Inside the 100-Day Plan

An executive summary of the Privcap thought-leadership series
“The Art & Science of Investing”

Plus:
Expert Q&A with Ed Kleinguetl,
Managing Director, Grant Thornton

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1. Operational improvements must happen early

Successful GPs understand that the creating a “100-day plan” is more than a suggestion—it’s a necessity. That means operational changes must be defined and undertaken early, or they may not get done at all.

Kleinguetl called the first 100 days the “magic” time, the period when partners have their best chance to turn a good company into gold. “It’s the opportunity for change,” he said. “And if change doesn’t happen within the first 100 days, typically it dissipates and people go to business as usual.”

This is when those essential company improvements identified in the reporting process are fresh and urgent—and this is the time to make them, he said. Whether they’re value-creation or growth strategies, upgrades are more likely to take hold and work if they’re put in place quickly. “Some people have told me, ‘Well,
we have two years to figure it out.’ The reality is if you don’t figure it out in the first 100 days, it probably isn’t going to happen as successfully as it could.”

The same goes for entrepreneurs, he added. The first 100 days is the time for them to establish a stable and profitable relationship with their new partners. The honeymoon sets the trend for the marriage. “Sometimes the owners, with a liquidity event, they feel like, ‘I can take a pause in my business.’ But the reality is it’s an important time to press forward, not take the foot off the pedal. A CFO from a private equity firm coined it best. He said sometimes former owners have this ‘going-to-the-beach syndrome.’”

2. Management buy-in is essential

The other side of that coin is the excitement many management teams feel at the moment of investment. They’re not thinking about the beach; they’re ready to dive into their new partnership. So the first 100 days is the ideal time for GPs to get the management buy-in they need to lead the company to a profitable exit.

“That first period is a nice opportunity to establish that there’s a new regime,” Purcell said. “There’s a new mindset around capital allocation, there’s a new mindset around risk tolerance. Using that first 100 days to all get on the same page about risk-return decision-making, it can really get the business off with some nice momentum.”

Ospalik noted that 100-day plans at Baird Capital routinely include a sit-down with management several weeks after closing in which partners lay out “what it means to be a Baird portfolio company.”

“This allows the management team to develop that cadence, in terms of how we’re going to move forward. It establishes that rapport in a really positive way. The better you come off in that meeting, the better cadence you establish, the better you look in the eyes of the partners that you’re going forward with. It’s a really positive way to kick things off.”

Don’t Make False Promises

Sometimes a plan comes together beautifully—and sometimes it falls apart. One serious impediment to success is when GPs make promises they can’t keep. For example, telling a business owner that nothing will change. The reality is that much will change, particularly in financial reporting, budgeting and other control areas, said Ed Kleinguetl of Grant Thornton.

Those changes may be particularly sobering for entrepreneurs who once had final say on everything to do with their company, but now, going forward, must accede to more rigorous business practices, including monthly management meetings and capital-expenditure reviews.

The best ways for GPs to avoid a blowup by an entrepreneur in these cases is by managing expectations, maintaining an open dialogue, and mapping out goals for the business that everyone can agree on.

“There really needs to be a tactical plan of how to get from A to B so that everybody’s on the same sheet of music,” Kleinguetl said. “I’ve seen it not be that way, and then people wonder why, a year later, the return wasn’t what was anticipated.”
3. Plans should take shape during due diligence

Ideally, a 100-day plan starts before the investment is made. How long before depends on the deal.

“If it’s one of these aggressive auction processes, you don’t have a ton of time to do your diligence and spend time with management,” Purcell said. “The amount of time you can dedicate to prepping a 100-day plan could be condensed to two, three, four weeks before you ultimately close.”

In other situations—for example, when a firm holds lengthy negotiations with an entrepreneur or a family—the plan may coalesce over a number of months. In these cases, the plan is more likely to achieve buy-in from the owner and the management team, “and that’s where you can hit the ground running,” Purcell added. But either way, he said, “before your dollars go in, that plan needs to be baked.”

