



**WestMONROE**  
**point<sup>of</sup>VIEW**

**BUSINESS INTELLIGENCE:**  
IT'S TIME TO TAKE  
PRIVATE EQUITY TO  
THE NEXT LEVEL

BUSINESS  
CONSULTANTS

DEEP  
TECHNOLOGISTS

In a challenging economic environment, portfolio management has taken on greater importance. Private equity firms must look at every possible avenue in order to streamline portfolio company operations and improve performance.

Business intelligence (BI) is a concept and system for analyzing collected data, with the purpose of providing a better view of an organization's operations—ultimately, to improve and enhance decision making. Business intelligence solutions can help private equity firms increase agility and performance. Contrary to popular belief, improving BI isn't necessarily expensive or time-consuming, it isn't only about tracking financial metrics, and it doesn't have to involve a wholesale replacement of existing systems and processes.

This article explains how private equity firms, which lag other enterprises in their focus on BI, can improve operations—and, more importantly, take the right steps toward improving their management insight.

---

“

*Private equity firms must look at every possible avenue in order to streamline portfolio company operations and improve performance.*

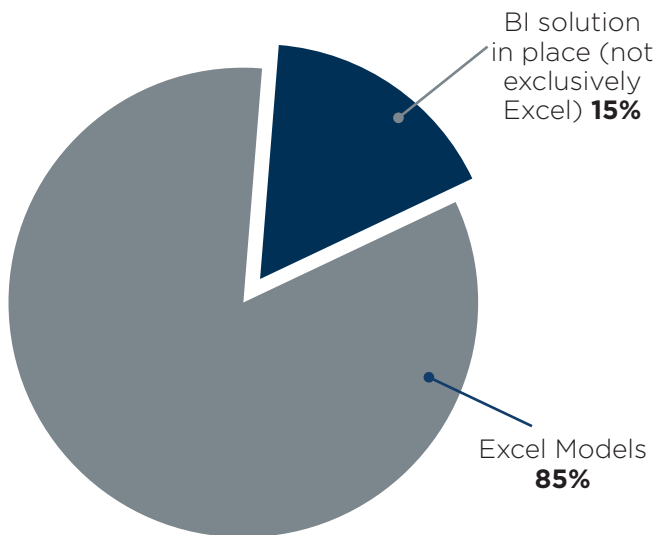
”

---

Recent changes in regulations (e.g., FAS 157) are putting further pressure on private equity firms to manage their firms and their portfolios more effectively and efficiently. Focusing on leading and lagging metrics across their portfolios can provide the insight necessary to manage portfolio company operations more effectively. But, many private equity firms struggle to develop timely and accurate metrics because they don't have the tools and processes in place to draw real-time data from across their portfolio companies and consolidate it into a forward-looking view of investment performance.

**TOP 100 PRIVATE EQUITY FIRMS USING BUSINESS INTELLIGENCE\***

\*(ASSETS UNDER MANAGEMENT)



**Enhanced information and reporting: keys to better performance in a challenging environment**

One of the keys to effective portfolio management is insight— particularly, establishing metrics and collecting and organizing information that enables private equity firms to make timely, effective decisions with respect to portfolio company operations, value creation opportunities, and transactions. Most private equity firms use a simple application (such as Microsoft Excel) combined with manual processes to track financial performance; however, few firms track operational metrics such as inventory turns, affirmative action hiring, and customer satisfaction scores. Private equity firms should realize that BI need not only be focused on tracking financial performance and the ability to track operational metrics. With established processes in place, executives today usually have enough data at their disposal to monitor individual investments. But, compiling and synthesizing data across multiple companies and systems can be difficult and time consuming. Furthermore, the traditional process of tracking financial performance often results in reports that, by the time they are completed, are out of date.

