

Podcast: Private Equity Winning Moves

Welcome everybody to our podcast Winning Moves. I am Vishal Reddy accompanied by Padamanabh Rao also known as Paddy. Today we're going to be discussing a topic of mutual interest to both of us which is CRM for private equity port codes.

Paddy, welcome, how are you? Thank you Vishal, good to be here. Great, great. So today we're hoping that this podcast will be of use to anyone who is looking to enhance their investment acumen, grow your private equity backed business or simply stay informed about the latest trends in private equity.

This podcast is your gateway to the intricate art of value creation. So diving into one of our first few topics, Paddy I wanted to ask you a few questions today on this podcast and so I would want to talk about the PE industry and the firm. So what in your opinion and from a service provider's perspective makes the PE industry unique from other industries? That's a great question actually.

I mean the first thing that distinguishes private equity sponsored companies or businesses, right, it is not companies in every case, it could still be. Is that the one word that comes to mind Vishal when we think of private equity businesses, right, is dynamism. They are opportunistic is not a four letter word, opportunistic means that you are highly focused on actual problems in the world and trying to solve them.

And that's one thing that sets apart any businesses which are sponsored by private equity. So just digging a bit into that, you know, regular business, it could be a public company in regard to the scale, it could be a private company or just a partnership, friends and family running a business, a family running a business or those are on one side. So those are a bit more state, they are more steady, right.

They identify a certain market, right, and then they solve it to a product offering, right. And one of their main primary goals of those businesses is to maintain that market share and maybe constantly incrementally grow that market share, right. Over time they might expand their product offerings and so on, but in the main they are still focused on attacking a particular, solving a particular market.

So in that sense it's a pretty straight boring business, right. It's one way to do business. On the other hand, we have these businesses, firms, which are sponsored by private equity capital, right.

It is a bit different from venture capitalism, right. Private equity originates in the sense that they identify serious, significant, big opportunities in the existing businesses, in the existing market. Maybe there are serious gaps in the market which none of these state-

boring businesses are able to solve or have been trying to solve and they're not being able to do a good job of them.

Or the market, the supplier markets are fragmented and then the costs have ballooned because simply by the nature of fragmentation. So the first thing about private equity businesses are that they are going after a highly specific opportunity where they do see good, good, good opportunity for good profits and so on. But it's not, it's not just about the profits, it's about actually solving the problems which these regular businesses are not able to solve or are not solving them for a variety of reasons.

So maybe there are huge risks involved in them and then these firms are not able to take those risks on or manage those risks. So in that sense, the private equity really is a key player in an economy, right. We can't imagine a modern economy today without a strong layer of private equity businesses because today the world has become very global, right.

There are millions and millions of products of all kinds, highly fragmented markets, right. Not every firm can attack these, you know, solve these markets all over the world or in the ways, you know, in those markets need them to be solved. So the risks are really high.

If you really look at it from a global perspective, you know, at a very, very detailed level, there are a lot of risks which these current existing firms are not equipped to take on and handle and solve them. And that's why, and that's what the private equity businesses do. That's the first thing, you know, what is the rationale, what is the reason the private equity industry, segment, sector, in fact, even exists in our economy, right.

But then going to the next step, which is the heart of the question that you're asking, in what ways, okay, isn't the end of the day, it's another business. No, like I said, the risk profile, the layer of risks that a private equity business takes on, right, they take on to solve is a very dynamic risk, you know, it's a multidimensional risk, right. So to solve that, to work through that, the kind of management, the kind of operations you do, the kind of decision making you do, rapid decision, very wide range of decisions taken in very short time, right, or very small decisions, which might wish they may not take for a long, long time.

So the rhythm of decision making, right, the kind of multiple risks that are attacked in one shot, for example, right. So these are very different in a PE sponsored business, a platform company or a portfolio company, compared to a regular company, right. Decision making in a regular company has its own rhythm, right, you know, you have teams and you have a process and protocol, a certain average time it takes for any decision to be taken, no matter if it's small, minor, big, large, strategic, there's a process, that's what keeps that layer of economy running as it were.

A PE more or less breaks the rules on all of those things, they break the rules, they break those rules, they make their own rules that is relevant for this layer. So in that sense, yeah, every aspect of a business, Vishal, whether it's even the kind of products that are made, you know, how quickly to depreciate products, how quickly to innovate products, how quickly to expand into market, how slowly to expand into market, right, what kind of people, policies and processes you need, right, every bit of the business, if it is sponsored by a private equity, you know, entity, a fund, versus a regular one, they're quite different. So when it comes to the operation, which is where, you know, companies such as CRM IT have a stake and have an interest, right, we are suppliers, right, so all suppliers to a private equity platform or a portfolio, right, have to understand the reality, the universe in which a private equity sponsor co-works, right, and therefore suppliers too have to be aligned and fit for that business, you can't copy paste.

Yeah, I mean, interesting and I know you almost answered my next question as well, but I'll still delve into it and, you know, what is it that, you know, in terms of the nature of demand, how demanding the PE world is, I would say more specifically the platform companies, why do you think they're so demand from a service provider like us? Got it, understood, yes, definitely. So first off, every PE business, let me just be clear, a PE business is a business, either a company or a non-company, which is sponsored or rather wholly owned by a private equity fund, that's what we mean when we use the word people, that's what we have in mind. So every PE business is really working to a hypothesis, some opportunity that platform co or the fund identified in that segment, in that market, you know, in that space, which was not being addressed, which was not being solved by the existing operators, and that's what this fund invested to take on and solve that opportunity.

