Xebia

Digital Playbook

Leveraging Technology to Grow ROI as a Private Equity Firm

xebia.com

A Digital Playbook to help Private Equity firms grow ROI through technology

Private equity (PE) firms have been facing massive pressure to manage their affairs in the wake of high-interest rates, reduced profits, and the disruptive adoption of artificial intelligence across various domains. After a slow year in dealmaking, PE Firms are expected to do well in the coming year. With new advancements in devices and AI, growth in technology looks promising. Hence, PE firms that leverage the growing investment potential of technology will continue to grow in the coming years. Many PE firms have also started considering investments in software companies and digital natives to diversify their portfolios.

When existing or potential portfolio companies undergo changes, like the process of M&A, the PE firm also needs a comprehensive understanding of general market changes, from which, a PE firm's strategy to stay ahead can emerge. It starts with enabling portfolio companies to adapt to the ever-changing technology ecosystem, and is only possible by encouraging and supporting portfolio companies to use the latest technologies and digital tools for enhancing performance and value.

A recent Pitchbook report about US private equity environment:
The private markets were mired in a slower deal and exit environment in 2023. Deal volume of buyouts, growth equity, and VC investments dropped by 47.8%, 44.9%, and 61.8%, respectively, in Q4 from the high-water marks set in Q4 2021.

But encouraging economic indicators, improving credit conditions, and the upturn in public market performance signal that private market investors may soon be out of the woods, according to our Q1 2024 Quantitative Perspectives: US Market Insights report.

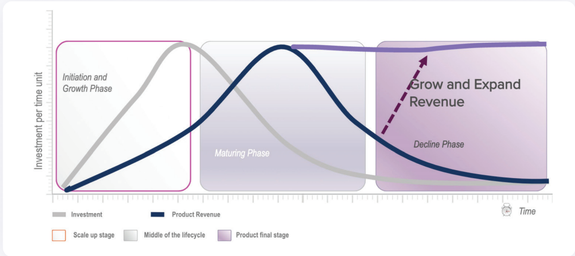
This whitepaper addresses the needs of digital playbooks and their various components. It outlines how such digital playbooks are crucial in PE firms' investment journey. The playbook was created from brainstorming discussions between technology and finance experts and serves as a guide to PE Firms in providing appropriate technology guidance to their portfolio companies.

A digital playbook for the growth of portfolio companies needs to be adopted by the portfolio companies to onboard themselves with product modernization. The value creation across portfolio companies can be generated with the right mix of strategies to transform them with adjacent and disruptive technology adoption. The playbook analyses the spectrum of services, evaluates them, and provides insights on whether to bundle or unbundle various services to unlock value. The proposed digital playbook will guide portfolio companies toward product modernization, leading to value enhancement at every improvement point.

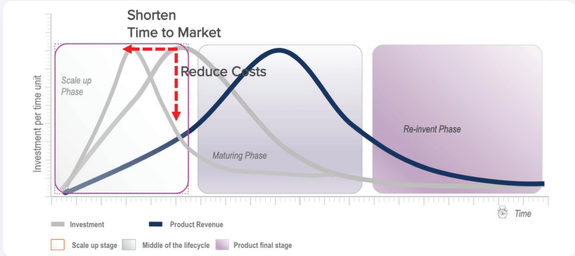
"The new technological advancements in AI will stimulate IT companies and Enterprise alike to differentiate their product and services to cope up with the changing market conditions."

Kiran Madhunapantula
Head of Product Engineering, Xebia

Illustration: In order to explain, how different scenarios can be modelled in an investment scenario, we have considered a case where the PE firm invests in two software companies, a start-up and a scale-up firm.



Start-Up: Technology is always tested by time, either to become obsolete or to stay future ready. When an investment takes place with future prospects in mind, expanding revenue cycle is an important element to expand margins. A decision to reinvent a product or a platform is dependent of what it does in the market midst the technology disruption.



Scale-Up: More often than not, introduction of a new product or a service is much broader than the technology associated with it. The ability of the company to deploy resources wisely is a definite path to sustain the innovation and thereby influencing the strategies such as 'do more with less'

Digital Playbook Components

Value creation for the stakeholders is the top agenda item for investment firms. There are two important parts of this value creation, 'what' needs to be done and 'how' it needs to be done. While the 'what' part of the strategy depends on industry standard approaches, the 'how' part is where a PE firm can distinguish itself from others.

We believe that following the important lifecycle stages of an investment as strategic engagement elements will greatly enhance the success rate of an investment.

Technical Due Diligence | Ensuring the accuracy

Our playbook hones in on rigorous technical due diligence to ensure the technology not only meets current demands but is primed for future scalability and innovation, which is critical for sustained competitive advantage. An imperative also is to provide an insight into possible investments needed for future and the cost of underlying risks.

Business Integration | Finding post-acquisition optimization potential

Guiding through scenarios of post-merger integration and pivotal areas to focus on in each stage of integration.
The scenarios and levels
of integration are key for aligning technologies and operations to unlock synergies.

IT Strategy | Setting portfolio companies up for success

It provides a strategic IT framework, to drive growth and maximize technology investments, positioning PE firms to capitalize on digital advancements for long-term value creation.

Accelerate Development | Speed up market adoption and value enhancement

This playbook shows ways to accelerate product and platform development, project to product transformation, advocating a product mindset and composability that are vital for quick market adaptation and sustained development momentum.

Exit Phase | Strong ending to a continuous value creation cycle

Strategically designed to optimize exit outcomes, the playbook equips PE firms with insights for due diligence and value maximization, ensuring readiness for transitions and maximizing returns on investment on buyout.

