

Driving Value Creation:

Using Data Science In Private Equity



In this Briefing Report

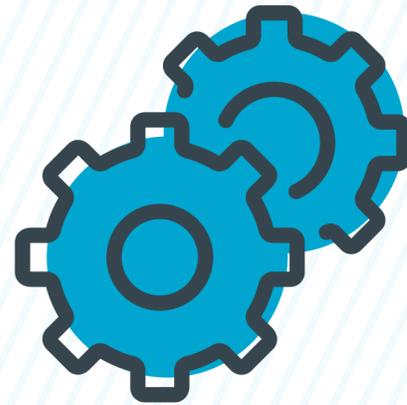
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Key Takeaways



Data – perhaps the greatest untapped asset for SME players today – will reward the first movers who can harness its potential.



Data science will not replace sound business strategy. But it can (and should) be used to power it up – enabling portfolios to achieve greater ROI, faster.



Implementing the right data strategy will prove invaluable in de-risking pivots across a variety of dimensions, enabling proactive steering and decision making.



The opportunity is also there for PE Funds to move the data-driven decisioning upstream, so that it is integrated as much into pre-deal proceedings as it is into the investment cycle.

Data as an Untapped Asset

Like every other domain of commercial activity, there is fast-growing potential to introduce more sophisticated, data-led approaches to value creation across the private equity value chain, to enhance the experience and expertise of corporate and financial professionals. Yet this often remains untapped, especially pre-deal, but also in supporting an investment, despite holding considerable promise to generate more robust investment theses and execute them with greater precision.

In a world of systemised risk – influenced by pandemics, economics, and the climate – data mastery has become essential for core sustainability and performance. PE Funds operating in the SME markets, to whom this briefing paper is primarily addressed, must attend to this as a matter of priority.

In this briefing paper, we outline in further detail the opportunities and threats currently at play, articulate the role data can play in driving performance across the investment cycle, and provide some examples to demonstrate what this looks like in practice.



Unlocking the Treasure Chest

Powering up PE Portfolio Performance

The impact of the coronavirus on the worldwide economy is likely to endure for several years. With ongoing revisions to forecasts for recovery and the effect of the second wave and vaccine set against the consequences seen to date on jobs, spending and shut down businesses, the importance of consistent value creation for midmarket PE Funds has rarely been more acute.

Booster shots, powering up the existing investment through data, stands among the lowest hanging fruit, ensuring the right levers for growth are being pulled, and that they yield the maximum gains possible.

When it comes to execution, the devil is always in the detail. And detail is in the data – an asset not even half-way tapped today, yet key to sustainable competitive advantage. Gartner recently found that 87% of organizations have “low business intelligence and analytics maturity”, offering an unprecedented opportunity for companies across a broad spectrum of industries to outsmart their competition.

And today it's easier than ever to collect treasure troves of it. Every single sales transaction and interaction, customer journey and operations footprint, marketing touchpoint and other electronic fragments are potentially priceless information that can be directed to enhance customer experience, improve products and services offering, and evolve business strategy. The internal lenses can and should also be further strengthened and complemented by readily available external sources, such as data generated by activity among others in the industry, as well as consumer data held in search engines and social media platforms.

Data science will not replace sound business strategy. But it can be used to considerable effect, both in terms of shortening the runway to value capture and enabling the value potential to scale higher.

Yet we know that this data is often trapped in the back end of applications, siloed within business units, tracked via spreadsheets – making it next to impossible to deliver value to teams within the business who could

use it best. The first challenge is to collect and organise the data so it can be utilised where it is most beneficial – often easier said than done. But the second, which is where we see majority of initiatives fail, is to identify the right lenses and channel the insights in a way that provides the jet fuel that the business needs. Here again the 80/20 rule is at play, namely that few opportunities tend to generate outsized impact.

While simple at a high-level, these steps require specialists to implement them effectively. Although PE Funds tend to have strong business management acumen and financial experts, they often lack technologists to truly identify the true data assets held within the target companies. While larger PE Funds have been making advances in their use of data science – either investing in teams internally or partnering with specialist vendors – the high level of expertise required, combined with a general lack of awareness, means it has broadly eluded the midmarket PE segment. However, this is changing.

