



Growth EngineeringSM: *The Solution to Higher Valuations*

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Although private equity firms are in the business of underwriting companies to achieve high returns to investors, the specific ways to achieve value beyond revenue growth and aren't always immediately clear. Neither are the obstacles.

This lack of insight is often a direct result of focusing only on the macro view during the due diligence process. Private equity firms project sophisticated financial valuation models, assess a varied quality of market intelligence, anticipate strategic growth targets and are tasked with forecasting the holding time horizon. On most occasions, an experienced leadership team has been assembled to implement the plan. But time and again, one leg of the valuation stool often goes missing: operational enablement. To reach a loftier valuation goal under tight market constraints, you need that third leg.

A report on private equity in the new economy by The Partners Group¹, found that operational improvements have replaced revenue growth as the most significant expected driver of returns in private equity transactions. The report states “Operational improvements will be the largest driver of equity returns, delivering 42% of budgeted equity value creation.” While revenue growth used to be the primary driver, its influence is now down to 28% of budgeted equity value.

Strong operational processes and infrastructure, also called Operational Enablement, is the foundation of *Growth Engineering*. This process leverages Operational Enablement plus your Strategic Plan and Market Intelligence to develop a customized operations and technology plan that is not only practical to implement but also aligned with growth.



After working with many portfolio companies over the years, the operational experts at GlacierForce have discovered that specific changes and improvements to **processes, people and technology** within a company can remove hurdles and enable growth for significant gains to valuations. Many times, the cost of implementing these changes is far less than changing leadership or adding personnel.

1. www.partnersgroup.com *The New Buyout: How the financial crisis is changing private equity.* November 2009

Leadership and Capacity Aren't Catch-alls

Yet this is often what we see. Failure to meet quarterly projections typically points equity partners and advisors to a failure in leadership. Followed to its inevitable conclusion, leadership is changed and time is spent recruiting, onboarding and adjusting goals instead of growing the company. While there are certainly times when a change in leadership is necessary and beneficial, it shouldn't be the first choice for troubleshooting out-of-control operational expense and capital expenditure growth.

Within the company, the leaders of a growing firm may also jump the gun on adding personnel in order to support growth projections. Consider this example:

Major Auto Repossessions Company

Problem

The private equity firm had minimal visibility into the performance of the operations. The staffing requirements to support the anticipated growth were impacting profitability. There were no clear processes, procedures, and controls in place to manage staff performance. The technology infrastructure was antiquated and a single point of failure.

GlacierForce Growth EngineeringSM

A GlacierForce organizational assessment cited the need to replace the company's old phone system, redesign the job responsibilities to eliminate lost productivity, and establish clear performance indicators and management tools. The assessment also identified BCP risk related to utilization of a software system (since beta) that was never matured. Based on this and other operational factors, GlacierForce concluded that the company was actually overstaffed by 30% and required capital infrastructure to grow and mitigate downtime risks.

Results

By redesigning the account management process, GlacierForce reduced expenses by 40% while enabling the organization to grow by more than 400% in the next three years. A new telephony and call management system as well as improved SOPs, reporting, productivity measures, controls and data flow moved the organization from reactive to proactive — without immediately adding personnel.

In prior times, reengineering was viewed as the solution, but reengineering has come to be viewed as a cost reduction tool. Reengineering was about throwing out the old and building fresh, but in small to mid-capital companies the old was never established. What most growth companies need, but is often lacking, is processes, systems and controls. In *Growth Engineering*, leaders take the assets they already have within an organization and support them to operate more efficiently, proactively and seamlessly.

Growth EngineeringSM Integrated

Because no two companies are alike, *Growth Engineering* is a tailored process. To be effective, it must take into account the goals of the company's Strategic Plan and the realities of Market Intelligence. For example, a company with growth projections of \$15 million to \$30 million is far different than a company with growth projections of \$15 million to \$100 million. The anticipated exit time horizon also impacts this process.

