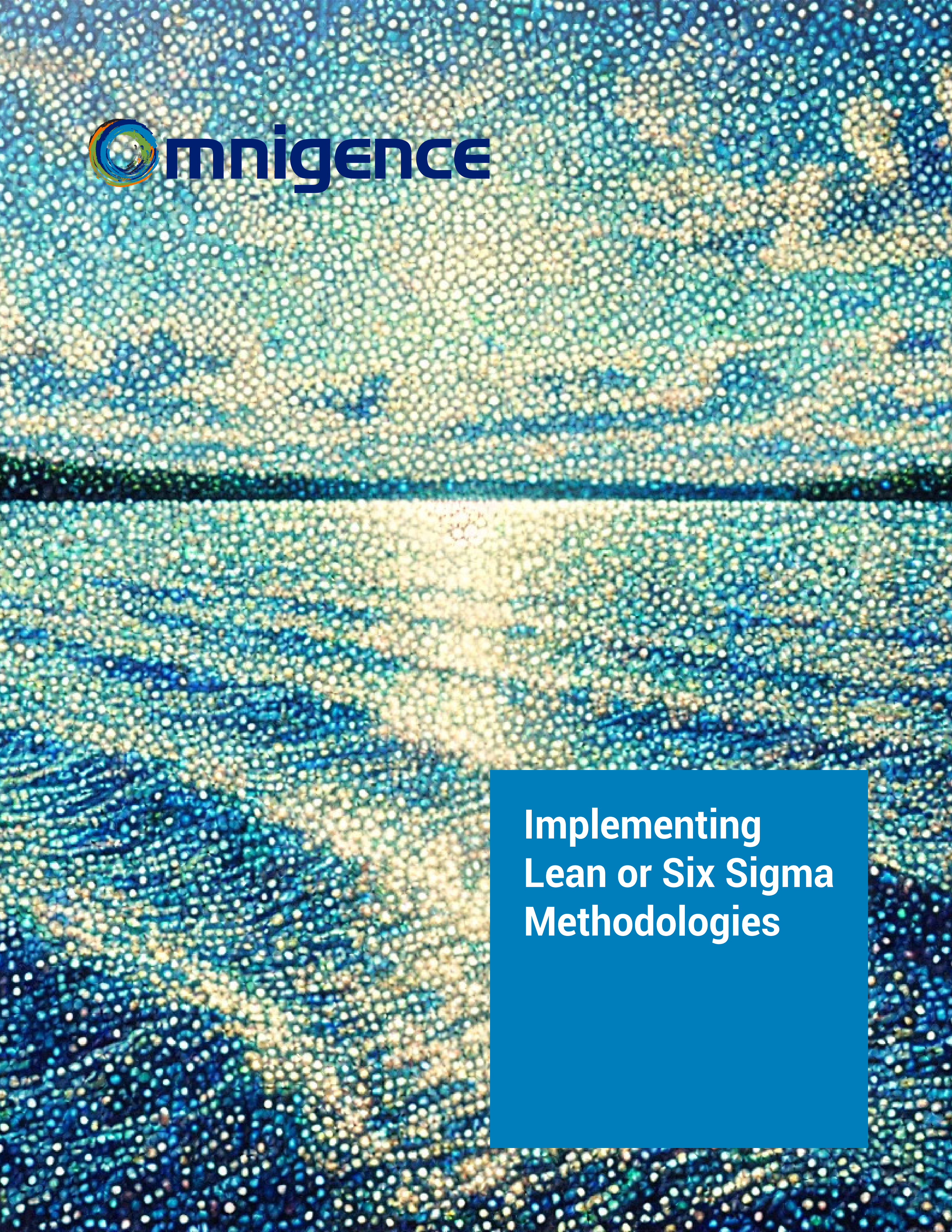
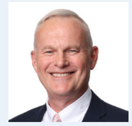


Implementing Lean or Six Sigma Methodologies

KEY WORDS:
Omnigence Asset Management, Arvore Partners, private equity, PE, small medium enterprises, SME, continuous improvement, lean methodologies, six sigma, kaizen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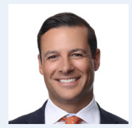
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INTRODUCTION:

Post-acquisition value creation is a critical component of the private equity (PE) investment process. While acquiring an SME at an attractive price is essential, it is what happens after the acquisition that often determines the success of the investment. Private equity investors employ various strategies to enhance the value of their portfolio companies, ultimately leading to higher returns at the time of exit. For SMEs, these strategies can range from operational restructuring and revenue growth initiatives to strategic acquisitions and talent optimization. Excellence at this post acquisition integration, improvement and operation is critical to fund returns - "***analysis of more than 100 PE funds with vintages after 2020 indicates that general partners that focus on creating value through asset operations achieve a higher internal rate of return—up to two to three percentage points higher, on average—compared with peers."*** *Source:* McKinsley 2020, Bridging Private Equity's Value Creation Gap.

> Companies using a buy-and-build strategy experience a 1.5x to 2x increase in exit multiples. *Preqin Private Equity Report* (2020)

This paper explores key post-acquisition value creation strategies with a focus on:

- Operational restructuring
- Revenue growth initiatives
- Strategic acquisitions
- Talent optimisation
- Continuous improvement
- Culture

> Private equity-owned companies reduced operational costs by an average of 10-30% within the first two years post-acquisition. BCG Private Equity Value Creation Report (2017)

1. Operational Restructuring: SMEs often operate with limited resources, informal structures, and inefficient processes. Post-acquisition, one of the primary strategies for driving value is operational restructuring, which aims to improve efficiency, reduce costs, and increase profitability.