Business intelligence systems allow a company to gather, store, access, and analyze corporate data in a timely and efficient manner. Companies use BI solutions to improve reporting in a variety of areas, including customer profiling, customer support, market research, market segmentation, product profitability,

### **Business intelligence remains a high priority for corporate IT departments.**

Even in difficult economic conditions and a weak environment for capital investments, BI is a high investment priority for many organizations. For four years in a row, chief information officers surveyed by Gartner have rated BI as their top information technology priority. Similarly, a recent analyst poll conducted by CIO Magazine ranked BI as companies' second-highest IT spending priority. And, an October 2008 poll by Computer Economics, "BI Adoption Trends and Economic Experiences," found that nearly 60 percent of corporations are investing in BI initiatives. There is good reason for the interest. A well-executed BI strategy enables organizations to measure performance and identify cost-cutting and strategic improvement opportunities in a timely manner—delivering insight that can improve their agility and ability to react during volatile times. Moreover, it enables businesses to extract

value from their existing systems with a relatively small incremental investment.

### **Despite enhanced reporting needs, private equity firms appear to be reluctant to embrace business intelligence.**

Private equity firms have unique—and in many cases—enhanced reporting needs. In addition to understanding a single portfolio company's performance, firms also need to draw information from across companies in order to assess overall investment performance.

Despite their inherent need for performance data, though, private equity firms have not demonstrated the same level of interest in establishing BI capabilities as the corporate world at large. In fact, according to West Monroe Partners' research, more than 70 percent of private equity firms have not invested in BI solutions. Ask private equity executives why they have stayed away from BI, and the reasons abound:

- ◆ The perceived lack of applicability for the private equity profession, and the perceived difficulties of developing a consolidated set of key performance metrics across industries in a portfolio.
- ◆ The perception that BI projects have failed to deliver on needs, taken longer than expected, or cost many times the original estimate.

- ◆ The desire to develop a “forward-looking” view rather than spending money to create a better picture of what is in the “rear view mirror.”
- ◆ Hesitancy to invest in internal operations rather than the assets within their portfolios.

As with any investment, private equity firms need to ensure that they are investing in the areas that can produce the greatest value—particularly in today’s environment.

### **For Private Equity firms, business intelligence offers plenty of benefits.**

For all the reasons they cite for not investing in BI, private equity firms actually have plenty of good reasons for improving their reporting and analytics capabilities—starting with the fact that the ability to pull data from disparate sources and create a consolidated view across industries is exactly what a BI solution is designed to do. Recent trends in BI suggest that private equity executives may want to take a fresh look at its capabilities.

As a concept, BI has matured significantly in the past few years, as have the tools available to help companies integrate and analyze data from disparate systems. Additionally, consulting service providers have a long history of assisting with the selection, implementation, and development of

internal private equity systems (such as Investran, CRM, etc.), but a BI solution “on top” of these internal private equity-specific systems now can benefit the firm and not just the portfolio company.

---

“ *A well-designed solution can allow private equity firms to eliminate positions or redeploy resources to activities that will generate greater value.* ”

---

The marketplace for BI vendors and solutions has also matured significantly. Robust offerings from vendors now focused on the middle market have helped reduce the hard cost of implementing a true BI solution. Combining that with the potential “soft” cost savings, private equity firms may be able to recoup the price tag of a BI solution in a relatively short period of time. One of the primary benefits of today’s BI solutions is the ability to reduce staff time required to build Excel-based reports manually, month after month, year after year. A well-designed solution can allow private equity firms to eliminate positions or redeploy resources to activities that will generate greater value. Conservatively, the return on investment for some successfully completed BI solutions is well north of 1,000 percent.

At the same time, the process of building a BI solution has become easier as private equity firms have learned from early efforts—in terms of both managing solution implementation and producing metrics that offer action-ready insight. What used to be a “rear-view” management tool today can offer a “through-the-windshield” view for private equity firms as analysts have become better at defining leading indicators, capturing the right data, and creating the right methods for presenting and delivering information. This action-ready insight can come in the form of the ability to benchmark the companies within the portfolio. Specifically, this data comparison can help identify best practices to be shared across operations. For example, when it comes to customer service, BI will provide better visibility into the comparison of the portfolio’s recurring sales and customer satisfaction scores—an analysis that will help identify the unique processes or drivers in producing better results. This insight allows the private equity firm to “share” best practices across the portfolio for mutual gain.