Ensuring accuracy when assessing potential investments

Technical Due Diligence should validate the investment decision by the PE firm. While the business model is one thing, the business requirements, design principles, architectural considerations, coding standards are very critical to ensure the software is built for the purpose. A good outcome of the technical Due Diligence is to provide specific inputs which can be used to re-validate the investment rationale.

In a world where all companies become software companies, it's becoming increasingly important to understand how their engine is running and what potential it yields. During the technical due diligence of a company/product, there are key areas to focus on that have a large impact on the growth potential.

Digital Playbook Components

Technology

Technology roadmap provides understanding of the long-range planning of the portfolio company. It is important to assess the venture's technology stack to understand what technology supports its product or service initiatives. Automated code and process scanning to assess open- source safety, software quality as well as team productivit should be applied when required.

Products & Teams

Product management is a core business capability at the heart of any venture. By looking at product capabilities, intellectual property and the teams supporting the product, it is possible to establish an understanding of the ventures ability to execute and scale its products and its associated risks.

Architecture

Current state of the architecture should always be evaluated against what it means of the future innovation. Architecture and domain driven design are core components of a venture’s ability to scale. This also involves review of choices of infrastructure, such as cloud technologies, databases, app servers and other tools.

Operating Model

A careful look at the venture’s operating model, including operational processes and workflows provides insight into the scalability of the venture. Critical aspects in the model are change management, software deployment, support operations and security processes.

Understanding the importance of the critical success factors is the understanding of the engine which propels the growth. However, to make it actionable, we developed a 360 degree framework, which could help a PE firm execute the due diligence phase in a structured manner.

This framework provides guidelines how to technically assess the potential of a company. In today's world we see that technology is much more of an enabler and accelerator than before. Therefore it's crucial to assess thoroughly and for PE firms to understand how to interpret the data and find the potential for improvement, rationalisation and risk management.

Critical Success Factors for Investments

Product, strategy and technical roadmap

- **Gap Analysis:** Compare the current product strategy and technical roadmap against market needs, customer feedback, and technology trends.
- **Stakeholder Interviews:** Engage with product owners, managers, and strategists to understand the vision, goals, and challenges they're facing.
- **Historical Review:** Analyze past product decisions, their impact, and if they align with the current and future strategy.
- **Prioritization Audit:** Evaluate how features or projects are prioritized and if they align with strategic objectives.

Technology, Architecture and Hosting

- **Architecture Review:** Examine the current system architecture to identify potential bottlenecks, deprecated components, or areas of high complexity.
- **Code Quality Analysis**: Use code analysis tools to pinpoint areas of technical debt, code smells, or potential performance issues.
- **Hosting and Infrastructure:** Examine server configurations, hosting providers, and deployment strategies to identify inefficiencies or vulnerabilities.
- **Tech Stack Evaluation:** Ensure the technology choices align with the product's needs and check for improvements in tools or platforms.

IT Organisation and Software delivery Process

- **Process Mapping:** Review the software delivery pipeline, from requirement creation to deployment and monitoring.
- **Waste Analysis:** Identify steps in the delivery process where time is wasted, such as long approval chains, manual testing, recurring rework.
- **Team Structure Review:** Examine the organization of IT teams to ensure roles are clearly defined and that there's no overlapping or missing responsibilities.
- **Security and Compliance:** Review of cybersecurity control, team maturity, policies and regulations.
- **Toolchain Assessment:** Review the tools used across the software delivery lifecycle for inefficiencies or redundancies.
- **Feedback Loop Analysis:** Check how feedback (from users, stakeholders, or automated tests) is collected, processed, and acted upon.

Investment Decision Metrics by Company Type

No one size fits all, is the popular saying. The investment decisions are primarily based on the promise of the application/technology/ product and then the nuances of how the same has been conceived. However, the lifecycle of the application/product will also influence the final decision. The lifecycle stage of the company, nature of the company and the lifecycle stage of the application or product will become essential ingredients for this exercise.

As before mentioned, we see a world where every company is or is becoming a software company. Let us break that down on the type of companies and how their business model is linked to software.

Company Type Defines Technology Impact

Independent Software Vendor (ISV) | In the business of selling software

Companies whose business is to build software. These companies are also referred to as ISV (Independent Software Vendors).

Examples: SAP appian

Digital Native | Company born on software

Companies which are born with software as the heart of their business model. These companies build software to conduct their business. They are often referred to as Digital Natives.

