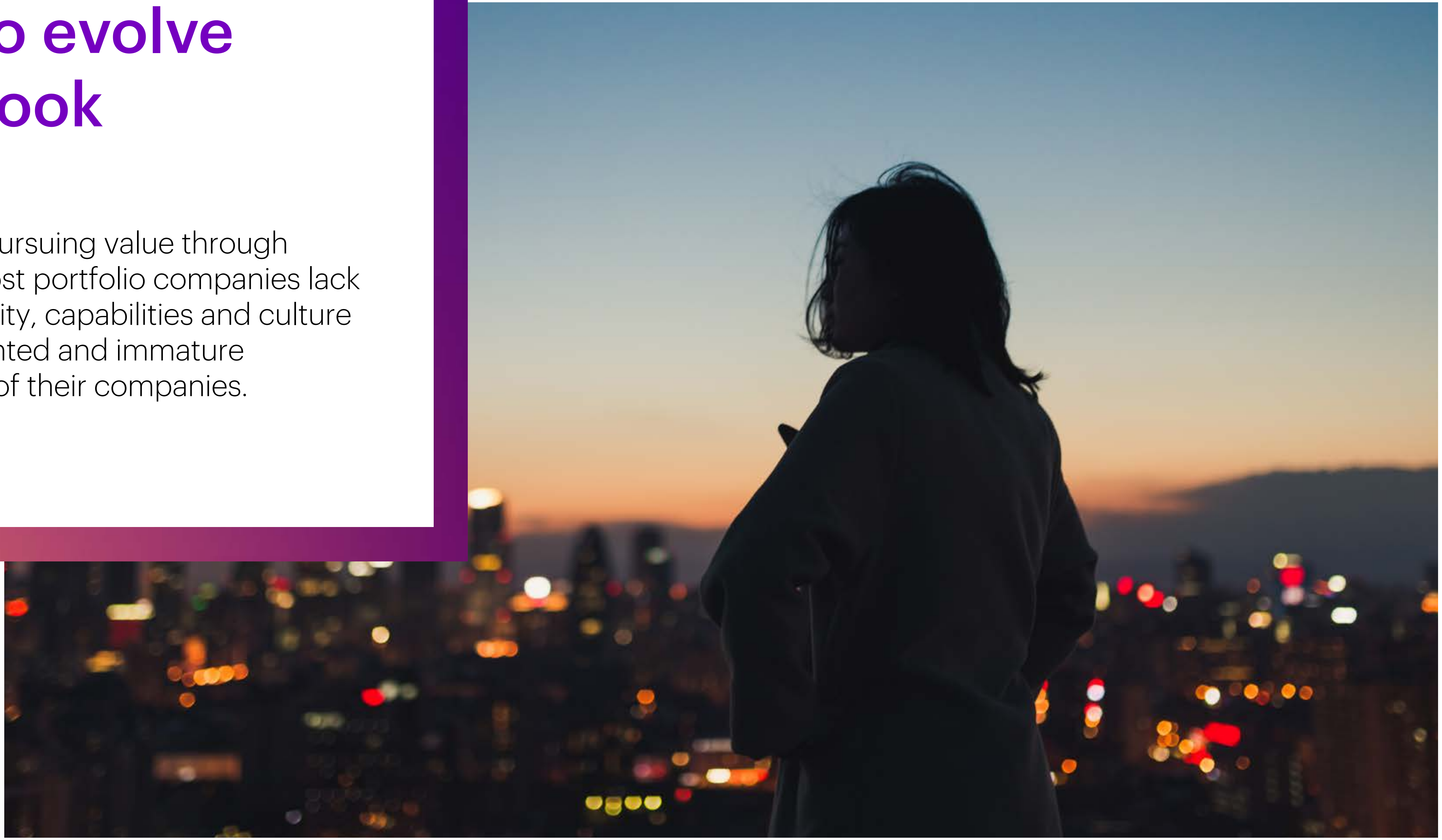
Operating teams need to expand their set of operational value creation levers and determine which are core to the company and which can be served through partners to accelerate time to value.



Source: Accenture, Conquering the next value frontier in private equity, 2023.

It’s time to evolve the playbook

The challenge with pursuing value through operations is that most portfolio companies lack the leadership capacity, capabilities and culture to tackle the fragmented and immature operating platforms of their companies.



Executing on a wide range of value levers successfully requires an overarching vision and coordination to ensure the whole is greater than the sum of its parts.

