# 5 BEST PRACTICES FOR MAKING THE MOST OF YOUR TECH-PE PARTNERSHIP

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INSIGHTS FROM THE BDO TECHNOLOGY PRACTICE

**For high growth tech companies looking to scale quickly and sustainably, partnering with a private equity (PE) firm is often a good option.**

In addition to infusing companies with critical capital, PE firms can also provide them with the market access, mentorship, operational expertise and tools they need to drive greater revenue and business growth. In addition, they can help shoulder the burden (including the expenses and risks) of growing a business—a formidable task tech executives often underestimate.

Nevertheless, partnership success is not guaranteed without significant effort and investment from both sides. Good partnerships require proactive management, ongoing communication and a clear alignment of goals between both parties. Great partnerships demand an additional level of mutual trust, accountability and respect.

There are also many risks involved. Before undergoing a PE transaction, most, if not all, tech executives have already calculated and acknowledged the significant risks they would be taking when entering the deal—including likely giving up a controlling interest in their company. Nevertheless, "acknowledging" a risk is often very different from actually "comprehending" its full effect once the definitive agreements are signed and the partnership begins. While a company's executive team may have been aware of these compromises before, learning how to cede a certain amount of management control to their PE partners may still be difficult. Learning how to articulate and constantly re-define what constitutes "value" throughout the partnership duration—whether it's scaling the business long-term or simply turning a profit—will remain critical for both parties.

So, how can tech companies optimize their relationship with their PE partners and ensure the goals of both sides are being met?

# Here are 5 best practices:

## 1. Define the Relationship

Defining clear relationships and expectations from the beginning is critical to ensuring an effective and productive partnership. Unfortunately, it's a step that companies often overlook when joining a PE firm's existing portfolio. From their side, uncertainty on how to define the relationship may be the prominent cause for inaction. While many tech executives have likely had interactions with other investors before, they might not fully appreciate a longer (typically 4-to-6-year) partnership in which the investors will likely have a controlling interest. On the PE side, some firms might hesitate to formalize relationships for fear of over-committing or promising more resources than they can provide.

Nevertheless, a clarification of roles and responsibilities is crucial to making a partnership work. For a more formal relationship, both parties should look to assigning roles (i.e. Senior Advisor, Executive Advisor, etc.) with clear responsibilities and expectations for each. For those desiring a less formal relationship, assigning titles may not be necessary, but clearly defining who will be involved, what each side is expected to provide and contribute and the appropriate level of transparency for each role, is. Defining the relationship between both entities is not only imperative to preventing misunderstandings and disappointments down the line, but also for ensuring full alignment on critical strategic matters.

## 2. Shore Up Your Corporate Governance

A critical part of onboarding is developing a new board of directors and defining the roles within the team and in relationship to the company. Having strong board governance is critical, as the board is the platform on which most of the partnership—the discussions, exchange of ideas and decision-making—takes place.

For younger tech companies, or those with less mature board models, learning how to bridge the gap between their current board governance practices and the level at which their PE partners expect them to operate can be challenging. Many of these companies may be unfamiliar with the routine board practices practiced by their more mature counterparts (i.e. performance and financial reporting, strategic planning, etc.), while others may still operate with executive-centric boards that still primarily cater to the CEO. Nevertheless, partnering with a PE firm is a great opportunity for companies to get many of these necessary practices in place, while also receiving guidance along the way. While it may be difficult to initially cease total control or formalize the structure, doing so will help both parties deliver maximum value to each other.

## 3. Expand Your Thinking

Tech executives are often driven by a powerful vision—a faith in a future that hasn't yet happened. Many are driven to achieve their goals and harbor strong confidence in the ideas and strategies that have gotten them and their company as far as they have. While such confidence is essential to scaling up and navigating a highly competitive marketplace, it may also make it difficult for executives to "let go" of ideas that may not have been working so well, and to embrace new ones. Add to that the big cultural shift they often undergo when becoming a PE portfolio company—which includes embracing different rules and reporting expectations—and it's tempting to want to hold on to old paradigms.

Nevertheless, a primary benefit of partnering with a PE firm is being able to receive constructive feedback from seasoned executives that would not have been available if operating alone. The most progressive and high-performing tech-PE partnerships are those where both parties are able to work through differing viewpoints to closely align on a strategy area and create value for each other. By being open to different perspectives and enabling their PE partners to challenge their current ways of thinking and doing, tech executives may find their universe of known and viable business opportunities greatly expanded.

## 4. Share the Good, the Bad and the Ugly

A good PE firm will help tech company executives assess every aspect of their business and point out inefficiencies and areas for improvement. This ongoing process requires a great deal of transparency and communication between both parties. And while it's tempting to share only the good news with their PE partners and board, tech executives should flag *every* major development or risk that could potentially affect their business—the good, the bad and the ugly.

Regardless of whether it's an external or internal issue, flagging potential problems early will enable companies to get the help they need to address them before they spiral into full-blown issues. PE partners, with their industry knowledge and management experience, can help executives calmly and logically navigate the crisis. Ongoing communication can also help executives react quickly to fast-changing situations and arm up against future risks.

## 5. Give and Take

Every relationship is a two-way street, and a tech-PE partnership is no different. While it's natural for tech companies to primarily focus on "receiving" resources, company executives need to remember that giving is equally important—and that they, in fact, do have a lot to give.

Some tech executives may not have the same type of industry knowledge and experience as their PE partners. However, tech execs are particularly knowledgeable about the minute operational details of their company and sub-industry, as well as the blood, sweat and tears it took them to get it to its current state (in other words, its history). And while PE partners may be well-familiar with the *type* of company they're operating, execs have the actual task of running it on a daily basis and seeing all of its triumphs and pitfalls—including the experiments that worked and didn't work. These insights can be golden to PE partners who may not be as involved in a company's management, and may very well translate to advice that's applicable to other portfolio companies. The learning from one company could perhaps be an idea that benefits a PE firm's entire portfolio.

Thus, tech leaders should not underestimate their potential to give. The most mutually rewarding partnerships are those where both sides eagerly share their successes and failings to advance their partner's efforts.

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Tech-PE partnerships are common in this age, and it's likely that most tech companies will, at one point in their lifetime, enter into some kind of partnership with a PE firm. The most successful relationships are those that have both ambitious goals and high-performance expectations, as well as clearly defined strategies, tactics and resources to get there. And regardless of how formal or long-lasting a partnership is, mutual respect, transparency and accountability will always be essential to creating long-term business value.

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