Growth Engineering considers those projections along with data on what the market is expected to support. We build an operations platform that supports them. This platform is based upon a proprietary organizational assessment that GlacierForce performs on three things:

- **Processes** – We assess the quality of standard operating procedures (SOPs), workflow, document storage, backup and recovery systems, compliance and working environment, among others. We also assess productivity metrics and KPIs. Within these major categories are questions relating to customer service, vendor relationships and management efficiency, etc.
- **People** – GlacierForce takes a detailed analysis of all FTEs that includes position/title, qualifications, salary, benefits, performance incentives and training. We assess the cost/benefit of staff from entry level to management and where they can best add value.
- **Technology** – Reviewing every detail of the technology infrastructure, from LAN configuration to desktop set-up and how each plan is integrated, GlacierForce gains insight on the ways each company is leveraging technology to meet operational and growth goals.

Through this comprehensive assessment — that we have reduced to a mere 10-page document of questions — GlacierForce can quickly identify opportunities for process development, training and role diversification and/or IT upgrades that will significantly improve efficiency and personnel's ability to meet performance goals.

Our organizational assessment has been designed and refined over the years to be industry agnostic. From an operations standpoint, every company requires infrastructure, personnel and processes regardless of its product or service. How those components integrate with the Strategic Plan and Market Intelligence forms the foundation of Improved Valuations.

Here are some additional examples of how *Growth Engineering* ties to growth:

- **Largest U.S. Mortgage Originator** – GlacierForce recommended a new document management system and assisted in redesigned processes for a reduced processing time from 40 days to less than eight days and a realized savings of 28% or \$7 million.
- **Leading Student Lending Consolidator** – Completed in five months, the design, development and implementation of a new private education loan program resulted in new loan approvals of \$135 million in the first year. Processing departmental expense was also reduced by \$4 million annually while increasing capacity by more than 20%.
- **Financial Products Manufacturer** – After recommendation of offshoring accounts payable and accounts receivable to India, GlacierForce designed and led the process, which was completed three months ahead of schedule, resulting in reduced annual operating costs by 35% or \$3.5 million.

Cost/Benefit Realization

Many of the problems associated with missing strategic goals aren't immediately evident when a company is considered for private equity investment. A "plug" number is often assigned to cover operations and technology gaps as part of the valuation process, but the actual amount of risk or onset of risks are not always crystal clear.

By including *Growth Engineering* as part of the due diligence process for identifying portfolio companies, private equity partners and their advisors are given a clearer picture of potential risks and opportunities. Real numbers are available to apply to the valuation model.

The cost is negligible. GlacierForce performs organizational assessments as part of our introductory consulting. We do not charge for the assessment, but offer our services as an operational partner going forward. While we acknowledge that you could hire other consultants to handle implementation of our recommendations, the benefit of working with GlacierForce is the ongoing partnership and whole-company perspective.

We support the entire operational structure and stage a business for growth as opposed to serving just one piece of the organization (processes, people, technology).

Although GlacierForce provides a strong analytic capability, we pride ourselves on being implementation experts. The endearing term many PE firms have used for us is "SWAT" team, because we can efficiently and quickly solve operational and technology issues to enable top line growth to continue. We can provide insightful recommendations to remove a variety of obstacles to continued growth.

Whether you are an entrepreneur or an equity partner, you can stop the spin associated with operational and technology barriers to top line growth while positioning the organization to be proactive. *Growth Engineering* can help you power up companies and portfolios with minimal investment up front and significant gains in the future.

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Darron Dickinson is the CEO and founding partner of GlacierForce and has more than 16 years of experience in operational excellence. This includes serving as Chief Information Officer for Collegiate Funding Services, based in Virginia, prior to and through its public listing on NASDAQ (CFSI). The company was acquired in March 2006 by JPMorgan Chase (JPM). Mr. Dickinson received a B.A in Economics from Hamline University, an MBA in Finance and Strategy from the University of Minnesota, and an MSCIS from the University of Phoenix. Contact him to learn more about GlacierForce and Growth EngineeringSM, 763-205-2100, support@glacierforce.com, www.glacierforce.com