



THE BOSTON CONSULTING GROUP

# DISCOVERING HOW AND WHERE TO ADD DIGITAL TO YOUR PRIVATE EQUITY PLAYBOOK

By Michael Brigl and Russell Kellner

*BCG's Digital Acceleration Index tool helps private equity firms evaluate their portfolio companies' ability to create value through digital—and launch the right digital initiatives to create value.*

**D**IGITAL TOOLS AND TECHNOLOGIES are gaining a starring role in the playbooks of nearly every private equity firm. Why? They enable firms to pull traditional value-creation levers with far greater force, realizing much-improved results. Such levers include top-line performance; operational excellence; efficiency in selling, general, and administrative (SG&A) expenses; organization and governance; cash-flow management; and M&A prowess. And that means portfolio businesses can boost revenues through powerful means such as smarter CRM analytics and greater personalization of customers' experiences.

Because of its unique reach, we view digital as a strategic imperative in private equity. So do the executives at our PE clients, many of whom told us in interviews that the topic of digital is commanding their full

attention. But many of these same executives candidly acknowledged feeling unprepared to seize the advantages offered by digital technologies. (In August and September 2017, BCG interviewed 20 executives at PE clients in the United States and Europe, to elicit their thoughts about the role of digital in their industry.) (See Exhibit 1, *PE Executives Tell BCG That Digital Is Critical and Difficult.*)

To help you fully grasp and realize digital's promise, we highlight some of BCG's experiences in deploying digital value-creation levers while working with companies in a diverse array of industries. And we share BCG's proven approaches—notably our Digital Acceleration Index—for evaluating your portfolio companies' current and future capability to create value through digital.

## Digital Approaches Amplify Value Creation

When tapped fully and strategically, digital technologies position portfolio companies

## EXHIBIT 1 | PE Executives Tell BCG Digital Is Critical—and Difficult

“We have a strong understanding of the impact of digital, but limited in-house capabilities to execute.”

“Digital is rapidly becoming a serious strategic contender for our portfolio businesses.”

“We are generally below-average in our application of this topic. Others can certainly do it better.”

PE Executives Tell BCG That Digital Is Critical—and Difficult

“Digital is very important, one of our top-three agenda items.”

Source: BCG interviews.

in any industry to deliver maximum value to investors by getting more from their traditional value-creation levers—improving top- and bottom-line performance. (See Exhibit 2, *Enhanced Value Creation for Companies Through Digital*.)

### TOP-LINE PERFORMANCE AND OPERATIONAL EXCELLENCE

Thanks to digital, customer touchpoints and delivery channels have proliferated, and customers’ increasingly expect seamless, state-of-the-art experiences. To satisfy them, companies must transform their commercial functions. BCG has used our next-generation sales program to help companies in diverse industries establish digital business units and deliver well-timed, personalized experiences to their customers. These include consistent and seamless purchasing processes across channels and a transformation to customer-centric journeys such as shifting the focus from “granting a home loan” to “helping you move.” These initiatives delivered results such as revenue increases of 5-15%, a \$2 billion increase in run-rate revenues over three years, and the development of new selling models.

Simultaneously, data is exploding, providing unprecedented visibility into customers, asset performance, companies’ activities, and market trends—and market forces like crowdsourcing have gained momentum. BCG’s analytic activators program has helped companies capture greater value from the data generated by technologies including smart, always-connected sensors and robotics. For instance, BCG teams have used predictive maintenance to improve asset utilization for a consumer appliances company, and data analysis to predict which channels customers will contact for product information and servicing requests. Results from such projects included a three-fold increase in incremental revenue, a 13% improvement in EBIT, and a 70% decrease in service costs.

### SG&A EFFICIENCY AND CASH-FLOW MANAGEMENT

With automation technology advancing further than ever, digital supply chains can become a reality. BCG has worked with client companies, including several steel manufacturers and a large pharma firm, to create such supply chains. Results included 15-30% reductions in inventory; 10-20% de-