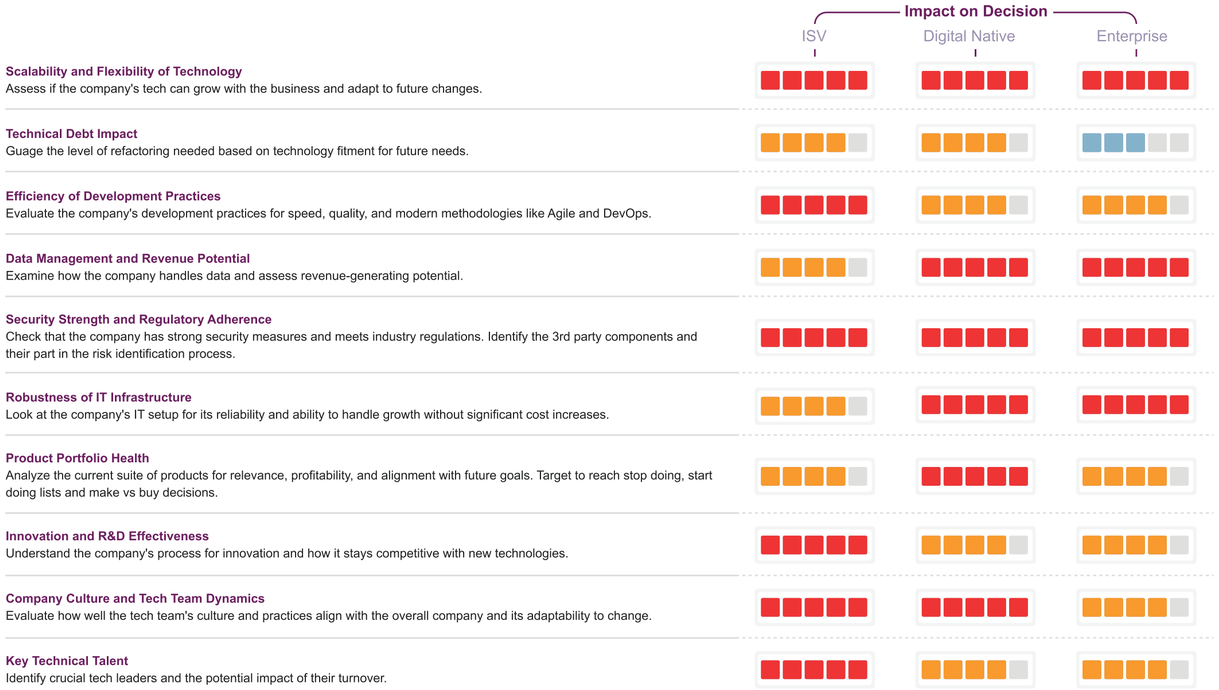
Examples: Uber NETFLIX

Enterprise | Transforming with software

Companies that want to transform their business using software for creating new revenue lines or increase efficiency in their operations. These companies typically use COTS products. But it is also getting increasingly popular that these companies also want to develop software themselves to have the competitive edge in the market.

Examples: xerox JOHN DEERE

Investment Decision Metrics - Weight by Company Type



DD decisions based on foundation and potential

The technical Due Diligence phase is crucial in various scenarios, such as mergers and acquisitions, investments, and partnerships, especially when technology assets, capabilities, and operations play a central role in the value creation. This phase aims to thoroughly assess the technical aspects of the company or product in question to ensure that there are no hidden problems or challenges that could affect the investment or acquisition decision.

While every situation is unique for a PR firm, the generic approach to Due Diligence can be found in this chapter via the following sections.

- The weight of technology in DD decisions
- Critical Success Factors - the engine
- 360 Framework to assess the engine
- Company types and their differences
- Weight of the key decision metrics for different company types.

The Outside View

There are two major reasons to have an expert perform the Due Diligence.

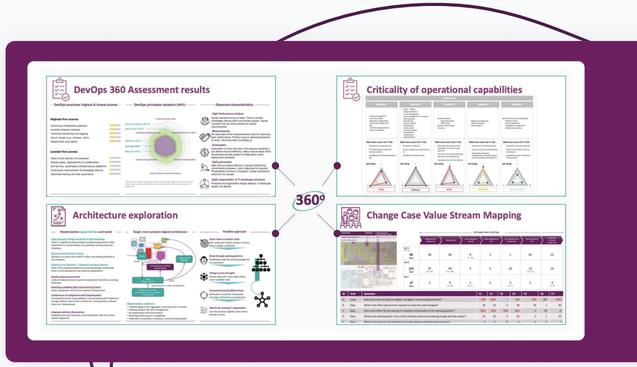
1. **Free from bias** - The DD phase should be done based on the actual situation but not to influence the outcome. So it is important to organise this with the help of a party who is neutral from the transaction.

2. **Highlight the risks** - The DD phase should also minimise the fear of the unknown by bringing the facts out of the company which can be used for risk management by the PE firm.

Need help with a technical Due Diligence?

When assessing a potential investment, it's important to get a thorough look under the hood. With our expertise and experience we've created a 360 degree assessment that provides deep insights in the state and potential of products and companies.

Invest with confidence and reach out to us for an exploration call.



Finding Optimization Potential Post-Acquisition

Post-acquisition business integration is a nuanced process that can range from a light touch to full consolidation. Leveraging the insights gained from technical due diligence, PE firms can navigate through this spectrum with a tiered approach, applying the appropriate level of integration to maximize value while aligning with the unique attributes and strategic goals of their portfolio companies.

Most of the acquisitions or mergers, typically arise out of a buy-and-build strategy. Sum of all parts put together creates a great opportunity for value enhancement of the investment. That's the most important reason that the business integration takes priority among other investment lifecycle stages.

A successful business integration will reduce inefficiencies, improves Go-To-Market strategies and optimises costs

Stratified Integration

A Five-Level Framework for Post-Acquisition Business Synthesis

In a typical buy-and-build scenario, the challenge and opportunities lie in bringing two or more, performing entities together to achieve more. No matter how similar their business models might be, the organisation dynamics and commercial operations can be different from each other.

In our experience, we realised that a finely crafted blend of people, systems and process creates the foundation to build further.

Along side the tech departments, Human Resources, ICT, Administration and management need to join hands in this process of integration to make it a fun ride for all parties.

Having said that, it is essential to have a clearly defined strategy to ensure maximum success, so we present our home grown framework, a culmination of all the successes we created while helping our customers in such integration process.

Five-Levels of Post-Acquisition Business Synthesis

The first step in value creation process is to assess the as-is state and the feasibility of achieving the to-be state. DD phase provides insights as to where to put focus on a specific product or application, but business integration goes beyond that.

