AlixPartners

GROWTH AND PROFITABILITY IN TECH:
A Playbook for PE Investors Across the Deal Lifecycle

What is required to successfully complete value creation programs in a SaaS environment: An experience-based perspective

You have closed on the acquisition of a software-as-a-service (SaaS) business. **Now what?**

The first 100 days are crucial in setting the stage for value creation. For SaaS companies backed by private equity (PE), successful value creation requires a blend of clear vision, a well-defined value creation plan, and focused execution. Because time to value is critical for maximizing returns, both the PE team and portfolio company (portco) leaderships have to quickly establish specific initiatives that have clear owners and set forth measurable goals to ensure effective execution.

Clear Vision

In our work with PE-backed SaaS companies, we often see a common scenario in which company leadership sells the company based on a vision for the future that involves investing in new products and entering new markets to grow the top line. Meanwhile, the PE team expects quick wins will standardize offerings, improve organizational efficiency, and optimize the cost base. At the surface, those two sets of priorities appear to contradict each other—specifically, for SaaS companies whose top-line growth is a key component for enterprise value. However, the priorities don't have to conflict. In fact, in successful acquisitions, they complement each other.

It all starts during the first 100 days. The first 100 days of investment in a SaaS business should be used for reconciling the differences and should serve to drive a clear vision that the PE team and portco management share. By clearly aligning on the why behind the value creation program—along with specific incentives for portco leadership—PE investors ensure a clear path to success. Establishing the right foundational initiatives to optimize the company's cost structure will unlock much-needed capital for the next growth phases, such as building new products, entering new markets, improving customer retention, and accelerating innovation. Alignment will also establish the right governance and performance management frameworks to achieve the SaaS business's long-term success.

Well-defined value creation plan

Whether an investment thesis focuses on increasing customer lifetime value or monetizing a disruptive technology or expanding to new markets, the value creation plan must clearly define a specific set of initiatives sometime during the first 100 days in order to accomplish the goal or goals. The task involves separating broad objectives into actionable initiatives that align with both the company's current capabilities and the dynamic SaaS industry environment.

The considerations include objectives that are:

SPECIFIC AND RELEVANT

Do we clearly understand the steps required to achieve value? We might have to potentially reassess the strategic plan, reevaluate current products and offerings, or change the current course of innovation. Companies typically lose focus as they scale or move into adjacencies, but specific and relevant initiatives bring maturity and focus into such situations.

MEASURABLE AND ACHIEVABLE

Are defined key performance indicators in place that will show progress, such as a reduction in customer acquisition costs, an increase in customer lifetime value, a reduced churn rate, a higher average revenue per user, win rates, new versus existing logos, or net dollar retention? Be sure to balance financial metrics so as to leave room for innovation potential.

TIME BOUND

Initiatives could include an array of timelines to improve financial and operational performance ranging from immediate to long-term (e.g., enterprise-resource-planning implementation and an offshore talent hub). For long-term initiatives, the establishment of meaningful interim milestones that drive value are key to avoid potential value leakage.

Focused Execution

The success of a SaaS value creation program lies not only in a clear vision and well-defined goals but also in effective execution. Our experience has shown that five major factors influence successful execution: speed, agility, stakeholder alignment, consistent messaging, and investment in high-agency talent.

01 SPEED:

PE investors usually work within specific time frames, typically aiming to create value and exit their investment within three to seven years. Even in slightly higher hold periods, quicker time to value can present the opportunity for compounded growth.

When PE firm Thoma Bravo acquired data analytics platform Qlik, within two years the firm revamped the product's go-to-market strategy, introduced new pricing models, and improved customer retention.

