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Finance transformation in private equity

Leveling up with intelligent automation and analytics

Introduction

In the wake of global economic shocks from the COVID-19 pandemic, CFOs broadly remain committed to finance transformation. In fact, according to Deloitte's *CFO Signals*™ report for the second quarter of 2020, finance chiefs expect a major increase in automation by next year.[1] They consider automation to be a key component of a sustainable finance function for the future.[2]

Investment funds—innovators by tradition—are getting a jump on this trend through carefully chosen opportunities for digital transformation, including intelligent automation and analytics. We've seen many start their digital journey in the finance department because of the opportunities for cost reduction, improved forecasting and planning, and more timely financial reporting. Intelligent automation and advanced analytics are often the tools of choice to enhance business processes. These technologies can also support broader finance transformation goals, such as greater transparency into financial performance, reduction of error-prone manual processes, and a central data repository providing a single "version of the truth" to drive more effective decision-making.

For private equity investors (PEIs), the appeal of intelligent automation and analytics takes on an added dimension. It can help their performance management teams identify opportunities to boost the value of portfolio companies by streamlining, modernizing, and reducing costs in their finance operations. At the same time, intelligent automation and analytics can lend greater visibility into the transactions taking place at each portfolio company, equipping private equity CFOs and performance management teams with insights that can shape decisions at the fund management level.

Why this matters now

The COVID-19 crisis has driven home the necessity of operational resilience and cost efficiency in the finance function. In the United States, offices shuttered just as many portfolio companies were closing their books for the prior year, leaving them scrambling to complete the process while working remotely. Now, investors are taking a closer look at how PEIs and their portfolio companies are able to adapt to market changes and stay on a path to growth through efforts that might include:

1. Reducing transactional processing turnaround time
2. Reducing issues stemming from human errors
3. Reducing the potential for internal or external fraud
4. Improving executive decision-making
5. Delivering nonstop performance, such as overnight and weekend processing
6. Boosting employee engagement by shifting employees away from repetitive manual tasks to more meaningful activities, such as analyzing the business and providing insights through analytics
7. Increasing operational capacity without a long buildup phase, such as by building automated system interfaces, and without a large investment in IT architecture

Any number of digital strategies can help these efforts along. But intelligent automation and analytics are of particular interest to PEIs because they can support targeted finance transformation initiatives that can produce results within a shorter time frame and lead to a potentially more profitable exit. These technologies can also help portfolio businesses address shortfalls in staffing and IT infrastructure that the current economic climate may have exacerbated. PEIs that pursue such strategies could create performance improvements that might distance them from competitors that don't.

More bang for the buck

Some PEIs may still have questions about how to deploy such a program across a portfolio of diverse companies. In our experience with performance management teams or portfolio services groups, PEIs are often structured in such a way that creates a "built-in" federated model (a hybrid between a centralized and decentralized model) in which governance policies, performance expectations, and efficiencies of scale can be established at the fund level and the portfolio companies can be encouraged to take advantage of them.

For example, PEIs can have the strategic leverage to negotiate discounts with automation technology vendors and implementation partners for a rollout of automation technology across a portfolio using a "preferred vendor" approach. Additionally, PEIs can strategically position a preferred implementation service provider to help develop, deploy, and implement the vendor solution for continuity and efficiency.

This inherent federated nature of PEIs, backed by a strong preferred vendor and service provider, can create scaled efficiencies that few individual companies can match.

A federated deployment model is one where the investment fund oversees the intelligent automation and analytics program, but selected portfolio companies are responsible for carrying it out.

Intelligent automation and analytics in action

Intelligent automation and analytics often shine in situations where very tactical applications can drive tangible performance and growth. For example:

A portfolio company with numerous long-term contracts was struggling to manage project profitability. Deloitte aggregated the project data and built a flexible dashboard to show at a glance how each one was progressing. Management could, for example, see which projects were behind schedule or over budget. They could also pinpoint problem areas among unprofitable projects and make informed decisions about how to respond.

A private equity–owned machinery company was experiencing cash flow volatility that negatively affected their interest rate on a revolving line of debt. Automation seemed like a promising way to help the company get their accounts receivable under control. So, in addition to a quantitative analysis, Deloitte conducted a qualitative study to determine the systemic impact of the efficiency that intelligent automation offered. This gave the private equity firm an idea of what the potential return on investment could be and enabled them to make their decision based on what the data revealed.

A health care investment fund owned dozens of medical care facilities. Some locations were profitable, and some weren't—but it wasn't entirely clear why, partly because each location was under different management and spending varied significantly. From food service to sales lead generation, Deloitte analyzed each location's fixed and variable costs, then created an automated process to report these costs so that fund management could develop more thoughtful strategies about where to spend their resources.

This kind of data-wrangling and targeted use of intelligent automation and analytics isn't just for individual portfolio companies. It can also give PEIs themselves a consolidated view of portfolio performance. The potential results? Real-time insight into a wide range of financial metrics; faster and more accurate forecasting, budgeting, and variance analysis; and a greater ability to drive value across companies.

What's more, intelligent automation and analytics aren't just for the largest PEIs. Midmarket PEIs, growth equity investors, and portfolio companies that want to drive growth without significantly increasing their workforce size and technology investments can benefit, too. In fact, organizations that try to sidestep the opportunities that digital transformation represents may pay what the German philosopher Meister Eckhart called "the price of inaction."[3] Instead, successful organizations find a way to adapt to the increasing demands they face. In short, PEIs can choose to be overwhelmed by digitization and struggle to keep up, or they can embrace the digital era, set a vision for the future, and drive business growth through technology.

A standout strategy

In a volatile market, investors are showing greater caution in how they distribute their capital. PEIs can stand out with strategic choices that include using digital technologies to reduce costs and effectively manage their portfolios and individual companies. Finance transformation, especially intelligent automation and analytics, can help portfolio companies refine their financial processes, improve operational efficiencies, and make them more resilient to external shocks.

Intelligent automation and analytics can offer an exceptionally actionable way to embark on the transformation journey and deploy advanced tools. It can help private equity CFOs deliver value to the organization faster, with an incremental approach that builds on earlier achievements. PEIs can add to that value by extending digital technologies programmatically across the portfolio, creating economies of scale and enhancing their returns over the medium term.

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Endnotes

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