Are you up to speed with Due Diligence 2.0?

How analytics can improve commercial due diligence
It’s not easy to find a good investment deal at present. The amount of cash raised by private equity houses is at a 10-year high, forcing investors to work harder than ever to track down the best assets and not to overpay.

The risk is making investments in less promising assets or accepting lower future returns. Yet a third way exists, one that takes advantage of the significant advances in analytics capabilities in the past three to five years. The result? A clearer and more proven value creation story that enables you to improve the quality of the deal.

To do this, both buy-side and sell-side investors will need a new set of tools - a due diligence toolkit version 2.0. In a competitive environment, we think it creates new opportunities to diligence an asset in greater depth than before, providing a strong line of sight on the value creation story and giving investors an information advantage.
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ANALYTICS AT SPEED
Over the course of a typical due diligence period the ability to drill deep down into a company’s internal datasets, combined with bespoke tools and external data sources, allows investors to cover so much more ground in much greater depth than before. This is especially the case in consumer-facing businesses.

A rapid analysis can reveal answers on how best to:

• Understand the competitive position: Mine external datasets to rapidly understand the basic competitor landscape and spend valuable diligence time on specifics instead.

• Optimise on price: How have customers responded to price increases in the past? What could happen to volume if pricing is dialled up or down?

• Manage CRM: What’s the volume and frequency of existing customers? How many will account for what proportion of future revenue? What levers could you apply to win new customers?

• Improve marketing effectiveness: What are the current customer acquisition channels and costs? Will you need to switch up the marketing mix?

• Cross-sell: Could you sell more to existing customers or is there an opportunity to expand into new product categories?

• Understand consumer perception in greater depth: Scraps of external social media data combined with bespoke consumer research – or proprietary datasets such as OC&C’s own annual shopper survey on leading retail propositions – can give a more insightful view.

It's an approach we used in a recent travel business deal. In the past, some simple top-level analysis of pricing and yield trends would have been enough. This time we combined the skills of our in-house analytics team with our commercial nous to dig into ten million lines of data. Within just ten days we understood the pricing strategy across premium, mid-tier and value rooms, as well as seasonal fluctuations and the consumer response. This is big leap forward from the insights we could have reached just a few years ago.

This is not only a buy-side opportunity either. On the sell-side, a business can use analytics offensively to help guide buyers on unrealised sources of value, demonstrating that it understands its future potential and where operational improvement can be made. It also helps when answering the tough, data-driven questions that sophisticated and analytics-enabled bidders are likely to ask. No one wants to be blindsided by awkward questions and everyone wants to sell for a better price if they can prove the value.

THE RIGHT EQUIPMENT
Ultimately, a due diligence toolkit 2.0 combines the best of analytics capabilities now available with the right commercial questioning. We believe investors should be setting the expectation that this is what is now needed for successful due diligence. Only then can private equity houses and their advisers achieve the granular level view for a competitive edge upfront.

OC&C have a firm belief that this is how analytics is likely to play out in transactions from now on. By investing deeply in our in-house analytics team and embedding it with gold standard commercial advisory, we can ask the right questions early on, create bespoke tools and play to our strengths, allowing us all to up our game.

We believe the more detailed picture a private equity house can paint of a target asset, the greater the advantage will be over those left in the dark. In a world where it is OK to ask for deep datasets, the ability to process and interrogate upfront is becoming paramount. Not only does it provide more certainty upfront on what an investor can afford to bid, it opens the door for a more robust 100-day plan post-deal and helps to kick-start key initiatives.
OC&C’S PRIVATE EQUITY PRACTICE

OC&C’s Private Equity practice works in close partnership with our clients to deliver outstanding results. We work with investors of all asset classes, combining deep topic expertise and local insight to:

- Provide commercial due diligence and vendor due diligence for transactions and refinancing.
- Accelerate or improve portfolio companies’ performance and strategy.
- Identify potential investment themes or assets to target.

Over the past 5 years we have commercially achieved on more than 300 successful transactions and supported $100bn worth of deals.

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