## EXHIBIT 2 | Enhanced Value Creation for Companies Through Digital

Sample Outcomes from BCG-led Digital Initiatives

	PROGRAM	RESULTS
Top-line Performance	<ul style="list-style-type: none"> <li>Next-generation sales</li> <li>Analytic activators</li> </ul>	Revenue $\uparrow$ 5-15% EBIT $\uparrow$ 13%
Operational Excellence	<ul style="list-style-type: none"> <li>Analytic activators</li> <li>Next-generation sales</li> </ul>	Service costs $\downarrow$ 70% New selling models
SG&A Efficiency	<ul style="list-style-type: none"> <li>Digital supply chains</li> <li>Digital shared services</li> </ul>	Logistic costs $\downarrow$ 10-20% FTEs $\downarrow$ 50-75%
Cash-flow Management	<ul style="list-style-type: none"> <li>Digital supply chains</li> <li>Digital shared services</li> </ul>	EBITDA $\uparrow$ 2-4% Asset turnover $\downarrow$ 80-90%
Organization and Governance	<ul style="list-style-type: none"> <li>Agile at scale</li> <li>Agile at scale</li> </ul>	Speed to market $\uparrow$ 2x-4x% Productivity $\uparrow$ 2x-4x%

Source: BCG.

creases in manufacturing, warehousing, and distribution costs; and 2-4% improvements in EBITDA.

Digital shared services have become another important reality, thanks to the use of AI and robotic process automation to perform transactional activities. BCG has used its digital shared services program to help numerous companies boost their SG&A efficiency and streamline their organizational structure. These targeted initiatives included incorporating automation and AI into the companies' shared service centers for functions such as robotic process automation (RPA) to speed up service center and back-office processes and AI to automate finance through intelligent bill scanning and accounting. Outcomes included 50-75% reductions in full-time employees (FTEs), 80-90% decreases in asset turnover, and 80% reductions in labor costs.

### ORGANIZATION AND GOVERNANCE

In today's fast-changing world, agility matters more than ever. For some companies, digital approaches can support agility—by rewiring how decisions are made in an enterprise, so companies become more nimble, attract the best talent, use rapid testing and learning to develop new offerings, and get their offerings to market faster. BCG's

Agile at Scale program has helped executives develop robust solutions for important strategic questions such as How can we respond more quickly to changed market or customer requirements? or How can we break down silos and increase engagement to retain and attract talent? The result is smart, informed decisions made quickly. This program also helps companies break down organizational silos and decrease costly, productivity-sapping bureaucracy. Some of our recent clients garnered results including two- to four-fold improvements in speed to market, similar increases in productivity, and measurable improvements in workforce morale and engagement.

### Using the Digital Acceleration Index

The message is clear: Given digital's power to rev up companies' value-creation engines, PE firms can't afford to ignore this opportunity. BCG's Digital Acceleration Index can give them a strong start, by helping them assess the digital maturity of target companies as well as businesses already in their portfolio. (See the sidebar, *BCG's Digital Acceleration Index*.)

In this way, BCG's online assessment and benchmarking tool can help PE firms over-

## BCG'S DIGITAL ACCELERATION INDEX

Using BCG's Digital Acceleration Index (DAI) enables a company's leaders to identify opportunities for accelerating the digital transformation journey. An organization can determine its starting point by first discovering its digital strengths and weaknesses. Next, comparisons made by benchmarking against direct peers, the industry average, or best-in-class digital leaders help executives define an achievable ambition level for their company, develop an integrated roadmap for reaching the targeted digital state, and initiate their digital transformation.

### What Is the Digital Acceleration Index?

BCG's Digital Acceleration Index helps organizations assess their digital maturity—that is, uncover their digital strengths and weaknesses, determine whether their digital capabilities are lacking or imbalanced, and evaluate how well they perform against peers in digital efforts.

The DAI enables comparisons with more than 2,500 participating companies across 37 business dimensions in the four critical areas of digital maturity:

- Digitally driven business strategy,
- Digitalizing the core,
- New digital growth, and
- Digital enablers.

Responses to the DAI questionnaire help determine which of the four stages of digital maturity a company has achieved for each of the dimensions and activities:

- **Stage 1. Digital Passive:** At this stage of digital maturity, business functions and IT sometimes collaborate on digital topics based on ad hoc

demands, but they do not align unless those projects are executed jointly. The company has not yet defined a targeted state for digital technologies and the organization.

