One Way to Ease Tensions Between Operating Partners and CEOs

Anthony Bahr Strategex | October 23, 2018

Recently, many private equity firms have been adopting buy-and-build strategies to improve returns. Often, this strategy entails buying a platform company with established management team members who are experts in the industry and know how to extract costs without compromising topline growth. However, in the absence of a seasoned management team, equity partners may bring in an operating partner to serve as an advisor to the platform CEO and to manage proceeding add-ons.

A conduit between the platform's CEO and its equity partners, OPs are primarily charged with driving value creation. In reality, they often fall into a role where they are serving multiple stakeholders (management, employees, customers, etc.) whose needs can be at odds with their value creation mandate. This can create an environment where the CEO feels the OP is working too autonomously, effectively undermining their role. Consequently, equity partners tend to find themselves as the arbiters of these conflicts, which can end up being lose-lose scenarios and damaging the long-term return on investment.

In instances where the underlying issues causing tension are customer-related, there is an opportunity to rely on the Voice of the Customer (VOC) rather than equity partners to be the arbiter of conflict. An in-depth and objective understanding of the customer journey and the customer experience allows stakeholders to guide decision making according to what is best for the customer – and therefore what is best for the business – while removing the barriers of ego and conflicting mandates.

For example, one of our private equity clients, eager for a short-term boost in margins, directed an OP to explore the possibility of an increase. The CEO pushed back on the idea out of concern for potentially alienating and losing customers, which could have resulted in a net decline in revenue. Rather than flexing veto power or involving equity partners, the OP commissioned a health check on the state of customer relationships. After conducting thirty in-depth phone interviews with decision makers at top accounts, the following was uncovered:

- The company had an incredibly strong Net Promoter Score® of +62, suggesting a majority of customers were loyal and considered the relationship to be strategic in nature rather than simply transactional.
- Customers perceived a compelling value proposition, with 21% spontaneously mentioning price as a top strength.
- When asked directly about price for the value, customers gave an average score of 8.8 on a ten-point scale, indicating they were consciously paying too little for the value they were receiving.
- A large majority (84%) said the company's prices were "somewhat" or "much better" than their other suppliers, with one going so far as to say, "Sometimes I need to call them back to confirm they gave me the right quote because it is consistently 20% lower than what others quoted."

These findings gave the OP the insights they needed to persuade the CEO that the company could selectively and gradually raise prices without putting customer relationships at-risk, while also diffusing a conflict in the first 100 days post-close that could have had a negative impact on the working relationship and the long-term success of the platform. Ultimately, as illustrated by this example, the VOC technique is a powerful, data-driven way to ease tensions between OP and CEO and ensure that the company's best interests are being served.