Private equity firms that adopt BI and performance management practices will have a significant competitive advantage, similar to that enjoyed by firms that were the first to invest in sophisticated data collection and financial analytical tools that are prevalent in all firms today.

These firms will realize:

- 
**Financial and cost management benefits**—through mechanisms that enable them to monitor and understand portfolio companies’ costs and compare results with budgets. At the same time, they will be able to minimize manual reporting processes, further contributing to the financial benefits.
- 
**Operational improvement benefits**—through the capability to analyze operational costs, identify process inefficiencies, and streamline key processes throughout their portfolio companies’ supply chains.
- 
**Sales and marketing benefits**—by establishing the ability to track sales effectiveness, identify new sources of revenue, and protect portfolio companies’ customer bases.
- 
**Consistency of metrics across the portfolio**—by using a common “single version of the truth” a BI solution uses agreed-upon measures that can be stored and reused to ensure continuity across reporting periods.
- 
**Better leverage of analysts**—by defining a common reporting approach and providing a consolidated database of reporting data. Analysts can spend more time actually analyzing the data rather than pulling, consolidating, and building the reporting solutions each time.

## To maximize the benefits, start small and focus your efforts.

Given the maturity of today's solutions and tools that are more applicable and effective in a private equity environment, you might be ready to think about improving your firm's BI capabilities. How should you begin? And, how can you implement a BI solution without a substantial investment—in time or dollars? First, most private equity firms already have some useful tools in place that can help minimize capital investment and ongoing maintenance. Look carefully at your existing reporting systems, including those established within your portfolio companies—with an eye toward understanding which systems could play a part in developing your “through-the-windshield” view of performance.

Next, you should complete a simple audit and assessment of the metrics you use to run your firm today and those that are relevant to your various portfolio companies. Ask yourself honestly: Do you have up-to-the minute, visual evidence of your performance that you can act on immediately? A scorecard or dashboard can be a powerful way to garner insight in a matter of minutes.

Finally, keep your initial effort small and focused. Business intelligence is not a solution that you set and forget; rather, it should evolve constantly to meet the needs of your ever-changing business. By keeping it simple, you establish a “quick win” on which the organization can build. And, keeping it focused and manageable allows you to provide maximum value with minimal cost.

In order to focus your efforts and maximize the benefits, define a small set of five to seven key metrics for your organization and your portfolio companies. The “right” measures will help define and evaluate how successful the company is, and how it is making progress against its overall corporate goals. Some common key performance indicators for the private equity industry include:

- ◆ Vintage analysis
- ◆ Auction successes
- ◆ Average valuation
- ◆ Debt multiple individually and across the portfolio
- ◆ EBITDA trends across the portfolio at month end
- ◆ Internal rate of return
- ◆ Seasonality trends in specific industries
- ◆ Measures of portfolio management effectiveness

## Is it time to rethink your business intelligence capabilities?

In the current environment, effective portfolio management can drive investment performance and competitive advantage, regardless of a private equity firm's size. Insight and agility—the products of a sound BI solution—are vital elements of

portfolio management. While BI solutions may not have met private equity industry needs in the past, much has changed in today's maturing offerings. If your organization hasn't considered its BI capabilities recently, now may be the time to reap the tremendous benefits a truly intelligent solution provides.

## CONTACT THE AUTHOR



**John Stiffler**  
Director, Mergers & Acquisitions

John Stiffler is a senior director and the leader of West Monroe Partners' Mergers and Acquisitions practice in San Francisco. He specializes in corporate divestitures and operates as a client partner, combining strategy, financial, people, process, and technology disciplines to deliver technology-enabled business change. He has over 30 years of global business and technology consulting experience across multiple industries with heavy emphasis in manufacturing and distribution, healthcare, high tech and professional services.

[jstiffler@westmonroepartners.com](mailto:jstiffler@westmonroepartners.com)



BUSINESS  
CONSULTANTS

DEEP  
TECHNOLOGISTS