58%

of PE leaders rank "broken operating models" and "inability to scale operations" among their top three challenges to value creation.[4]

Leaders need to ensure that investments in value creation levers are not isolated efforts but are coordinated in a way that they reinforce another. They must also realize that the journey to operations reinvention is not sequential or linear. Investments in value creation levers are often influenced by pressing business priorities.

It's about optimizing investments for expected return. And it's about setting up the portfolio company so that further value can be created in subsequent phases, for example through potential add-ons or expansion into new markets.

Many portfolio companies fail to hire the required talent at the required pace. They also struggle to develop mature, efficient operating models and processes that are enabled by data and technology. Forget handling complex transformations, like setting up standalone operations after a carve-out, or rolling up acquisitions if the PE sponsor pursues a targeted buy-and-build strategy.

In light of these circumstances, going at it alone risks missing out on the speed, quality and predictability of the intended business outcomes.

Such complex initiatives require strong strategic partnerships to drive the desired results.

The managed services these partners provide benefit from the innovation developed for *Fortune 500* companies, while being tailor made to serve the need of private equity and mid-market companies. They:

- Focus on financial performance, driving efficiencies to operate and scale.
- Accelerate time to value.
- Mitigate delivery risk.
- Drive better service to customers, while allowing the company to focus on growth.

These managed services — whether in business processes or technology — eliminate the need for companies to build in-house. If done well, they reduce the time to value to months rather than years — even for smaller portfolio companies.

Since Accenture helped pioneer business process outsourcing more than 30 years ago, much has changed. The industry has evolved its commercial models and moved from being a commodity play to a strategic play — from back-office to total enterprise, underpinned by data and AI across every process and function.

A strategic managed services approach acts as an effective and efficient driver of holistic value: organizations get talent at scale, cutting-edge supporting technologies, proven business processes and industry expertise.

This can bring great benefits to mid-market companies hindered by historic underinvestment and challenged to attain the skillsets required to build these capabilities internally within the investment timeline.

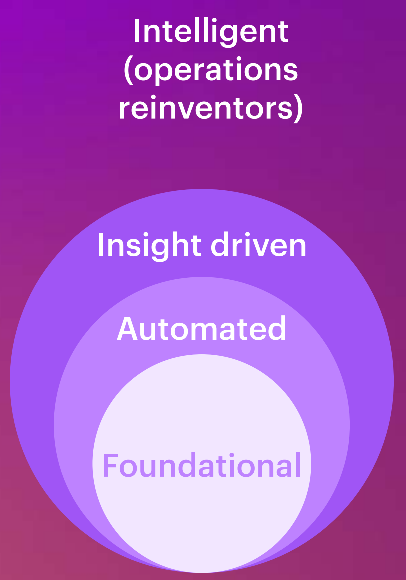
Through strategic managed services, PE firms can build six capability measures of operations maturity for their portfolio companies, future-proofing their operations to drive efficiencies, profitability and growth (see Figure 2).

Once the portfolio company is set on an operations reinvention journey, these services transition smoothly even when ownership changes hands.

They provide a vision and visibility to the new owners and continuity to the reinvention journey, enabling next-level operational maturity.

Figure 2:

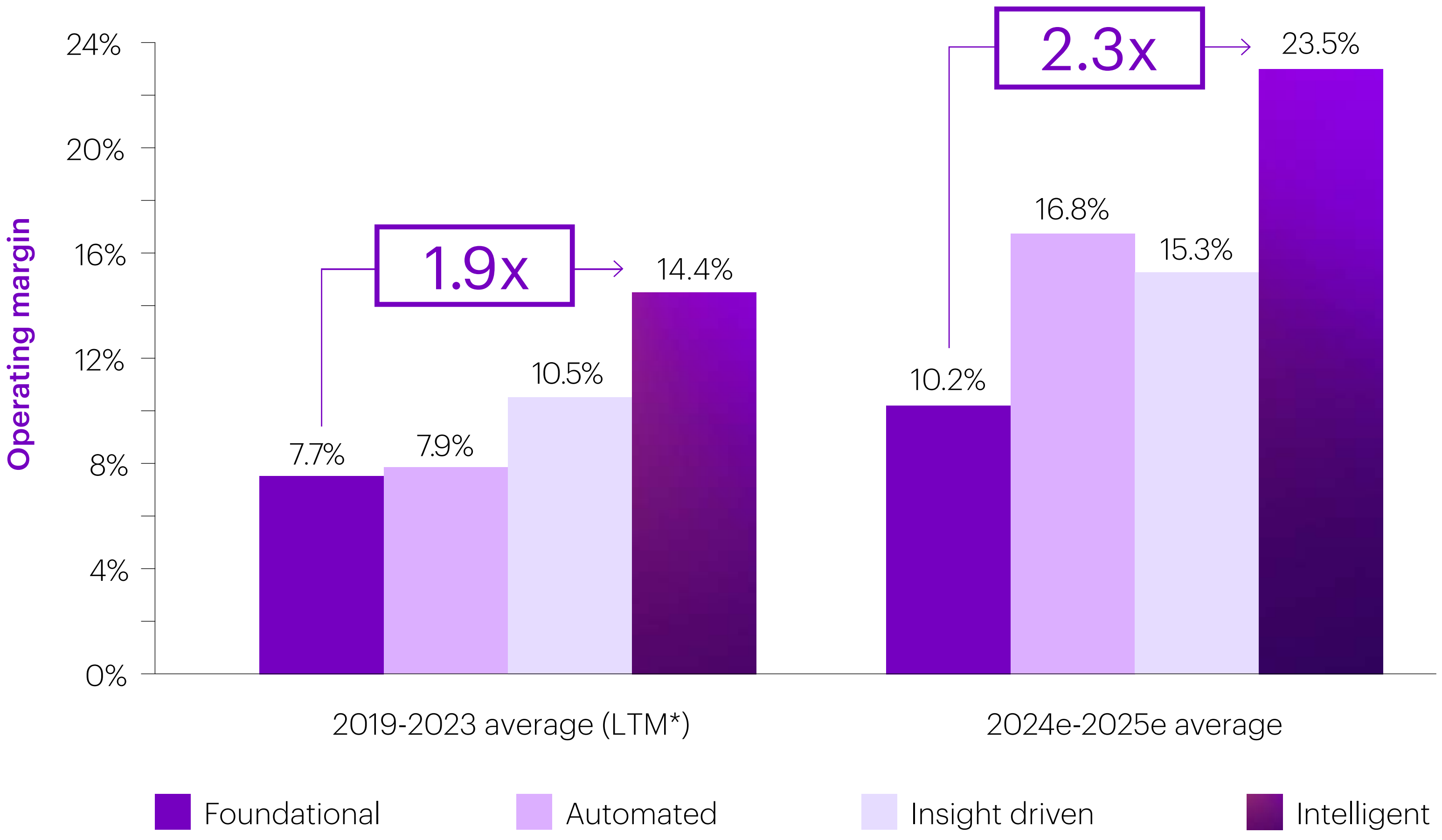
The six capability measures of operations maturity are foundational for embedding new technologies like generative AI into operations.



Data, analytics and automation	Artificialal intelligence	Leading practices	Business-tech collaboration	Talent strategies	Stakeholder experiences
A well defined data strategy, overlayed on a centralized, secure and diverse data lake On-demand analytics, advanced modeling and data science Cross enterprise deployment of low-code/no-code automation for exponential efficiency	AI deployed in nearly all processes, redefining performance benchmarks Continual reassessment of AI roadmap Ecosystem partnerships drive AI-led scenario planning for continuous strategic reinvention	Leading practices applied to all business processes AI critical business operations moved to the cloud to enable agility and to optimize cost to serve Process mining to calibrate internal and external benchmarks to drive best-in-class performance	IT and business functions partner to drive strategic roadmap and execution IT enables the integration of ecosystem partners (startups, SaaS, AI platforms) to take IT-OT integration to the next level	Machines augment human work in nearly all processes across functions Equipped with specialized talent (e.g., data scientists, AI practitioners, design thinkers, product managers) Ecosystem partnerships and external talent platforms to improve talent capabilities and agility	Enterprise-wide stakeholder experience programs deployed at scale and enabled by advanced data analytics and user-led automation technologies AI-led continuous improvement of all experience programs across business units and geographics

Figure 3:

The performance gap is expected to widen between companies that reach the highest level of operational maturity and those that don't.



Source: Accenture Research analysis leveraging S&P Capital IQ, 2024. Sample size: 286 companies.
2024e and 2025e based on consensus analyst forecast as of Sep 30, 2023. *LTM refers to last twelve months.

Only 8% of mid-sized companies across industries reached the highest level of operations maturity.