- **Stage 2. Digital Literate:** At this stage, the need for digital investment is recognized and a roadmap to close existing gaps is defined. Processes are beginning to be digitized. Business units, functions, and regions execute digital initiatives, but they do so in functional silos rather than in conjunction.
- **Stage 3. Digital Performer:** The business functions and IT jointly build capabilities across all areas, manage digital in an integrated way, and build and commercialize digital initiatives with success. Some disruptive businesses are launched.
- **Stage 4. Digital Leader:** Digital is embedded throughout the entire company, including in its innovation, value proposition, technology, and operations. The organization outperforms its peers in key digital metrics, and digital is seen as the key driver of the company's value. Digital strategy and a roadmap are defined. Digital initiatives contribute to strategy and clear value is added.

The findings from the completed assessment highlight the key areas in which significant improvement is required and capabilities are imbalanced. (See the exhibit.) The assessment includes optional deep dives that companies can undertake to target specific, particularly critical dimensions.

### Who Should Participate?

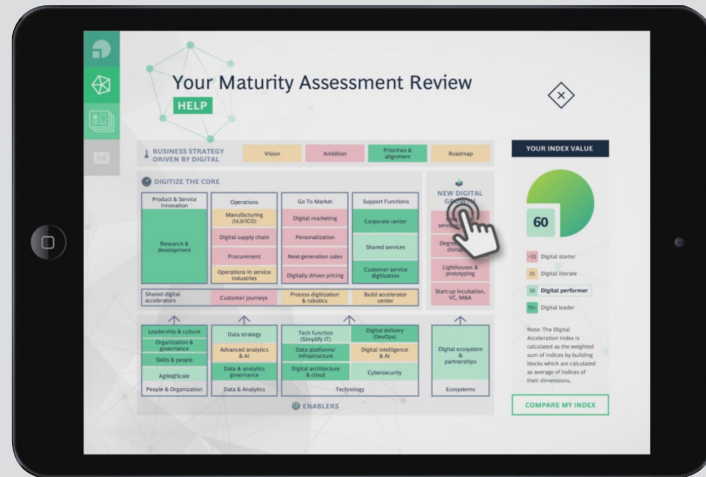
The DAI has already been proven to be a valuable tool among top-level executives and digital experts from more than 200

## BCG'S DIGITAL ACCELERATION INDEX (continued)

companies covering all industries and geographies. Within some individual clients, more than 1,000 surveys were

conducted across all business units and functions to fully assess the corporate group as a whole.

### DAI Identifies Required Capabilities for Development and Areas for Improvement



Source: BCG.

come all-too-common barriers to digital mastery. As a result, they can craft digital initiatives that enhance their own operational performance as well as the financial performance of their portfolio companies. Exploring a series of probing questions is a smart first step.

BCG's DAI enables comparisons with more than 2,500 participating companies across 37 business dimensions in the 4 critical areas of digital maturity: digitally driven business strategy, digitalizing the core, new digital growth, and digital enablers.

#### EXPLORING IMPORTANT QUESTIONS

Results from the Digital Acceleration Index assessment help fund managers explore crucial questions as they screen targets and craft performance-improvement plans for their portfolio companies:

- **Which disruptions are reshaping the portfolio company's industry?** What

risks do these disruptions pose for the industry, the company, and our overall portfolio? How might digital help mitigate those risks?

- **How ready is the portfolio company to capitalize on digital technologies to create more value for investors?**

For instance, to what degree does digital inform the company's business strategy? To what extent has it digitalized core functions in its business, such as its product and service innovation, operations, and go-to-market approach? How much of its growth is driven by digital? And how well is it using digital enablers, such as agile approaches, talent with digital skills, and ecosystems of digital providers?

- **How does the company stack up against its peers in terms of digital readiness?** Which digital topics are lagging behind and are they actually

key to succeed in digital in the respective industry?

- **What would it take to improve the portfolio company's digital readiness?** To what degree would such moves support the growth strategy of the business?

### **SELECTING THE RIGHT DIGITAL PROGRAMS FOR THE JOB**

Once a PE firm has used results from the Digital Acceleration Index to understand where a target or portfolio company needs to deploy digital, it must identify the digital programs that can best help it attain its goals. At BCG, we help clients implement a range of such programs, depending on their needs. Consider these examples:

**Manufacturing 4.0.** Our Manufacturing 4.0 program uses model factories and simulations to help companies maximize operational efficiency. Manufacturers gain the knowledge and skills needed to use technologies reshaping industry—such as autonomous robots, additive manufacturing, augmented reality, the Industrial Internet, and cloud computing. Results include enhanced productivity, operational flexibility, process speed, and product quality. The program also fosters an “ignite-pilot-scale” approach that helps companies swiftly achieve and build on efficiency and effectiveness gains.

