

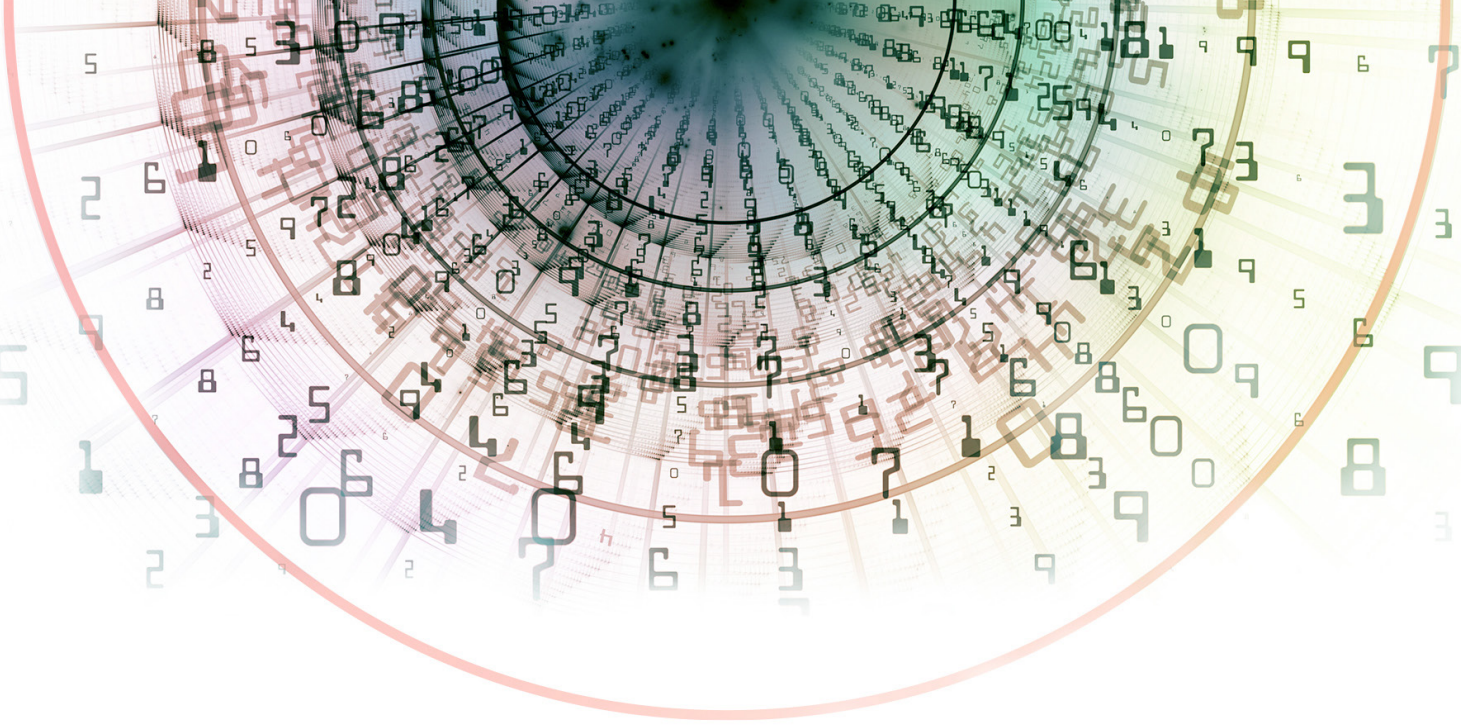
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Private equity value creation through product engineering

A value creation strategy for
TMT portfolio companies

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The competition for private equity (PE) deals is intensifying, and many PE portfolio companies in the telecommunications, media, and technology (TMT) industry are implementing cost-reduction measures to stay competitive. Private equity firms, which are increasingly investing in software and other technology companies, need to find novel ways to create value beyond standard operational and financial improvements. Product engineering provides a meaningful opportunity area for both portfolio companies and PE firms to grow revenue and reduce costs.

Why product engineering for value creation in private equity?

Private equity firms have excelled at creating value for portfolio companies through operational improvement, financial engineering, and bolt-on acquisitions. However, organic product development is often neglected among the many available value creation levers due to its perceived complexities and longer-time value horizon. As decreased valuations entice new buyers into the market and competition intensifies, there are several reasons why PE firms should reconsider their value creation levers:

- **No low-hanging fruit:** PE firms have historically leaned on cost cutting and multiple expansions to create value in their portfolio companies. The threat of slow growth and a potential recession poses a risk in multiple expansions. Moreover, standard cost-cutting methods are often already implemented by previous management. As such, there is no more low-hanging fruit for portfolio companies, and PE firms need to explore new cost levers.
- **Shift from cost cutting to profitable growth:** Investors are increasingly looking for growth, and product development and expansion are essential to driving top-line growth. However, many companies, especially smaller ones, don't have a formal process to manage portfolios and new product development efforts. In some cases, pipelines are clogged with low-value projects. Furthermore, undeveloped engineering processes and systems, especially in the [software engineering](#) space, often increase development cost and delay time to market. By focusing on software engineering, firms can prioritize resources to build the right products (e.g., profitable, high-value ones) cost efficiently and with faster time to market. Both aspects can help boost product innovation at scale and accelerate growth.
- **Synergy across the portfolio:** PE firms can establish an engineering Center of Excellence (CoE) to share best practices across portfolio companies and drive engineering efficiency. Leveraging best practices via a CoE is even more impactful in the software engineering space: A CoE can aid PE firms in deal negotiations, as it can create synergies that corporate buyers often bring to the seller.