Business integration is a wholistic approach of bundling or unbundling of products, departments or processes, with clear focus on bringing people together for a single purpose.

Begin with the end in mind, is so true for the PE firm to achieve business integration post the transaction.

The five levels described in the framework are indicative but not exhaustive since the types of companies in the portfolio also determine the sequence and importance of the stages involved in the framework.

Basic Operational Integration

1

The initial level focuses on integrating fundamental operational processes and systems. It targets quick wins without deep systemic changes, like aligning financial reporting, consolidating HR policies, and synchronizing procurement procedures. This stage lays the groundwork for a unified operational approach while maintaining the core functionalities of each entity.

Reasons for Integration

+ Unified operating model, with respect to people, systems and processes.
+ Identify value streams for improvements and reduce bottlenecks or inefficiencies.
+ Optimising cost structures, consolidating strengths and streamlining the GTM strategies.
+ Achieve revenue expansion and margin expansion.

- Sometime an investment happens to enter a niche market with a niche offering, it might be an imperative to not integrate the niche piece for the risk of losing that advantage.

Systems and Data Consolidation

2

Building on operational alignment, the second level involves the unification of IT systems and data management. This includes harmonizing customer relationship management (CRM) platforms, integrating enterprise resource planning (ERP) systems, and establishing a cohesive data infrastructure. The aim is to improve data flow and access, leading to better decision-making capabilities and operational transparency.

Reasons for Integration

+ Single view of X, uniformity in policies and procedures are the main drivers for integrating systems.
+ Integration increases optimising resource utilization thereby reducing redundancies and streamlining internal systems and licenses.

- Care should be taken while integrating systems and procedures which have a local statutory jurisdiction.

3 Process and Culture Harmonization

The mid-point of the integration spectrum is where companies begin to blend their core processes and cultural elements. This level seeks to standardize best practices across entities, streamline workflows for efficiency, and initiate cultural integration programs to foster a shared identity. It's a critical juncture that can dictate the success of subsequent integration efforts.

Reasons for Integration

+ Helps in implementing one purpose for all people.
+ Bridging different entities, cultures and time zones will bring about an empathetic angle which will also benefit in serving customers as one team.
+ Removes biases like Us Vs They and creates a conducive environment.

- Pay attention to local specifics when entities are geographically spread.
- Different culture is not same as difficult culture, so care should be taken to demonstrate sensitivity in drafting common people related processes.

4 Strategic Asset Realignment

At this stage, integration efforts extend to a strategic assessment and realignment of assets. This involves portfolio rationalization, where overlapping assets are consolidated, non-core assets are divested, and new investments are made into strategic areas. The objective is to reshape the asset base to support the long-term strategic vision of the combined entity.

Reasons for Integration

+ To implement better control on total cost of ownership (TCO) by rationalising the IT landscape.
+ To enable make vs buy decisions and optimise the backlog.
+ To implement a tighter Software Asset Management (SAM) for compliance and risk management.

- Some times homegrown IT systems perform a single purpose task well and can be so specific to the nature of the underlying business. Care must be taken in order not to measure everything with the same scale and take stereotyped decisions.

5 Systems and Data Consolidation

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Guiding principles on post-acquisition harmonization

In additional to our levels of integration, we'd like to add the 5 most important guiding principles for finding harmonization potential. Use these statements as guidance, as they will have a significant impact on building ROI over time.

Prioritize Seamless Integration of Technology Platforms

Ensure the integration of technology platforms enhances operational efficiency, data coherence, and provides a unified customer experience without compromising security or performance.

Adopt Integration Frameworks for Flexibility

Utilize flexible integration frameworks that support rapid adaptation to business needs and enable the smooth incorporation of new technologies and processes.

Facilitate Continuous Course Correction

Implement mechanisms for continuous assessment and adjustment of integration strategies to respond dynamically to unforeseen challenges and opportunities.

Ensure Cultural Alignment for Effective Integration

Recognize the importance of cultural fit and actively work to align organizational cultures to foster collaboration, innovation, and employee satisfaction.

Master Post-Merger Technology Integration

Develop a comprehensive plan for post-merger technology integration that addresses IT infrastructure, data consolidation, and application rationalization to support unified business operations.

Setting Portfolio Companies Up For Success

IT Strategy

Post-acquisition, the revision of IT Strategy is crucial for portfolio companies, marking a time to harness new technologies and optimize operations. This step is vital for driving value creation and establishing a solid technological foundation.

This strategy ensures seamless integration and sets the stage for growth and innovation. It aligns IT with business goals and adapts technology to meet evolving needs, laying a path for future success.

Such definition and execution of IT Strategy is dependant on the typology of the portfolio company as described in Chapter 1.

Important factors to strategize for post-acquisition

Portfolio rationalization is essential after an acquisition, focusing efforts on technological assets that offer the best return on investment. This approach not only aligns the technology portfolio with business objectives but also identifies opportunities for improving cost-effectiveness. By evaluating the IT landscape, companies can decide which technologies to keep, upgrade, or phase out, optimizing resource allocation for maximum value.

Cost-effectiveness is crucial, extending beyond simple budget cuts to strategic technology investment analysis. This includes better resource utilisation, cost avoidance measures, and cost saving actions. Also, comparing current spending with industry standards, identifying consolidation opportunities, and securing better value from vendor contracts will help further. A strategic review ensures investments not only save costs but also contribute to long-term growth.