**Next-Generation Sales.** Our next-generation sales program uses digital technologies to create seamless experiences across channels for all customers. It helps businesses manage sales opportunities, offering and pricing, selling and negotiations, and customer relationships, including equipping sales reps with a digitized cockpit that provides data and knowledge essential for cross-selling.

**Analytic Activators.** BCG's analytic activators program uses data analytics to rapidly deliver business value through custom end-to-end solutions that are accretive in 6 months and that have a major P&L impact in 12 months. It draws on advanced pattern recognition and detection to support

continuous learning and improvement, and it provides dynamic triggers and alerts for employees' actions.

**Digital Supply Chain.** Our digital supply chain program uses predictive analytics to enhance demand forecasting and capacity modeling. It digitally enables sales and operations planning to streamline demand, supply, and inventory matching. It also deploys scenario modeling to optimize manufacturing and distribution footprints and deploys geo-analytics to improve logistics planning and routing.

**Digital Shared Services.** This program supports real-time data and reporting capabilities. In addition, it draws on robotic process automation and AI to manage manual, transactional activities in shared service centers, freeing employees to focus on more value-creating work. Our digital shared services program also reduces organizational layers to decrease costs and boost productivity in shared service centers and global business services centers.

**Agile at Scale.** BCG's Agile at Scale program uses agile ways of working, such as fast pilot projects, to help companies manage digital and traditional projects (including product or service development) as well as improvement programs and organization redesigns. The program supports agile approaches in all functions—IT, support centers, operations, contact centers, marketing and sales—to improve efficiency, productivity, and delivery speed. Equally important, it enables cross-functional teams to collaborate easily and effectively across silos.

**Next-Generation Tech Function.** This program helps companies develop an advanced tech function that supports digital transformation efforts throughout the business. Examples of the program's focus areas include creating a sophisticated digital and data platform, strengthening digital capabilities in the IT workforce, implementing agile practices in application development and deployment, and establishing state-of-the-art cybersecurity mechanisms.

## Next Steps for PE Firms

How can PE firms start using digital to pull those value-creation levers with maximum force? We recommend taking a disciplined approach—including mastering several new processes and strengthening specific capabilities.

For example, when it comes to *processes*, it's vital that companies:

- Include digital assessment in all target screening,
- Use a standardized template for digital assessment in every due diligence,
- Make digital assessment an integral part of every value-creation plan for portfolio companies,
- Include a standardized digital assessment for every investment committee presentation, and
- Track progress along the way.

As for *capabilities*, we recommend that firms:

- Start integrating digital skills—such as agile approaches, analytics, and customer-centricity—in their operating model,
- Establish digital expertise in processes such as deal sourcing due diligence, and the development of value-creation plans for portfolio companies,
- Offer ongoing digital training for investment professionals in the firm, and
- Forge partnerships with leading institutions in the digital ecosystem such as analytics platforms or cloud providers.

**T**HE DIGITAL ACCELERATION Index can help PE firms deepen their understanding of the competitive landscape and grapple with crucial strategic questions. Drawing on insights gained from this process, firms can select the most promising target companies and design the right digital-transformation initiatives for their portfolio companies.

## About the Authors

**Michael Brigl** is a partner and managing director in the Munich office of The Boston Consulting Group. You may contact him by email at [brigl.michael@bcg.com](mailto:brigl.michael@bcg.com).

**Russell Kellner** is a partner and managing director in the firm's Boston office. You may contact him by email at [kellner.russell@bcg.com](mailto:kellner.russell@bcg.com).

The Boston Consulting Group (BCG) is a global management consulting firm and the world's leading advisor on business strategy. We partner with clients from the private, public, and not-for-profit sectors in all regions to identify their highest-value opportunities, address their most critical challenges, and transform their enterprises. Our customized approach combines deep insight into the dynamics of companies and markets with close collaboration at all levels of the client organization. This ensures that our clients achieve sustainable competitive advantage, build more capable organizations, and secure lasting results. Founded in 1963, BCG is a private company with more than 90 offices in 50 countries. For more information, please visit [bcg.com](http://bcg.com).

© The Boston Consulting Group, Inc. 2017. All rights reserved. 11/17