A thorough analysis of the business's cost structure is critical in identifying areas where expenses can be reduced without negatively impacting core operations. This could involve renegotiating supplier contracts, reducing overhead costs, and improving procurement practices.

Many SMEs lack standardized processes, which can lead to inefficiencies. Streamlining operations through process improvements—such as automating routine tasks, refining supply chain management, or optimizing inventory control—can lead to significant cost savings and improved operational performance.

> Cross-selling opportunities created through strategic acquisitions can lead to a 10-25% increase in revenue. *Bain & Company Global Private Equity Report* (2021)

> SMEs that diversify their product lines post-acquisition experience revenue growth of up to 40%. *Harvard Business Review* (2018)

Implementing new technologies, such as enterprise resource planning (ERP) systems or customer relationship management (CRM) software, business intelligence software, can help SMEs scale their operations more efficiently and gain better insights into performance metrics in real time.

2. Revenue Growth Initiatives: Beyond cost-control and operational efficiencies, driving revenue growth is a central strategy for post-acquisition value creation. Private equity firms often focus on expanding the revenue base of the acquired company through various growth initiatives, including entering new markets, launching new products or services, and enhancing the company's sales capabilities.

Efficiency gains from process automation in SMEs can reduce operational costs by up to 20% in the first year. *McKinsey & Company* (2020)

One of the quickest ways to drive revenue growth in an SME is to expand into new geographic markets or customer segments. This can be achieved through domestic or international expansion, depending on the business's existing customer base and market opportunities.

Private equity firms often help SMEs expand their product or service offerings to capture new revenue streams . This can include the development of complementary products, new service lines, or upgrades to existing offerings that appeal to a broader customer base.

Integrating new IT systems, such as ERP or CRM, can lead to operational improvements of 15-25% within the first 18 months. *KPMG Post-Acquisition IT Integration Report* (2019)

Many SMEs have basic sales and marketing strategies. Post-acquisition, a PE firm can invest in enhancing the company's sales force, optimizing pricing strategies, and leveraging digital marketing to drive customer acquisition and retention.

3. Strategic Acquisitions (Bolt-on Acquisitions): Private equity firms often pursue a buy-and-build strategy, where the acquired SME becomes a platform for additional acquisitions. These "bolt-on" acquisitions are smaller, complementary companies that can be integrated into the platform business to achieve synergies, expand product lines, or enter new markets.

Renegotiating supplier contracts can reduce procurement costs by 10-15% post-acquisition. *KPMG Post-Deal Integration Report* (2018)

It takes an average of 12-24 months to implement significant operational restructuring in SMEs. *Preqin Private Equity Operational Report* (2020)

Bolt-on acquisitions enable SMEs to rapidly scale their operations by adding new products, services, or customer bases. This can make the business more competitive and increase its valuation upon exit.

By acquiring complementary businesses, PE firms can create synergies in areas such as supply chain management, marketing, and operations, leading to cost savings and improved efficiency.

4. Talent Optimization: SMEs often have lean management teams and may have gaps in the leadership needed to scale the company post-acquisition. A key post-acquisition value creation strategy is to optimize the leadership team and invest in talent development.

Implementing advanced CRM systems increased revenue by 10-15% through better customer management. *McKinsey & Company* (2020)

Post-acquisition, PE firms may bring in experienced leadership to drive the business's growth. This often involves hiring a new CEO, CFO, or COO with a proven track record of scaling businesses in the same industry.

Employee training programs post-acquisition provide a return on investment (ROI) of 200-300% within two years. *Harvard Business Review* (2017)

Providing training and professional development opportunities for employees can enhance performance and improve operational efficiency. A well-trained workforce is critical to the successful execution of new growth initiatives.

Companies that implement Lean or Six Sigma can see operational performance improve by up to 25% within the first 18 months. *McKinsley 2020, Bridging Private Equity's Value Creation Gap*

Private equity firms often implement incentive programs, such as stock options or performance-based bonuses, to align the interests of the management team with the growth objectives of the business – *"Show me the incentive and I'll show you the outcome"* Charlie Munger

5. Implementing Lean or Six Sigma methodologies: Continuous improvement approaches can significantly improve operational efficiency. These frameworks help identify and eliminate waste in business processes, leading to cost reductions and productivity improvements. For SMEs, this might involve optimizing supply chain operations, reducing defects in production, or improving service delivery times. Lean processes can also help streamline decision-making, enabling the business to respond more quickly to market demands.

6. Culture: One of the most significant challenges in post-acquisition value creation is integrating the culture of the acquired SME with the private equity firm's vision and operational strategies. Cultural misalignment can lead to employee resistance, disengagement, and a lack of buy-in for strategic changes.

Cost savings from bolt on acquisitions have led to cost savings between 5-15% due to synergies. *Boston Consulting Group* (2020)

CONCLUSION:

Post-acquisition value creation is essential for maximizing returns in SME private equity investments. By implementing strategies such as operational restructuring, revenue growth initiatives, and strategic acquisitions through software and change management, PE firms can significantly enhance the value of their portfolio companies. While challenges such as cultural integration and resource constraints exist, careful planning and execution can lead to substantial returns at the time of exit. As private equity continues to play a critical role in the SME ecosystem, effective post-acquisition strategies will remain key to driving long-term value creation.

The average holding period for an SME in PE portfolios is 4-6 years. *PitchBook Private Equity* (2021)

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