



Private Equity and the Unturned Stone

An old business tool is improving portfolio company values

There's a tool missing from private equity's arsenal. A proven tool that is foundational to success, whether it is used by a corner grocery store or an international conglomerate. A tool that, for private equity, could increase company values across the portfolio lifecycle, from purchase through divestiture. But it has been vastly underrated, even ignored. Until now.

Buy a company. Improve a company. Sell a company. Even through the dizzying economic rollercoaster ride of the past eight years, this has been the standard methodology for private equity sponsors. The tools used to maximize investment returns, such as management tailoring, financial engineering, acquisitions and operational improvements, have also remained relatively uniform through the years. But there is another business tool. A tool that only a few private equity shops have recently begun to utilize.

The right advantage for the right time

Marketing is that tool and it is foundational to any business. But, very few private equity shops have placed much value in their portfolio companies' marketing efforts. Possibly because many private equity professionals come from the finance side of the business and consider it best left to the company. Or maybe because they feel that marketing is impossible to quantify. Or perhaps private equity's traditionally reliable growth rate didn't create the need to investigate new avenues of opportunities. Whatever the reason, the post 2Q/2007 economy, with its global economic slowdown, credit crunch and fewer exit opportunities, has forced firms to find cost-effective strategies to better returns or simply to find more tools in their toolbox.

Enter marketing. Not only does marketing deliver value within the private equity timeframe, it can provide growth opportunities during specific portfolio company milestones, such as the initial investment and subsequent acquisitions. Some private equity shops have hired fund-level marketing managers who oversee portfolio company marketing efforts, from purchase to exit. Others manage it from a more consultative position. Either way, the reasons are clear.

Beneficial after the purchase

The purchase is an exciting time for the fund, but it can be a fearful and uncertain time for the operating company's employees and customers. A new marketing program helps engage and assimilate employees and customers into the new company.

The same is true when incorporating acquisitions. Marketing helps gel corporate cultures and keep people focused forward. Once more, marketing works from the inside out. When the corporate culture is unified around a brand, it amplifies the effectiveness of the sales teams and all externally facing marketing campaigns. One only needs to look at customer service icons, such as Zappos or Southwest airlines to understand how this works. They market themselves as customer-focused entities and back that up with employees that are committed to that message.

Critical during the operation

A new marketing program can uncover compelling new benefits of existing product lines that are tuned into the target market's current state. For example, Target's most recent campaign efforts focus on value and price, two key attributes driving

purchasing decisions for a majority of consumers. Refocusing product attributes around target market needs enables sales teams to have a credible reason to get in front of their prospects and customers again, which can be a critical advantage during a recovering economy.

Marketing can also find new markets. This isn't uncommon in first or second generation, small-to-middle-market companies that have narrowly defined themselves and their market. A smart marketer can find markets the company has missed. Is a portfolio company a specialized manufacturer that has been serving the same market for decades? Over and over, these companies fail to see how their products and services can be broadened to new markets. Or are they seeing their product line threatened by newer entries into the market? Once again, repositioning the brand could be the difference between forcing out competition and losing market share. Boca Foods once sold only soy burgers. But after it was purchased by Kraft in 2000, Boca realized that it was not a burger company, but a frozen food company that provided healthy alternatives. That thinking allowed it to expand its product lines to more than 15 SKU's, including meatless lasagna, chicken patties and veggie burgers, to take even greater advantage of the expanding health food market.

The same holds true when new markets are purchased. Private equity firms frequently merge companies of complementary offerings. Properly positioning and branding products of acquired companies enables sales teams and customers to understand quickly how and where the combined offerings fit within the new, merged company. All too often merged companies find themselves with a host of products and services that are not clearly defined or branded. Executing a strategic portfolio strategy across brands will optimize sales by repositioning offerings to target audiences. Additionally, research shows that marketing the benefits of a merger, such as economies of scale or expanded market share, at the time of the merger, influences firm value by increasing employee, customer and investor confidence.

Advantageous at the exit

Marketing provides value when divesting a company, just as when building it. Stronger brands become monetized in the balance sheet under goodwill. And while private equity holdings are not building the \$66 billion brand value that a company like Coca-Cola has on its balance sheet, the private equity timeframe can still develop material increases in the bottom line through better branding.

That's the tangible advantage. Intangibly, a powerful marketing campaign adds to the perceived value of a company whether it is being exited by an IPO or purchased by another fund or strategic buyer. Sophisticated brand messaging, website, sales

collateral, company culture, as well as broad market penetration makes the company more palatable and saleable, much like a new coat of paint and some landscaping give a house before the “For Sale” sign gets planted in the yard.

There’s a catch

Marketing is clearly a source for untapped value. However, not just any marketing will do. Traditional marketing models that simply push stories to people or “monologue”, don’t stand a chance in today’s world of savvy consumers, fragmented media and personalizable technologies. People will simply delete, fast-forward through, pitch, click-close or ignore it. Similarly, executional marketing (“my company needs a Facebook page”) is like shooting golf balls in the dark.

To reach people with your company’s message, you need a strategy. And that strategy needs create a story that involves the target market and allows them to be the brand manager.

Across industries, Popskull Inc., delivers effective, strategic marketing campaigns by including target markets in the company’s story. We turn marketing into the Art of Inclusion through our unparalleled research into your company and its target market. Popskull finds the common link that allows the company and the community to build the brand together.

Otherwise, it is just all noise.



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