Future-proofing the tech strategy involves anticipating future business needs and market shifts to keep the technology stack relevant. Investing in scalable and flexible IT architectures allows companies to adapt to changing business models and leverage new technologies for competitive advantage. A focus on agility ensures the organization can quickly adjust to emerging challenges and opportunities.

The make-buy analysis determines the most strategic and cost-effective approach to acquiring technology, comparing the benefits of in-house development against external purchasing or licensing. Considerations include total cost of ownership, core competency alignment, speed to market, and customization potential. This careful evaluation supports strategic decisions, enhancing operational efficiency and supporting business goals.

Post-acquisition IT Strategy Checklist

By focusing on these core areas, PE firms and their portfolio companies can effectively optimize technology investments for growth and competitive advantage in the digital era. This checklist provides great pointers on what to focus on when creating the IT roadmap, focused on value creation.

This checklist provides an overview of the most important features to include in the IT strategy roadmapping in a post-acquisition phase. Please keep in mind, that different company types will have different requirements for such a strategy. For example, the need for IT landscape rationalisation is more in enterprises than in ISV's.

1 Conduct Portfolio Rationalization

- [ ] **Assess Current IT Portfolio:** Perform a comprehensive review of all IT assets, including software, hardware, and services.
- [ ] **Align with Strategic Goals:** Ensure each IT asset supports the overarching strategic goals of the organization post-acquisition.
- [ ] **Identify Redundancies and Gaps:** Eliminate redundant systems and identify gaps where new technologies are needed.

2 Implement Cost-Effectiveness Measures

- [ ] **Review IT Spending:** Analyze current IT spending to identify areas of waste and opportunities for cost savings.
- [ ] **Optimize Vendor Contracts:** Renegotiate contracts with IT vendors and service providers for better rates and terms.
- [ ] **Adopt Lean IT Principles:** Integrate lean methodologies to streamline IT processes and reduce waste.

3 Future-Proofing the Tech Strategy

- [ ] **Valuate Emerging Technologies:** Regularly assess emerging technologies for potential adoption to stay ahead of industry trends.
- [ ] **Invest for business scalability:** Prioritize investments in scalable IT solutions that can grow and adapt with the business.
- [ ] **Enhance Agility and Flexibility:** Ensure the IT architecture supports rapid adaptation to changing business needs and market conditions.

4 Make-Buy Analysis for IT Investments

- [ ] **Analyze Make vs. Buy Options:** For each new IT requirement, conduct a thorough analysis to decide whether to develop in-house (make) or purchase (buy).
- [ ] **Consider Total Cost of Ownership (TCO):** Evaluate the TCO for both options, including initial costs, maintenance, and expected lifespan.
- [ ] **Assess Alignment with Core Competencies:** Determine if the IT capability is a core competency that should be developed internally or if outsourcing is more strategic.

Roadmapping Done Right

Defining an IT strategy is complex and unique for each company. Therefore it crucial to engage with key stakeholders across the organization to ensure the IT strategy supports all functional areas and addresses their needs.

Additionally, the IT strategy should be reviewed and updated regularly to ensure it remains aligned with business objectives and adapts to new technologies and market changes.

Last but not least, maintain a strong focus on IT security and compliance to protect the organization against cyber threats and adhere to regulatory requirements.

With all of this in mind, we hope it will be easier for PE firms to understand what's important in this post-acquisition phase and what factors are key when designing the roadmap of a newly acquired portfolio company.

Case Study

Lift & Shift Migration Makes IT More Cost-Effective for Software Provider

Advanced – a dynamic PE-backed business software and services provider – migrated its Marketplace software to a bespoke cloud solution, resulting in a cheaper and more efficient IT infrastructure.

Why
Advanced was over-dependent on 3rd party hosting, costing the business money and time.

What
Migration of hosting to a self-managed solution on AWS.

Result
Infrastructure costs were reduced by a quarter, while new development became more efficient.

Managed Hosting Not Cost-Effective

Advanced's acquisition strategy led to a vast IT estate, but the existing managed cloud hosting limited infrastructure access and was costly. Feature deployment depended on a third party, causing delays. After acquiring Advanced Marketplace, the company opted for an in-house solution for better control, stability, and scalability, allowing autonomous and cost-effective feature development.

Lifted and Shifted to AWS

Advanced migrated its IT infrastructure to AWS Cloud with Xebia's help in eleven months, using a lift-and-shift approach. They switched from Oracle to open-source Postgres for cost savings. The company also implemented layered architecture management for better customization and network peering for efficient traffic management.

"We have worked with Xebia for several years across many technically-challenging projects and they always deliver. I highly recommend working with their vast number of experts across all services and disciplines."

Liam Mitchell
Head of Cloud Enablement, Advanced

Web Case Study

Bonus - The Good, The Bad & The Ugly

To provide more context we'd like to show a few short examples on IT strategies went well, not so well, and ultimately an example that lead to disaster.

As we can't provide full context on each of these examples, we highlight only on the parts that contains valuable lessons to learn from.

The Good

One prominent example of a company that excelled post-merger, largely thanks to an effective IT strategy and forward-thinking approach, is Dell Technologies Inc., particularly through its merger with EMC Corporation in 2016. This was one of the largest technology mergers in history, valued at approximately $67 billion at the time. The success of Dell EMC (the entity formed from the merger) can be attributed to several strategic IT and integration initiatives

The Bad

One notable example of a company that struggled to modernize post-acquisition, ultimately leading to bankruptcy, is Blockbuster. Blockbuster, once the dominant video rental service, faced significant challenges adapting to the digital transformation in the entertainment industry. The acquisition by Viacom in 1994 initially provided a financial boost, allowing Blockbuster to expand its retail footprint. However, this expansion strategy also increased its debt load.