Ospalik said the 100-day plan usually begins to take shape in tandem with due diligence. “As you get into your diligence and the process of buying the company, that builds on the plan. You’re learning more about the company, you’ve got some takeaways, you’ve got some cleanup items, perhaps. Those are going into the plan. So by the time you’re getting to your final approval, that plan has essentially been developed. It’s not fully set, because the important part is still to sit down with your management team post-closing and make sure you’ve got complete alignment.”

4. Managing to benchmarks keeps things on track

The first step is to have a plan. Making it works requires setting benchmarks and, of course, meeting them.

“You really want to keep track of certain metrics within the business,” Kleinguetl said. “That’s the important part. Whether it’s customer-acquisition costs or day’s sales outstanding—whatever the key performance metrics—those need to go into place. And get people educated to manage the business around those.”

Ospalik said Baird draws up a “pilot’s checklist” for each newly acquired portfolio company and reviews the list weekly with the CEO. It also boils down the detailed requirements in each of its operating agreements to a concise set of instructions.

“We take that long, nasty-looking legal document that virtually no one wants to read and we create a very simple, laminated one-pager and hand it to the CEO. And we say, ‘Hey, if you’re thinking about making a capital...
investment, if you’re thinking about selling a division within the company, this is when you need board approval, this is when you don’t.’ It’s sort of a CliffsNotes version of the operating agreement. That’s really helped with our portfolio companies.”

5. Leadership changes may put plans on hold

Your 100-day plan may tick along like an Audemars Piguet. Then a leadership change throws sand in the gears. When that happens, the plan may need to be put on hold while stability is reestablished. “Make sure nothing goes backward before things go forward,” Kleinguetl said.

The plan is important, Purcell added, but the company at the heart of the plan is more important. “When a private equity firm invests in a business, there’s a change in the way things are done. And when you add to that a change at the CEO level, it more than doubles the complexity around change.”

Keep the company on track. In times of transition, that’s the primary focus. “One order of change with new private equity ownership, a second order of change with a new CEO and a playbook that’s packed with having a business enter new markets, having a business try and grow at a rate that it’s never grown before—that can completely cripple an organization. And that’s the last thing you want to do as a private equity investor.”

Surviving an Act of Nature

Often a 100-day plan is derailed by poor execution. On rare occasions the cause is an act of nature—a hurricane, flood, or earthquake. You can never really plan for a natural disaster, but you can mitigate the damage by moving fast and taking the right course of action when it happens. “You need to go into triage mode and you need to communicate,” said Rob Ospalik of Baird Capital.

No matter how hard the business has been hit, partners also need to stay positive, he stressed. “Oftentimes [a natural disaster] ends up having an adverse impact on the business from a financial standpoint, but your message should be: ‘Listen, here’s where we’re at today, but if we turn this corner, value will rapidly come back to the business just as quickly as it left.’”

The key to recovery, Ospalik said, is explaining how that path to value will restart and making sure that good people are not lost in stressful situations because GPs have communicated poorly.
What is unique about how Grant Thornton works with private equity firms on their 100-Day Plan?

Two things. First, the value-creation component is part of the transaction advisory services within Grant Thornton. At other firms, it's typically part of business consulting, and it's not brought to bear as part of the transaction process. It's separate and distinct. Second, there are a number of deep subject matter advisers within Grant Thornton. Their expertise extend from systems to financial controls to human capital. Bringing in those key subject matter advisers to complement how a client wants to grow—that makes Grant Thornton quite unique.”

What is the magic of the 100-Day Plan? Why is it such a valuable tool?

The 100-Day Plan is important because at the day of closing, there's only so much energy towards change. And so on day one, the day of closing, you have maximum velocity, and you’ve got about a hundred days to implement a number of those changes. After that, people tend to settle back into business as usual and hunker down. And if the right trajectory isn't set during that period of time, then the value will ultimately not be realized. It doesn't take two years to figure this out. If the first 100 days aren't executed properly, it will not be as viable a deal as it should be. That being said, a 100-Day Plan actually tends to be more than a 100 day—the planning should start before closing.
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