The growing adoption of data science across all industries, and the potential gains that can be made from its deployment, means the opportunity in the mid-market can no longer be left unrealised. The demand for data scientists has increased by 231% over five years, and will only continue to grow as data and analytics becomes more important. The global data and business analytics market was valued at \$168.8 billion in 2018, and is forecasted to grow up to \$274.3 billion by 2022.

The following pages demonstrate a few examples of the types of gains that can be achieved if your data is properly utilised.

Case Study:

Transforming for 35%+ Growth and Quality of Service

The Brief

A medium size portfolio company looking to stimulate demand for its services and supercharge its organic growth

Actions

Flash data lake build:

- Pragmatic extraction, consolidation, and linkage of key marketing and operations data into a single 360 portal for analytics

Flash analytics diagnostics and select deep dives:

- Data-driven canvas for market and marketing opportunities (and gaps) across brands and operational stages
- Deep dive into digital execution including predictive analytics (note: Ekimetrics partners with Google and Facebook and is able to access digital at a deeper level of granularity than typically available)
- Digital footprint analysis of customer journey and operational digital footprint fully linking to campaign activations

Central cockpit build:

- Consolidated learnings and outline of key organizational pinch points and opportunities
- Design and build of a central cockpit enabling active steering and optimisation of end-to-end funnel

Outcomes

- **+35% growth** based on optimisation of as-is marketing budgets (e.g. rebalancing budgets across brands/channels and improved digital execution) and targeted operational levers (e.g. shortening the customer journey to reduce drop-out rates)
- **Path to 2x organic growth** per additional targeted investments to marketing (extending reach to adjacent and emerging consumer “communities”) and operations (breaking key bottlenecks through digitisation and redesign of the process ownership model)
- Fully functional **central cockpit** to track progress and facilitate pro-active steering based on market signals

Case Study:

**Five-fold
Productivity
Increase in
Year One**

The Brief

A medium size portfolio company looking to transform its old school operations

Actions

Flash diagnostics:

- Review the operational model and map key workflows across core operational teams
- Identify bottlenecks and areas where fresh data and insights could redefine unit economics (and where they could not)

Pilot transformation:

- Re-design a unit case review processing by pre-linking external research and internal data points leveraging the full data science toolkit
- Iterate data linkage and UX design elements with the pilot team until core structures have been firmed up
- Measure productivity increase of transforming manual case research to digitized and pre-linked data-driven events

Web app build/operate/transfer:

- Take pilot designs through to development, deployment, and operation
- Integrate and visualize complex relationships between financial actors, networks, operators, and assets
- Shadow operations and assists in continuous improvement until full transfer is possible

Outcomes

- **Measured 5x increase in productivity within 1 year** of project start by transforming core business unit economics
- Building up a **competitive advantage** (and EBITDA) through targeted use of data and data science for business

Charting the Route to Success

Correcting Course amid Economic Uncertainty

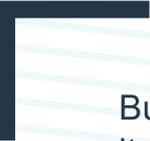
SMEs have been hit particularly hard by the coronavirus shutdowns: an [analysis](#) of 41 worldwide surveys of SMEs carried out by the Organisation for Economic Co-operation and Development (OECD) shows that more than half face severe losses in revenue. Meanwhile, the sectors most affected are the ones in which the share of SMEs account for [75 percent of employment](#), compared to 50 percent in the economy at large. In addition to the clear demand-side issues that come with uncertainty and job losses, SMEs face major disruption to their operations because they generally have fewer supply chain options than large enterprises.

Companies of this size generally tend to have less money and talent available for investment. Crucially, they also often lack significant amounts of capital in reserve to weather major business storms and economic downturns. Compounding these challenges, is the tendency of major sources of economic disruption to act as accelerants of innovative trends which force SMEs, already under strain, to play catch-up.

In the case of the Covid-19 pandemic, this has quite clearly been on the side of technology adoption, digitisation, and the move towards ecommerce. As a result, many SMEs have had to pivot in a significant way, both to survive in the short term, as well as to ensure a viable business strategy geared towards growth and profitability in the long term, given the permanent nature of this change. This carries significant risks – working with limited resources, most SMEs will only have one shot at both developing a strategy to pivot, and then executing it in a way that successfully meets objectives set at the outset.