The Ugly

Yahoo, once a titan of the internet industry, faced several significant cybersecurity breaches that came to light in the years leading up to and during its acquisition by Verizon Communications. These breaches not only led to substantial financial repercussions but also highlighted critical lapses in cybersecurity governance

Realizing Growth Through Acceleration

Accelerating Development

The digital era necessitates a strategic transformation in how organizations approach software development, structure their offerings, and leverage data for competitive advantage. This transformation is pivotal for portfolio companies aiming to maximize their value creation in a rapidly evolving business landscape.

It is with our decades of experience in enterprise class software development for ISV's and Enterprises alike, we are convinced that the software technology has become a central point of business transformation from being an enabler or a differentiator.

The Imperative for Software Centricity

Every Company as a Software Company: Businesses today are realising the opportunity of creating new revenue streams with software. While in the past only ISVs were producing software, we have two new entrants to that space, viz., Digital Natives and Enterprises. Dependant on which typology that the portfolio company operates in, the PE firms would want to expand on the possibilities. Some times, a product may need to be offered as a service, or sometimes a service may need to be productized. This product-service continuum is the aspect of importance for the PE firms as well as the portfolio companies.

Embracing Platform Models

From Products to Platforms: As the popular saying goes, products have users and platforms have communities. This it the single most viable reason, why companies embrace platform strategy to participate in the networks and eco systems. The transition towards platform models signifies a move away from isolated offerings to more interconnected, scalable solutions. For portfolio companies, embracing platform models means leveraging network effects, accessing new customer segments, and fostering innovation through ecosystem participation.

The Rise of Ecosystems

Dominance of Platforms and Ecosystems: Companies are quickly realising that harnessing knowledge for building software systems is a community thing. Know-all, Do-all, is a thing of the part. Collaborative business models and eco system players participating based on their own strengths while fostering collaboration and open innovation. This model counters the inefficiency of siloed software systems by promoting interoperability and the sharing of resources within a larger network. Portfolio companies that engage in these ecosystems can tap into external innovations, streamline development processes, and more effectively respond to market opportunities.

Guiding portfolio companies through digital transformation

The strategic acceleration of software development, through embracing software-centric business models, transitioning products into platforms, and participating in ecosystems, is vital for the value creation process of portfolio companies.

This approach not only facilitates rapid adaptation and innovation but also positions companies for sustainable growth and competitiveness in the digital marketplace. For PE firms, guiding their portfolio companies through this digital transformation is essential for unlocking significant value and ensuring long-term success in the digital age.

Strategic Decisions

It is fair to think that strategic decisions on software related roadmapping are best done post-acquisition. The core of that strategy are the following elements

- **Typology:** What's the role of software in the line of business
- **Segmentation:** Which of the segments of the markets can be addressed by what type of product/platform/service strategy
- **Sustainability:** Doing more with less, ensuring that life cycle of the products and platform is extended as much as possible
- **Composability:** In order to enable enterprises achieve agility with composable solutions, ISVs and Digital Natives need to (re)architect systems.
- **Eco system development:** With the belief that knowledge is more with the users and communities than in the software companies, communities and eco systems should be on the top of the strategic agenda.

Bundling / Unbundling

Bundling or unbundling is a expert decision depending on the build of the product/platform, segmentation of the market and price sensitivity of the decision.

When to do

1. Driven by a go-to-market strategy, bundling or unbundling should take place to unlock the value in the product or platform.
2. Some times this decision is also a consequence of deployment challenges and customer retention.

Effect

1. When a product is bundled to seamlessly address a business process, the customer satisfaction and retention improves.
2. When unbundling takes place to accommodate different segments of the market (small, medium and large), the marketability of the product greatly improves.

Platforming

A definite requirement in the networked economy is to become part of eco systems than to remain with siloed offerings. While products offer generic business solutions for an addressable market, platforming offers possibilities for the eco system players to join hands in innovation.

When to do

When the product features limit the growth possibilities, and when integrations alone don't offer compelling solutions, platforms should be thought about as the solution for collaboration by different players to solve business challeges.

Effect

Platforms offer a much more versatile landscape of IT systems combining software, Hardware, connected devices and intelligent automation tools. Hence, the possibility to address the growing needs to the business is much more viable with platforms than otherwise.

Monetizing Data

While software generates data, data provides direction as to how the software will further emerge. Gaining insights, and making decisions based on those insights is possible only when data collection, cleansing and analysing are put into a well orchestrated process.

When to do

When non-personal data of the system is able to provide insights which will help the customers' decision making process by reporting or recommendations, its time to focus on data, which is often termed as the new oil.

Effect

Data and the insights thereof, gives raise to new opportunities in customer retention, revenue expansion and acquisition of new markets.

Co-Creation

Co-creation involves setting up mutually beneficial partnership with companies that share similar line of thought. It is very important to align the strategic thinking and goals to become true partners.

When to do

The drive to achieve better cost arbitrage, access to global talent and amalgamate core competencies is the reason to look for co-creation partners. As always said, know-all; do-all attitude may not fit all situations.

Effect

It is possible to achieve quicker time to market, introduction of new technologies, focus on core competence while achieving more with less.

Carve-Out

A carve-out occurs when a parent company sells a minority stake (less than 100%) in a subsidiary or a division to new share holders. The parent company often retains a controlling interest in the subsidiary.

When to do

The goal can be to raise capital, to separate a distinct business unit that may operate more successfully as an independent entity, or to unlock the subsidiary's value.