We predict that these companies will achieve

2.3x

higher margins by 2025.

A massive

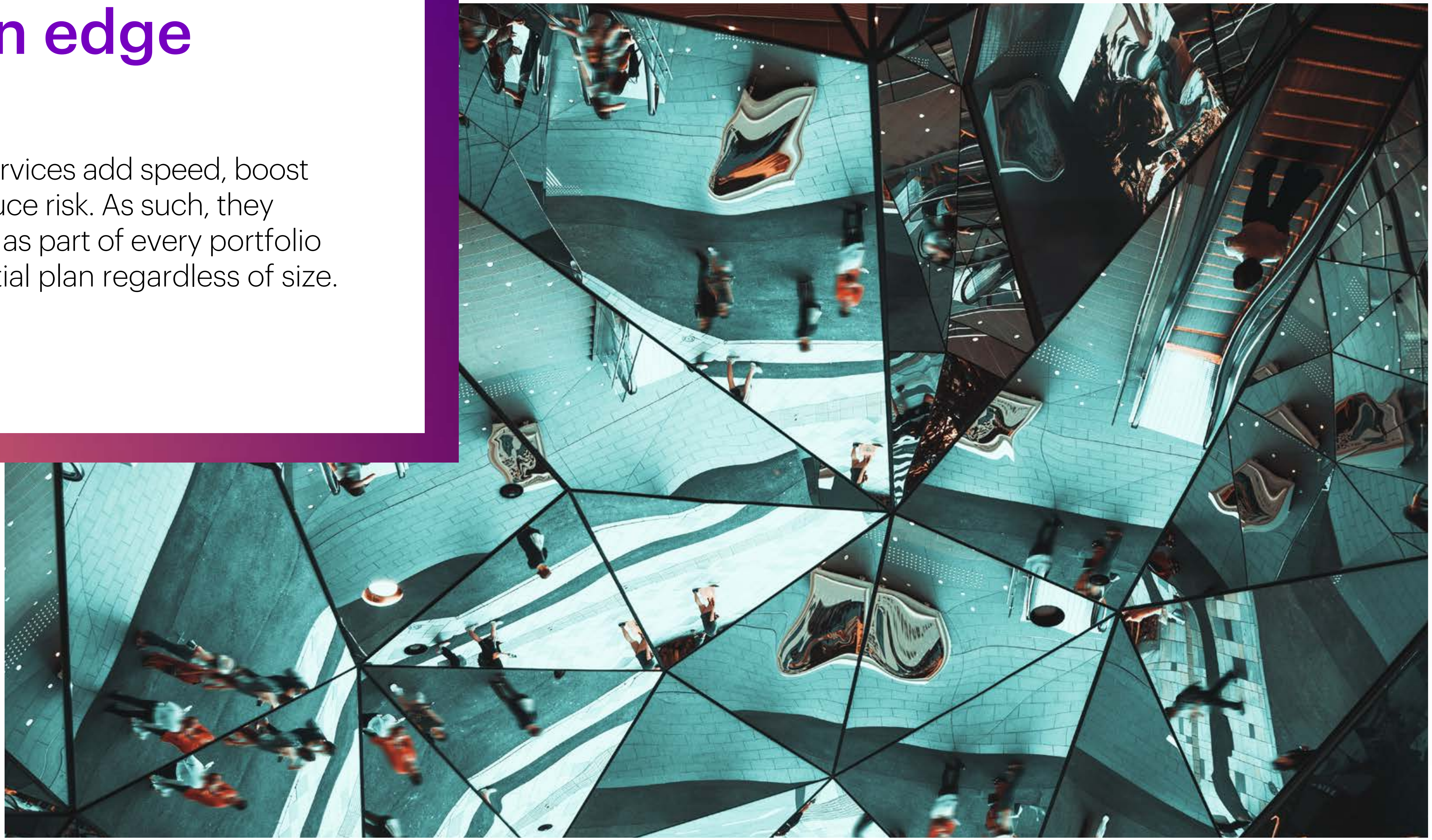
92%

of mid-sized companies have room for operational improvement.[5]

PE firms that are early movers in this space can build higher levels of maturity and drive significant competitive advantage.

Gaining an edge

Strategic managed services add speed, boost predictability and reduce risk. As such, they should be considered as part of every portfolio company's full-potential plan regardless of size.