So they're very specific, it's a very specific opportunity that this firm is working towards operating to and operating on, that's the first thing, right? So which means they're almost oblivious, by definition, they have to be blind to anything else that is not part of that opportunity. That's what is the mantra, that is the job, that is the name of the game, that is the work to be done, it is to focus on opportunity and realize that opportunity to make that opportunity actually happen, right? For that market to blossom or for a market to maybe even to reduce, maybe it's a market that needs to be shut down in some ways, because the technology is moved on, whatever is the actual opportunity, the thing to be done, is the main focus, everything else has to be outside of the business in that company, right? So when you have that, the first thing that comes to mind is speed, right? Everything, speed is the essence in that business, right? If you're looking at consolidating a particular small sub industry or sub vertical, you will be acquiring firms every month or every quarter, right? And you need to merge them, acquiring is one thing, but getting to merge and integrate businesses is not easy, right? There are other people, cultures, product, technologies, everything has to be merged, you have to make rapid decisions on what to let go, what to keep and all that, right? So speed is of the

essence in a PE business, right? Across layers, not just the corporate strategic side, we're talking about M&A, every operating layer, speed is the essence, right? Training people, changing processes, putting the right tools in place, the legacy tools, replacing them, everything has to be done at a pretty relentless speed, right? That is one key distinguishing factor about a PE business versus regular businesses. And all of this happens, you know, simultaneously, right? Because time is of the essence, of course, as you said.

Sure, yeah. And, you know, coming back to the whole point of why are some of these needs constantly evolving, right? I mean, from, let's say, today, they're looking to replace the legacy system, tomorrow, it's looking to handle post-merger integration, you know. Got it.

That's a very deep question, actually. Why is that? Because, as I said, when the business is so focused on a particular TC, and then on that opportunity, as we call that, right? That is an opportunity or TC that was formed at the time of a due diligence. It's almost historical.

It's almost old. That opportunity is a snapshot in time. It is based on some assessment and analysis and reading of the universe, of the market, of the whole thing, right? All the elements in place of the ecosystem.

But yet, you know, at the time the PE firm fund made the decision to acquire that business, that was a time when that TC was formed, right? That TC has a lifespan, so to say, right? That TC, while the TC may remain the same, the world itself is constantly changing, right? But when I make an investment, I'm a PE fund, when I make an investment based on that TC, right? So, I need the universe in some ways to remain static, which I know it won't. But, I mean, that's my job too. I know it won't, but I would hope that it remains as close to static as possible, because then I can work on realizing that TC, right? But we know the reality is that the world is constantly changing.

And yet, I can't let go of my opportunity. I mean, I can't digress from my opportunity. That's the reason, that's the rationale I bought this business, I've invested in the business, I have a plan to do, right? So, now we have two forces at play.

There is a sort of a fixed goal. When I say a fixed goal, a fixed opportunity, a nice story, a nice economic story, a business story to accomplish towards, to work towards. On the other side, there is a dynamic, evolving market.

In fact, when a private equity fund invests in a particular sector, the market more or less also takes a small change. It's a reaction to this investment, because one of the nice things about private equity is its capitalism. It's a high risk endeavor, right? So, the market, other operators also react to it.

So, that itself causes, you know, we talk about momentum changes, right? And then the market itself is constantly changing. But I cannot divert too much, I cannot digress too much from my hypothesis. So, when you keep these two forces together, right? Oh, there is no saying what I will need to do tomorrow to keep to my goal and adapt to what is changing, right? It's almost a daily thing that I have to constantly keep my focus on my goal, on the thesis that I have and the opportunity I want to realize, and see what is the new force coming at me from the market tomorrow.

It's almost really, at the C-suite level, right? The PE firm, the C-suite are relentlessly bombarded every day. It's a very intense job to run a PE company versus a regular company, because they have to adapt. And that is intense, right? So, every person in the company and suppliers, and we're all suppliers to companies, everybody in that whole corporate ecosystem around that company have to be aligned.

Right, yeah. And our sort of involvement and engagement goes so deep. Some of the engagements that we have done, it's almost like we're partners, more than suppliers, where we're constantly engaging with some of the C-suite as a part of the whole platco engagements that we're carrying out.

I think there's a point to that, which is that PE firm will, it's quite, especially at least in our industry, maybe we're going to get down to our industry, we are an IT industry, right? It's quite hard, I think, to find partners, at least it's not very common to find partners who can be constantly aligned to your, the dynamics of your particular business and your vertical, in this case, the PE vertical, right? PE is a vertical. So, the demands of the vertical are quite high. So, I think from a supplier perspective, a PE firm business will want to retain its trusted partners for longer haul, because it's not easy to build these capabilities and hand alignment.

That's the reason, perhaps, most suppliers in the industry tend to be long-term incumbent. Yeah. Sure.

Yeah. And so, coming to, you know, going deeper into the operational side, or I would say the functions of a platco, which we'll be talking more about in the next session, we'll be talking about the sales and operations of a typical private equity platform company and how the CRM service providers like us can help source, I would say, partners can help enhance this whole business function of a private equity platform company. So, yeah.

Thank you again, everyone, for listening.