02 AGILITY:

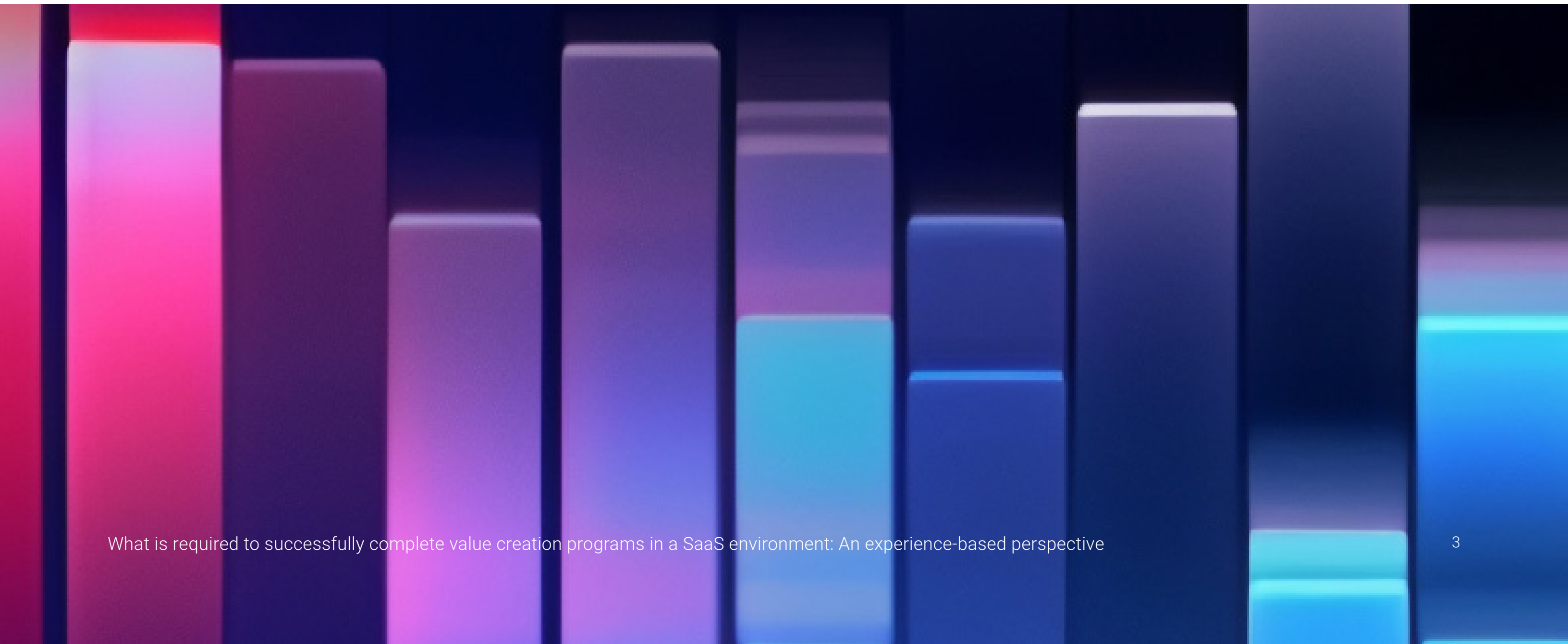
SaaS businesses face constant changes whether in customer behavior or technological advancements, potentially rendering planned initiatives less impactful or even obsolete. Value creation programs must be flexible and allow for rapid recalibration. An array of strategic efforts and initiatives facilitates quick reprioritization for responding to rapidly evolving markets or technological dynamics.

After PE firm Insight Partners' acquisition of cloud data management company Veeam Software, company leadership quickly adapted its strategy in response to emerging trends in cloud computing and SaaS. By reallocating resources to capitalize on cloud integration, the company accelerated product development and increased market share.

03 STAKEHOLDER ALIGNMENT:

Successful transformations require buy-in across the company—from leadership to operational teams. SaaS companies must ensure that all stakeholders, including employees and investors, align with the transformation goals. Engaging teams early and often helps create a shared sense of ownership and commitment to the value creation initiatives.

After PE firm Silver Lake's investment in software company SolarWinds, alignment across the company was essential. Leadership focused on ensuring buy-in from all levels, regularly communicating strategic goals and involving key teams in decision-making processes. The process resulted in operational improvements that helped SolarWinds grow through both organic efforts and acquisitions.



04 CONSISTENT MESSAGING:

Clear and transparent communication is essential to SaaS because employees have to understand the rationale behind decisions such as cost-cutting measures or strategic shifts. When a company transitions to a new strategy—such as focusing on enterprise customers over small and midsize businesses—an important part of the strategy is open communication of the reasons behind the change, so as to reduce uncertainty and foster trust within the organization.

One of the often-overlooked stakeholders with regard to open communication are the customers, who must be put at the center of the plan. Portco leadership must activate account management teams, customer service teams, and support teams if it is to launch a consistent campaign for changes that could affect customers, such as, say, changes in pricing or changes in features.

More than

25%

of PE leaders say lack of a clear vision poses a major obstacle to reaching transformation objectives

05 INVESTMENT IN HIGH - AGENCY TALENT:

At SaaS companies, wherein innovation and growth are critical, acquiring and retaining the right talent are major elements of success. High-agency leaders—meaning, those with the initiative, flexibility, and drive to push change—are essential for navigating any transformation. And although executive turnover during a transformation is inevitable, it should be consensual to the extent possible. Additionally, for SaaS companies, technical talent at the operational level is critical in inspiring innovation. Hence, offering such key individuals certain incentives, continuous development opportunities, and clear paths for growth can significantly contribute to the program's success.

PE LEADERS VIEW QUALITY OF LEADERSHIP AND SUCCESSION PLANNING

3x

as important as a strong portfolio rationalization plan

2x

as important as making the right investments into and monetizing of artificial intelligence

Source: AlixPartners Ninth Annual Private Equity (PE) Leadership Survey

For a SaaS company, successful value creation hinges on a strategic balance of well-defined goals and focused execution. Speed, agility, stakeholder alignment, clear and consistent messaging, and investment in high-agency talent are crucial components in smooth navigation of the complexities of value creation. By attending to those factors, SaaS companies can achieve sustainable growth, maximize returns for PE investors, and remain competitive in a rapidly changing market.

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ABOUT US

For more than 40 years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation. These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.