Most people associate managed services with cost-focused finance, HR, IT and procurement outsourcing. But are they getting to the heart of the business? There's much more to it in customer service, inside sales and industry-specific services.

Companies that engage with a managed services partner have an edge in their EBITDA.

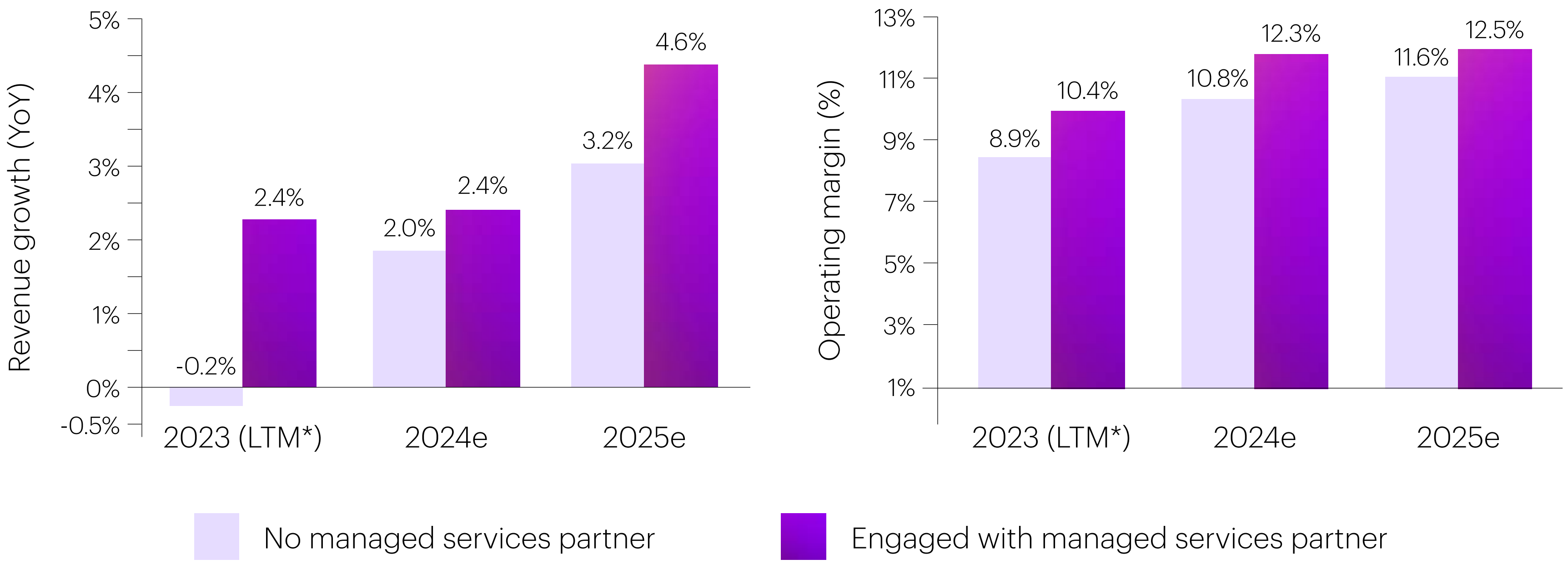
How? Strategic managed services give access to a network of operations professionals bringing instant capabilities and solutions to bear on a range of interventions.

With commercial arrangements that guarantee the delivery of the value, they bring:

- **Unified business processes** along with better organization of work and access to global talent pools, ensuring the right work happens in the right place.
- **An infusion of IP** through a customizable digital platform that stays on top of the latest in technology and act as an extension of the portfolio company's R&D and strategy functions.
- **Boosted productivity,** by delivering an immediate impact on operating costs that continues throughout the hold period and also after exit, allowing for a seamless transfer.
- **Better stakeholder experiences** through greater performance and consistency on key service metrics and by enabling the portfolio company to reallocate people to priorities like driving top-line growth.

Figure 4:

Companies working with a managed services partner experience higher top-line growth and capture better operating margins — an advantage that is expected to continue.



Source: Accenture Research analysis leveraging S&P Capital IQ and FactSet data, 2024. Sample size: 175 companies for which partnership data was available. 2024e and 2025e based on consensus analyst forecast as of Sep 30, 2023. *LTM refers to last twelve months.

Client example

40% run-rate cost reduction in enterprise function consolidation

Accenture helped a European PE firm turn around an asset in distress. This portfolio company, a provider of online services, suffered from fragmented processes in order-to-cash and challenges in transforming from traditional field sales to digital. They needed an accelerated transformation to make their investment case.