Here, the right data strategy can prove invaluable in de-risking pivots across a variety of dimensions. It will enable decision-making that is driven by a proper understanding of the market and customer needs. They can leverage these insights to drive performance in every function within the business, such as creating the right branding and products, optimising pricing, improving processes, and going to market at speed. For example, while everyone in consumer sectors is aiming to quickly upgrade the tooling in order to reach their customers digitally, the sharp-eyed are thinking a step ahead and targeting the right customer pools through better use of fresh data.





But different types of SMEs face different challenges when it comes to leveraging data towards these ends. In general, there is a lack of data maturity in this segment, but the nature of that under-development varies by company type. PE Funds have increasingly been foraying into the domain that typically interests venture capitalists – ‘digital native’ companies with the potential to scale rapidly, diversifying beyond the more legacy-type companies that form the bulk of their portfolios. And so, where legacy-type companies need to actually leverage the vast amounts of unstructured data they hold, the challenge PEs face with their younger, digital-native companies is in making the most of that data when many functions – whether that’s marketing or commercial strategy – within them have yet to be established.

In essence, if SMEs are to keep pace with accelerating market trends, their own journey towards data maturity needs to accelerate in tandem. A failure to do so would only exacerbate an existing divide between larger enterprises and SMEs. Meanwhile, a highly competitive environment within the SME segment makes the adoption of data science capabilities an enormous opportunity for companies to steal a lead, adapt in a viable and sustainable way, and ultimately become a part of a transforming business landscape – rather than merely trying to keep up with it.

Investment Strategy

Placing the Right Bets

Of course, the application of data science in PE Funds should not solely be left in the province of PE portfolio management. There is an opportunity to move the process upstream, so that it is integrated as much into pre-deal proceedings as it is into the investment cycle.

This is particularly crucial for mid-market PE Funds dealing in the SME segment of the economy. The business logic of mid-market PE Funds cannot conform to the approach taken by bigger players, because it's simply not a matter of placing enough bets and hoping to win big on average. The stakes here are always high, which means the inverse is true: they have to take fewer bets with a higher success rate.

In addition, the environment within mid-market PE Funds is also highly competitive. Many PE Funds hold significant reserves of 'dry powder' – capital held to maximise the opportunity during economic downturns – which may lead to even more intense competition over the coming months and years. The importance of de-risking investment strategies by scrutinising data signals in selecting and evaluating targets in the most holistic and scientific way possible – and doing this at speed – is therefore greater than ever before. For some PE Funds, that means structured investments into their own technology and data capabilities.

The pandemic presents an opportunity for PEs to step in and revitalise otherwise healthy and robust SMEs that require support to survive under the unique pressures of the present circumstances, and then create a path to lead them forward towards growth and greater profitability. For an industry which is still largely in learning mode when it comes to utility of data science, achieving this may seem like a distant prospect.

But the sheer volume of data held within targets, when combined with readily accessible external data, means the raw materials are already in place to create highly accurate models of potential value creation. Drawing on the right expertise, PEs can quickly get on the road to de-risking their investment strategies and ensure core sustainability across their portfolios.



How to Start Incorporating Data into Your Strategy

With around 59 zettabytes of data created in 2020 alone, you need a platform and experts in data science for business that can act as partners in the transformation process: that can point out what the most likely route to success will be, and where to focus your efforts – enhancing the tried and trodden paths and avoiding those that have tripped others in the past.

This allows you to be strategic. Trying to shift speed with a scattergun approach often ends up with middling results, rather than consistent growth. If you have a robust data

suite, you can see where to begin, and where to make small improvements over time. Netflix saves over \$1 billion a year in customer retention thanks to its use of data. It didn't get to that figure overnight: it started small (but thought big), trialled different techniques, and refined its strategy as it learned.

For those considering taking the first steps, the below actionable pillars should be considered to provide a path to success.

PE Fund

Boost your fund's data capabilities and operations

Portfolio

Create transformative value in invested companies, where it counts

Conclusion

Although the language around data science can often seem intimidating, the path to data maturity does not have to be arduous.

