# Enabling Successful Cost Transformation for Product-Centric Companies in Private Equity

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Portfolio companies are looking to pivot and adapt to a very different business environment after the pandemic, defined by higher rates, persistent inflation and a looming recession. In the face of this, private equity (PE) professionals and technology leaders are managing teams through a once-in-a-career experience. Many are being expected to achieve the unachievable: rapid cost-out programmes that also manage to avoid destabilising the product road map, often critical to the growth and profitability of the business.

This pressure is particularly tough for leaders in companies whose products are built on technology, such as software, e-commerce, media as well as financial and business services businesses. In these product-centric organisations, the business strategy and the product road map are deeply connected. When a company's future depends on new and improved products, maintaining the product road map is a challenge that concerns every part of the business.

Currently, making significant decisions with your technology environment means walking a tightrope between delivering the value creation plan, balancing present business demands and future-proofing the business to be able to scale and grow. Even with private-equity investors and board executives under pressure, cost reductions must be assessed and delivered in the right way to ensure value is created during the holding period.

Technology is a vector by which private equity-backed organisations deliver increased value in transformations. It can streamline headcount and automate manual processes, helping executives deliver on cost-out goals. However, cutting back on software development and innovation can undermine these targets.

**5 factors undermining the success of technology-led cost transformations**

1. **Not investing in new technologies** alongside a cost reduction programme. Even if costs are taken out (retiring old systems, capitalising on new digital nomads, etc.), product-centric businesses must continually invest in new technologies in-line with business maturity. Reduced investment only increases the technology debt that will need to be engineered out in the future. Cost reduction planning should encompass longer-term plans for re-investment in technology.

2. **Arbitrarily reducing headcount** in engineering and losing key skills. When approaching cost reductions, streamlining headcount is often seen as a quick win. But removing in-house product expertise could hamstring growth by stemming the flow of innovation that created value in the first place.

3. **Missing opportunities to optimise engineers' time.** While this is important, business leaders don't have to protect engineers' schedules and workflows at any cost. A rapid assessment of resource allocation often exposes easy wins – small reductions in wasted engineer time can then be redeployed to accelerate strategic projects.

4. **Being defensive about implementing automation** tools. Instead, PE and technology leaders should be proactive and start to think where automation technologies like robotic process automation (RPA) could add business value. These tools can help

deliver reductions in headcount without compromising the development programme.

5. **Continuing to pursue new feature development** in products/modules that are not profitable and considered risky ventures. Some can be considered but business leaders must keep a view on ROI, including by deploying ROI analytics to the product/module level.

The good news for product-centric companies is that tried and tested principles exist to help embed new behaviours, which can be deployed to maximise value and mitigate risk during the transformation process.

**Key principles to drive effective technology cost transformation in PE companies**

1. Adopt "first principles thinking," encouraging employees to think creatively and question the status quo. This take processes back to basics and generate value while reducing cost.

- Pause non-revenue-generating product development during the transformation to focus and leverage resource by zoning in on EBITDA margins of individual products (instead of gross margin).
- Consider the minimum viable team size you need to deliver on a new product or project.
- A&M recently engaged with a private-equity owned company to develop a full potential value creation plan on an acquisition in the financial technology space. The acquisition, a carve-out from a larger corporate, was overburdened with complex organisation reporting structures, a large administrative function and a UK-centric product organisation. A&M worked with the portfolio company to redesign the product organisation with a focus on consolidating similar roles across functions into a global centre of excellence in Poland.

2. Have a strong bias toward deploying greenfield technology environments based on software as a service (SaaS). Whilst this can be nerve-wracking, it can push the organisation to adopt best-of-breed technology.

- A&M recently carried out a radical overhaul of the entire process and system landscape at a private equity-owned European digital marketing organisation being challenged by more nimble competitors and an inherited legacy cost base. Despite risks, the business decided to implement a greenfield fit-for-purpose SaaS-based technology ecosystem. The approach allowed the business to streamline processes and significantly reduce costs.

3. Adopt a common-sense approach: if a process deviates from the business' technology stack, transformation leaders should question the efficacy of the process, not the software. New processes can easily drive additional complexity and cost, and therefore leaders cannot afford to sleepwalk into a transformation that only makes development more complex.

- For example, if the customer onboarding process does not fit into a standard CRM software package, the process may be too complex – leaders should be prepared to simplify your process and stick with the standard uncustomised software.
- Many of A&M's private equity clients seek help when their portfolio companies are about to embark on significant technology investment. When reviewing existing processes and technology solutions, we often find it is more cost-effective to ambitiously challenge the operating model and deploy a globalised solution with global processes. This becomes easier to maintain and cheaper to run in the long-term instead of tailoring the solution to suit local requirements.

4. Fail fast: optimise for proof of concepts that are measured in weeks, not months. If a proposed solution is not intuitive, it may not deliver value quickly.

- Start using proofs-of-concept to triage and prioritise projects.
- Use spreadsheets or low-code tools to assist in the feedback process before starting to build new products.

5. Use outside perspectives and experts to drive and execute the transformation.

- Getting buy-in from employees is often difficult, but recruiting internal change agents to support the transformation can smooth the process.

The current economic environment is challenging the fundamentals of many product-centric businesses and their value creation plans. But management teams, and technology leaders in particular, can leverage the disruption as an opportunity to use their technology assets to influence how teams across the organisation function as well as to optimise costs and increase efficiencies, all while positioning the business for future sustainable growth.

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To learn more about our expertise and to understand the full scope of our Private Equity Performance Improvement (PEPI) work, please get in touch with one of our contacts.

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