Effect

The carved-out entity may operate more independently than before, but it is still linked to the parent company through shared services, agreements, or ownership.

Spin-Off

A spin-off involves the parent company distributing 100% of its ownership in a subsidiary or division to its existing shareholders, usually on a pro-rata basis. The spin-off becomes a completely independent company with its own board of directors and management.

When to do

This is often done to focus on the parent company's core business, to allow the spun-off entity to pursue its own strategic goals more effectively, or to unlock shareholder value.

Effect

The spun-off entity is entirely independent and responsible for its own operations, financing, and strategy. This separation can lead to more focused management and strategies that are more closely aligned with each entity's business objectives.

Accelerating Development to Build Velocity

PE firms work closely with the management teams of their portfolio companies to implement velocity drivers, monitoring progress through key performance indicators (KPIs) and making adjustments as needed to ensure the company is on track to achieve its growth and value creation objectives.

Velocity Driver 1
Revenue Growth

- **Product Expansion and Innovation:** Investing in product development to introduce new features, products, or services that meet market demand or create new markets.

Velocity Driver 2
Scalability

- **Automation of Key Processes:** Implementing or enhancing automation in areas like software deployment, testing, and customer service to improve efficiency and scalability.

Velocity Driver 3
Operational Excellence

- **Cost Optimization:** Streamlining operations, automating processes, leverage sourcing partner for cost reduction, to improve profit margins without compromising product quality or customer satisfaction.
- **Cloud Migration or Optimization:** For companies not already cloud-native, migrating to or optimizing cloud infrastructure to reduce operational costs, improve scalability, and enhance security.
- **Consolidation of Tools and Platforms:** Reducing the number of tools and platforms in use to lower costs and simplify the technology stack.

Velocity Driver 4
Customer Success and Retention

- **Enhancing Customer Experience:** Investing in customer support and success initiatives to improve satisfaction, retention, and lifetime value.
- **Building a Strong Product Ecosystem:** Creating an ecosystem around the software product that includes partners, integrations, and community, enhancing the product's stickiness and value proposition.

7 key focus points for technical acceleration

Embrace Rapid Product Development

Prioritize rapid product development methodologies, such as agile and lean startup approaches, to reduce time-to-market and swiftly respond to customer needs and market changes.

Cultivate a Product Mindset Across the Portfolio

Instill a product mindset across the investment portfolio, focusing on continuous value delivery, user-centric design, and iterative improvement to drive growth and customer satisfaction.

Achieve Composability in the Product

Design products and systems with composability in mind, enabling quick reconfiguration and repurposing of components to meet evolving needs and opportunities.

Invest in Modern Development Tools and Technologies

Equip teams with modern development tools and technologies that enhance productivity, collaboration, and the quality of deliverables.

Achieve predictability in release cycles

Utilize cross-functional teams that combine development, operations, and business insights to accelerate decision-making and product iteration and release cycles.

Prioritize User Feedback and Iterative Improvement

Place a high priority on gathering user feedback and employing iterative development to quickly refine and improve products based on real-world usage.

Encourage Experimentation and Tolerance for Failure

Create an organizational culture that encourages experimentation and understands that rapid iteration and learning from failure are essential to innovation and development acceleration.

Case Study

Revolutionizing Insurance with an Omnichannel Experience

abacai

A PE-backed digital-first UK car insurer teamed up with Xebia to challenge a traditional industry with cutting-edge artificial intelligence.

Why
Disrupting a traditional industry with cutting-edge technology, empowering both the customer and insurer.

What
An insurer developing its first revolutionary solution, Boom, within only six months.

Result
Solution launched in time: effortless car insurance with Boom while Abacai's risk is optimally mitigated.

A Traditional Industry Stuck in the Past

UK car insurance is tedious and repetitive, frustrating customers and often offering suboptimal prices for companies. Abacai aimed to use AI to better assess risk and automate the customer experience, reducing costs and improving efficiency.

A Revolution in Revolutionary Time

Partnering with Xebia, Abacai developed an AI-driven engine on AWS, ensuring fast, scalable, and cost-effective insurance quotes. The system had to be ready in six months to meet market demands.

Car Insurance is Finally Seamless

Abacai and Xebia created an agile engine using Snowflake for data and risk assessment. Boom offers a seamless user experience with chatbot assistance and mobile app access. Within six months, boom launched, quickly gaining over fifty thousand customers in a year.

"It's been a terrific partnership. I'm happy to say that with the solutions we've developed together, Abacai's technology stack will be in a very good place for a long, long time. Next up – how can AI help us settle claims?"

Chris Payne
Chief Technology Officer, Abacai

Web Case Study

Video

Maximizing Return on Investment

Technical Exit Phase

The success of an exit phase is the sum of all successes arising from a comprehensive technical due diligence and strategic integration in achieving successful outcomes in M&As and investments.

The exit phase should provide a guide on preparing compelling exit materials, including confidential information memorandums (CIMs) and pitch decks. Bundling intellectual property into configurable components to enhance value is absolutely essential.

The exit phase of a business, especially for start-ups or companies involved in mergers and acquisitions, requires meticulous preparation to maximize the entity's value to potential buyers or investors.

We've suggested a few such actions to provide meaningful help during the preparation of the exit phase.

These housekeeping actions, however mundane they may appear, will greatly help reduce stress when incorporated into a company's regular operations.