To a large extent, what is needed is the acceleration of a transformation that has already begun to take place. The coronavirus pandemic has brought new urgency for the industry to hasten this progress.

If you'd like to hear more about how Ekimetrics can help you get on your path to data science success, get in touch: ivan.vlahinic@ekimetrics.com





A view from Matt Andrew, MD, Ekimetrics UK

For PE funds to succeed in 2021, they need to harness data to achieve both short and longer-term success. As this report shows, data has a pivotal role to play in focusing your business' investment plans, transforming how funds approach risk management and potential purchases in the future. A greater understanding of where to focus attention in order to capture those first wins while setting the foundations to scale capability and the resulting benefits will allow your data to become your most valuable asset.

”



Essential Advice for Commercial Gain

1.

Pragmatism rules the day – and this advice has not changed in the brave new data world (i.e. avoid complexity; judiciously use advanced techniques – but use experts to steer).

2.

Don't be blinded by shiny toys or advanced applications (it's all too easy to over-index on expensive new products as an opportunity to resolve all problems, especially as they often don't).

3.

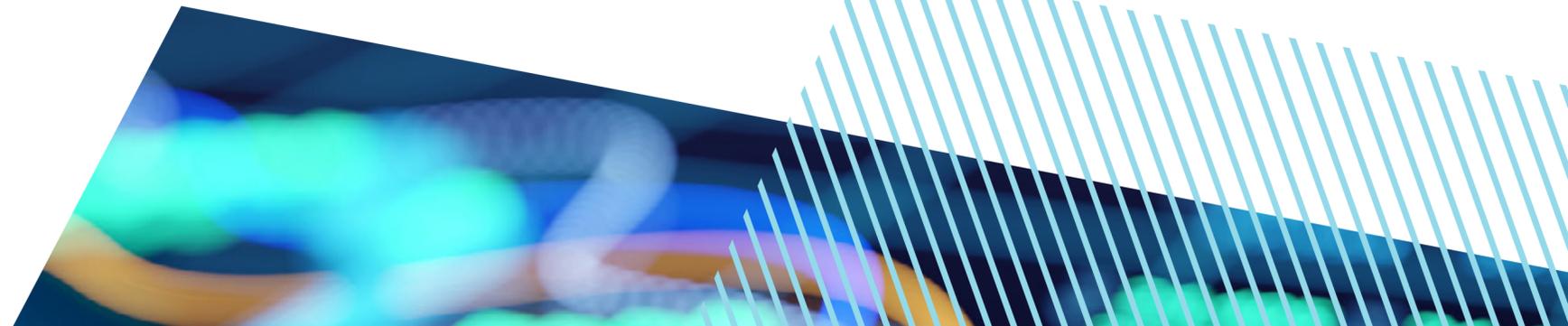
The start of the journey is the toughest part. It helps to execute the first two to three data-driven use cases with an external expert (though separating legitimate vendors from the ones with good brochures continues to be a challenge. Where there is a big opportunity, there is a crowd).

4.

Stay very close to the business throughout the execution (there is a tendency to leave execution to the expert profiles who don't spend nearly the required time with the output users, leading to subpar products and insights).

5.

Deploy “translators” within delivery teams for maximum impact – they are worth their weight in gold (referring here to dual profiles who can navigate at the intersection of business and data, and extract business relevant insights leading to better decisions).



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Data Science for Brighter Decisions

Leveraging data effectively is complex and challenging. We're here to explain it in human terms and get to the crux of how it can help your business.

If you're in need of a straightforward conversation about optimising your marketing performance to leverage the opportunities in private equity, please do get in touch.

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Ekimetrics was founded in 2006 and is a European leader in “data science for business”. The company’s mission is to help customers audit their data opportunities, enrich their analytical capital, and deploy actionable solutions to maximise their marketing and operational performance, and re-energise business models. With more than 240 data scientists, Ekimetrics is one of the largest independent teams in Europe. Ekimetrics’ focus is to deliver short-term gains while ensuring the long-term development of its customers’ data assets. Since its inception Ekimetrics has deployed more than 1000 data science missions in over 50 countries, generating more than €1 billion in profits for its customers.