We worked to turn the company around and took over marketing, sales operations, digital inside sales, finance and accounting to deliver cost savings and maximize revenue. Partnering with the client, we developed an automated dashboard with daily insights for key metrics.

The end result: A 40% reduction in run-rate costs, helping enable the PE firm to successfully exit the company.

Three considerations to maximize value

In your current investment portfolio as well as in future deals, what can you do differently to make a bigger impact through strategic managed services?

Strong strategic managed services providers help build resilience in a time of disruption and become true partners in innovation, operating with a “one team” mentality. As you prepare for your next investment, consider the following:

01 Get a head start

Think about strategic managed services pre-close, rather than several years into the investment. Doing so allows for deeper interventions by providing a longer tail for savings and returns on any initial investments.

In addition, engaging with a managed service provider early can bring due diligence simplification, drive faster value creation from Day One and enable a more focused 100-day plan..

02 Embed value-based models

Pick a partner that can identify and commit to delivering outcomes commercially, and can look at the portfolio company’s end-to-end value chain beyond optimizing individual functions. This helps ensure no important opportunities for value are missed.

In doing so, keep in mind that there are many benefits to capture beyond cost savings and harness the six operational capabilities to mature, scale and industrialize operations. Finally, facilitate knowledge exchange between the PE firm and its various portfolio companies.

03 Amplify benefits with larger partners

Working with a large provider means having a trusted partner that can put its balance sheet to work and acts as a “one-stop-shop” to deliver the outcomes at your portfolio company.

Unlike boutique firms, a large provider can bring deep industry expertise in every geography. This allows for a tailored approach that closely fits with the organization and its strategic goals. Something they can do for deals and capabilities across your portfolio.

Client example

>40% finance savings in a carve-out

When an investment firm acquired a leading energy infrastructure company, they asked Accenture to support the acquisition throughout its investment cycle.

We readied the portfolio company's operations providing the set up for and establishing a separate organization through finance services. And we are currently running the operations for thirty months — and counting — after the sale.

Thanks to strategic managed services, the company enjoyed flexible staffing and onboarding to fit the M&A timelines. Nearly half of the team onboarded within one month of contract signature. The company adopted a lean factory model for application management and development using part-time staff. The overall approach resulted in more than 40% savings by using a mix of near and offshore delivery models.

Writing a new page

Many PE firms are evolving their strategic playbook, turning to a new page focused on operational value beyond financial engineering.

Getting there means joining with partners that can deliver new skillsets, resources and cultural orientation and building a competitive advantage that spans geographies and portfolios.

Contact us

If you want to learn more about our strategic managed services, reach out to us.

We provide strategic advisory, operating model design, transformation and run-services for functions across the firm — including finance, procurement and marketing — with commercial models that deliver business outcomes that we design together.

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About the research

The findings in this report are based on the following research streams:

Leveraging the private equity leaders survey from our report Conquering the next value frontier in private equity: Accenture surveyed 170 PE leaders from North America (55%), Europe (34%) and Asia Pacific (11%) who engage in strategy and execution for portfolio companies between January and April of 2023.

Leveraging the survey from our thought leadership Reinventing Enterprise Operations, conducted in May 2022, and carving out a sample of 469 mid-sized companies for this study.

Secondary research: Accenture analysis based on Factset and S&P Capital IQ data.

References

1. Accenture, Conquering the next value frontier in private equity, 2023.

2. Accenture, Reinventing enterprise operations, 2023. We surveyed 1,700 executives, from 15 industries and 12 countries, and found that 9% of organizations achieved the highest level of operational maturity. These "operations reinventors" achieve 1.4x higher margins, 42% faster innovation, 34% better sustainability and 30% higher satisfaction scores.

3. Accenture, Conquering the next value frontier in private equity, 2023.

4. Ibid.

5. Accenture research analysis leveraging S&P Capital IQ data, 2023.

How we can help

Accenture Private Equity partners globally with PE clients across their investment life cycle. We provide end-to-end services that span due diligence and deal support, transition and transformation planning, as well as portfolio company value creation, using proven solutions underpinned by digital and technology. In addition to supporting the investment life cycle, we help PE firms reinvent the ways they create value through scaled portfolio capabilities, shared services and access to leading ecosystem partners. Visit us at accenture.com/PrivateEquity

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