Keeping your house clean

Making your house clean could be a task, but keeping it clean is an attitude. The same applies to the company concerning technology, processes, artifacts, backlog items, and customer commitments. One of the essential habits of highly successful companies is to confront this reality often. Here are some examples of how to keep the house clean on various fronts by regularly revisiting:

1. **Technology:** Revisit the technology stack and choices in light of market disruptions, identify the gap, and assess the consequences of that gap.
2. **Functionality:** Functions and features can also manifest like a wardrobe of clothes. It's important to keep checking for stuff that isn't used or doesn't fit. This reduces clutter in the company and improves control.
3. **Value stream monitoring:** It is natural that we accumulate inefficiencies over time, even if a well-oiled machine is in use. Whether in procurement, distribution, or production, it is possible to continually enhance and measure improvements. This is only possible when a company identifies key value streams and periodically assesses them.

4 Steps towards increased ROI in the exit phase

The exit phase offers a promise to the new acquirer, so it is a very responsible phase that must be executed meticulously. More often than not, this is the phase where most of the forgotten things come back alive, hidden gems get unearthed, and a possible value unlock offers new insights.

For example, bundling or unbundling of product services is one such opportunity. Things offered in an "all you can eat" model might provide great possibilities as an "a la carte" offering.

Even if you kept your house clean, it might still be good to do a last push to check all nooks and corners, to see possible increase the valuation of the portfolio company.

With that in mind, we put together a 4-point final steps approach to ensure all aspects of a good exit are covered.

1

Enhancing Value Through Composability

Explore opportunities to use a composability theme, either by bundling or unbundling the products or services, to improve the attractiveness in the acquisition process. While the acquirer understands the future potential, the portfolio can get maximum value from the work they performed over a number of years.

2

Configurable Components as a Selling Point

Bundling intellectual property into configurable, modular components showcases the technology's adaptability and future-proof nature. It also makes the assets' value more appealing by illustrating their immediate utility and potential for future development.

3

Crafting Compelling Exit Materials

Preparing compelling exit materials, such as Confidential Information Memorandums (CIMs) and pitch decks, is crucial for effectively communicating the company's value proposition to potential buyers or investors. These materials should detail the business's financial health and potential and highlight the strategic value of its technology, market position, and team.

4

Highlighting Technological Innovation and Leadership

Ensure that the exit materials clearly convey the company’s technological innovations, leadership in its domain, and the strategic significance of its intellectual property. Demonstrating a track record of innovation and a culture of continuous improvement can significantly enhance attractiveness to buyers.

The Digital Playbook

Technical Companion for PE Firms

Not long ago, we started to think every company would become a software company. We are seeing trends demonstrating that such a state has already arrived. Technology is not a differentiator anymore but is a necessity now. The future of work, as we imagined, is already here. What does this all mean?

If the distinction between tech and non-tech companies quickly diminishes, the same factor will also influence how the investment climate changes. Private equity firms should consider strategic partnerships to enhance the value of their investments by partnering with companies that offer unparalleled technology, consulting, and engineering prowess.

While writing this playbook, we put ourselves in the shoes of a PE firm, a buy-and-build company, and a portfolio company that is part of the buy-and-build group. Every PE firm should have a playbook to avoid becoming too versatile and creative about investments. Our attempt is to provide a 360-degree overview of the investment life cycle stages, critical success factors, and a bouquet of frameworks that provide a basis for investment firms.

As a PE firm, you need a tech companion who will keep your interests high on the radar. Given our decades of experience working with investment firms, having invested in companies ourselves, and having been on the receiving side of the investments, we are well-positioned to have this 360-degree overview backed up by solid case studies.

Here are some key takeaways as to why following an investment life cycle provides a fine-grained approach to maximizing value and helps establish great professional relationships among the entities in the discussion.

1. **Due Diligence**
   a. The moment of truth for any transaction.
   b. Best done without bias and focused on facts, standards, and future readiness.
   c. Partnership with an expert helps here both by breaking the internal stereotypes and bringing greater accountability for decision-making.

2. **Business Integration**
   a. This stage is the real make-or-break point. Many things are impossible until portfolio companies overcome the "us vs. them" syndrome.
   b. Integrating people, processes, culture, and systems will be essential.

3. **IT Strategy**
   a. The basis of IT strategy development should be addressing today's needs while preparing to meet tomorrow's needs.
   b. Bringing together several companies in its portfolio is a definite opportunity for the PE firm to eliminate redundancy, curtail inefficiencies, improve resource productivity, and optimize costs.

4. **Accelerate Development**
   a. Bringing together the core competencies of players in the ecosystem rather than inventing the wheel alone is the way to go.
   b. Doing more with less and focusing on "What's important now" are two strategies that will top the list to compete faster in the market.

5. **Prepare for Exit**
   a. If due diligence is the moment of truth before entering a portfolio company with an investment, the same is true for a company that will be a new buyer. That's why it is so crucial to stay prepared with the help of an expert.

About Xebia

Xebia is an IT Consultancy and Software Development Company that has been creating digital leaders across the globe since 2001. With offices on every continent, we help the top 250 companies worldwide embrace innovation, adopt the latest technologies, and implement the most successful business models.
To meet every digital demand, Xebia is organized into chapters. These are teams with tremendous knowledge and experience in Agile, DevOps, Data and AI, Cloud, Software Development, Security, Quality Assurance, Low Code, and Microsoft Solutions. In addition to high-quality consulting and state-of-the-art software, Xebia Academy offers the training that modern companies need to work better, smarter, and faster. Today, Xebia continues to expand through a buy and build strategy.
We partner with leading IT companies to gain a greater foothold in the digital space.

Find more information on how Xebia is driving innovation at **xebia.com**.

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