What are the opportunity levers to drive revenue growth and cost reduction in product engineering?

Five areas comprise product engineering: product strategy, portfolio management, product development, engineering tools, and engineering talent. Within each exist significant opportunity levers for value creation. Table 1 summarizes some of the critical opportunity levers on which companies may focus their efforts:

Table 1. Product engineering opportunity levers

Product engineering	Revenue growth levers	Cost reduction levers
Product strategy	<ul style="list-style-type: none"> • New product opportunity Identification • Existing product enhancements • Pricing and packaging optimization • Strategic product roadmap development 	<ul style="list-style-type: none"> • Investment planning and prioritization
Portfolio management	<ul style="list-style-type: none"> • Product modernization (e.g., cloud native, microservices) • Product to flexible consumption/XaaS • Data monetization 	<ul style="list-style-type: none"> • SKU rationalization • Roadmap and pipeline alignment
Product development	<ul style="list-style-type: none"> • Effective product development process • Agile software development • DevOps/Continuous integration and continuous delivery (CI/CD) for rapid release 	<ul style="list-style-type: none"> • Efficient product development process • Lean software development • Product testing automation
Engineering tools	<ul style="list-style-type: none"> • Engineering tool modernization (e.g., higher scalability) 	<ul style="list-style-type: none"> • Engineering tool modernization (e.g., lower maintenance cost) • Tool consolidation
Engineering talent	<ul style="list-style-type: none"> • Engineering outsourcing—access to skilled workforce globally and scale faster 	<ul style="list-style-type: none"> • Offshore/nearshore in-house engineering talent • Engage outsourced engineering firms to fill skill set gaps and offload non-core activities • Optimize org structure to enable sharing and lower overhead



How can TMT companies enable engineering value capture along the deal cycle?

Making product engineering an integral part of a deal's due diligence and post-close phases can create tremendous value for PE firms and portfolio companies. Organizations can level up by tapping product engineering early in the deal cycle and focusing on the following key activities (Table 2):

Table 2. Value creation activities

	Due diligence activities	Post-close activities
Product strategy	<ul style="list-style-type: none"> • Conduct outside-in research to understand customer needs and competitor positioning, and identify “white space” opportunities • Define differentiated use cases and verticals to target to address white space opportunities • Frame conceptual opportunity, including value proposition, key components, and desired customer outcomes 	<ul style="list-style-type: none"> • Position strategic case for investment, including rationale, risks of inaction, and go-forward plan • Align on build/buy/partner decisions and estimate level of effort for new offering components • Define strategic roadmap, including high-level milestones and dependencies
Portfolio management	<ul style="list-style-type: none"> • Access product portfolio and pipeline health • Conduct product due diligence (e.g., scalability, maintainability, security, and data) • Analyze the process for prioritizing R&D investments 	<ul style="list-style-type: none"> • Rationalize portfolio and SKUs • Implement product modernization (e.g., move to cloud, XaaS, data monetization) • Reposition R&D investment to align with the growth plan
Product development	<ul style="list-style-type: none"> • Evaluate product development process maturity (e.g., agile product development team roles) • Access current development automation activities and assets 	<ul style="list-style-type: none"> • Establish formal/modern product development process • Implement DevOps/CICD • Automate product testing
Engineering tools	<ul style="list-style-type: none"> • Conduct technology due diligence to identify technical debt • Map engineering tool functionality and usage 	<ul style="list-style-type: none"> • Consolidate engineering tools by removing redundancy and low- to no-usage tools • Modernize engineering tools (e.g., cloud, low-code/no-code)
Engineering talent	<ul style="list-style-type: none"> • Evaluate talent needs and skill gaps across locations • Assess engineering resource allocation (e.g., new versus maintenance products, design versus testing) • Assess organizational structure 	<ul style="list-style-type: none"> • Engineering outsourcing—offshoring/nearshoring • Product org optimization

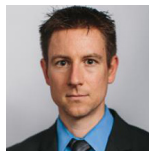
In addition to these activities, PE firms can leverage the CoE to drive best practices across portfolio companies. During the due diligence phase, PE firms can identify the target company's gaps relative to best practices and, during post-close phases, implement best practices and utilize standard KPIs to track performance.

Using [product engineering](#) as a value creation strategy requires private equity firms to work closely with portfolio companies' business and engineering leaders during the deal life cycle. The focus should be on increasing engineering efficiency to achieve both business growth and cost reduction. Since the product is at the core of many portfolio companies, these activities must be carefully executed to avoid product development disruption and customer confusion. Working with an experienced partner—one with industry, M&A, and software product engineering experience—to help navigate the product engineering improvement journey can be a significant value-add and vastly increase the potential to capture desired value.



Faruk Muratovic

Principal
Software Engineering
Deloitte Consulting LLP
fmuratovic@deloitte.com
+1 415 783 2094



Jon Smyrl

Senior Manager
Product Engineering
Deloitte Consulting LLP
josmyrl@deloitte.com
+1 929 237 9561



Nina Zhang

Managing Director
M&A and Restructuring
Deloitte Consulting LLP
yinzhang6@deloitte.com
+1 213 553 1043



Rohan Gupta

Senior Manager
Go-To-Market Strategy
Deloitte Consulting LLP
rohagupta@deloitte.com
+1646 455 96321

Contributors

Coco Yin

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