



## What Private Equity Sharks Can Teach You

**You can learn to be a better entrepreneur by studying the analytic process of the PE portfolio manager. No, really.**

By Tim Askew | Sep 20, 2012

On September 13, I attended [The Capital Roundtable](#), the redoubtable private equity community conference headed by the august and avuncular [Burt Alimansky](#). I was thoroughly enlivened and even entranced by the proceedings, but I also found the all-day event quite unsettling.

It certainly was interesting to spend a day as the lone entrepreneur swimming in a sea of top-drawer of PE and VC portfolio managers discussing value maximization of their portfolio companies. (I don't think I've ever seen so many ex-[McKinsey](#) partners at one event.) It was fascinating to look at the pre- and post-takeover outlook on entrepreneurial companies as seen through the gimlet eyes of these elite weavers of profitability.

I have always known abstractly that private equity folk are fundamentally financial investors; that, unlike corporations, which might buy all or a section of a company to use strategically, these guys are solely interested in a limited timeline profitability turnover. Passionate entrepreneurs they are not. Certainly, warm-hearted sentimentalists they are not. They are builders of profits, not builders of companies.

This particular conference specifically focused on best operational practices for driving growth and profitability. There is unquestionably a lot to be gleaned by an entrepreneur from studying the analytic process of the PE portfolio manager. It helped my mindset to spend a day thinking in a radically different paradigm.

So what does successful private equity thinking offer us entrepreneurs?

A presentation by [Jim Corey](#), Managing Partner at [Blue Ridge Partners](#), focused on three broad areas private equity thinking can offer to the entrepreneur.

**1. There is significant untapped revenue in the "core" of most businesses.** I think a lot of us don't see it, and don't measure it because we are too close to and passionate about our babies--our lovingly nurtured business communities. It's too personal for us.

**2. Dramatic changes in profitability can come from surprisingly simple changes.** I won't go into Mr. Corey's many examples, but, for me, it became clear that I am usually too distracted with everyday crises to focus on how the simplest solutions can solve the seemingly insoluble.

**3. Many companies simply lack the facts required to generate new insights.**

Mr. Corey listed several questions entrepreneurial companies often can't answer.

1. Where do we make money? Lose money?
2. Why do we win and why do we lose? Where is our sweet spot?
3. What percentage of revenue comes from new customers?
4. What is our share of "eligible spend" from our current customers?
5. Are pricing inefficiencies leaving margin on the table (too low) or causing us to lose volume (too high)?
6. Is our product innovation and commercialization engine better or worse than competitors?
7. Is our sales team better or worse than competitors?
8. What percent of time do sales people spend facing the market?
9. Are sales incentives motivating the proper behavior for the sales team?

Effective PE portfolio management can answer these conundrums and leverage profitability accordingly.

(Interestingly, the one area these PE geniuses seemed to be somewhat flummoxed by was sales. Since that is the outsourced specialty of my firm, [Corporate Rain International](#), it certainly drew my attention. My theory about this is that good sales development and implementation doesn't lend itself to the short-term quantitative and monetary incentives PE portfolio managers feel most comfortable with. More about that in another post.)

One last thought: These PE guys are bloody scary. I have seldom felt a room so full of testosterone-fueled, chest-thumping macho and certainty.

(And that includes the women!) These quantitative Masters of the Universe do not suffer from insecurity or self-doubt. I hope I am not being too harsh here, but their view of the entrepreneur feels cynical and predatory. They seem cold as a sack full of coins.

In his play [Lady Windermere's Fan](#), [Oscar Wilde](#) could well be describing PE operatives when one of his characters says, "What is a cynic? A man who knows the price of everything and the value of nothing." Thank you, Oscar.

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