KEYNOTE INTERVIEW

More effective sourcing of service providers promises many benefits

Smarter sourcing can make a world of difference to PE professionals searching for the right third-party advisers when there are so many unique needs to consider, says BluWave founder and CEO Sean Mooney

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Q What are the benefits of the network approach to sourcing services that BluWave delivers?

I was an investor in the private equity industry in New York for nearly 20 years before founding BluWave, so I first-hand experienced how PE firms had to employ a lot of third parties for virtually everything they do. PE Firms are looking at hundreds of companies a year: each company is different, and each need is different. Third parties are also hard to use. Every time we had a relatively unique need, but we couldn't possibly know every service provider for each use case before we needed them. So our highly-qualified, highly-paid professionals would spend time Googling or asking friends to get to third parties that could assist with a particular challenge.

At the time, there wasn't a B2B marketplace that could solve that challenge, not just in identifying the right third parties for a task but also in holding them accountable. A lot of service providers were learning on my dollar, and as a single PE firm we had virtually no recourse when providers didn't perform as promised.

I had this idea for a magic PE toolbox, and BluWave was born.

Today, we work with over 500 of the world's top private equity firms, combining elements of different business models to solve a pretty pervasive problem. Not only are we helping PE firms, but we're also helping the best service providers by connecting them to the PE funds in need of their specialized services, connecting the best with the best at the exact time they need to know each other.

By using an intelligent network approach, we are able to uniquely understand the service provider universe and how it quickly changes over time. Our PE fund clients really like it because we are giving them the right tools for each specific task, they get better results, and their teams can spend much more time doing more strategically valuable imperatives.

Q How often do funds require additional resources to execute on due diligence or value creation projects? And how are service providers filling the gaps?

Private equity requires third parties for virtually everything – funds look at hundreds of companies every year, they often have a portfolio of maybe 10, 20 or more companies, and every one of those has different requirements. Funds need to be able to expertly assess and quickly build companies, and they need to get it right the first time. If they bring in specialists that can help them assess companies more successfully and build them with a higher degree of confidence, that inevitably delivers better returns.

The challenge is that different companies require different third parties each time, and PE professionals cannot know everyone before they need them. They end up making compromises and going with people they know even if they are imperfect, leading to suboptimal results.

We champion the fact that specialized third parties add huge value. Groups that live and breathe different industries or functional areas already know what will underpin a company's success because they've seen it before. In due diligence, they can see things other bidders cannot see, giving a manager an edge in an auction. We are a technology, data and software business but we also use human intellect because algorithms are not yet good enough to make sure our clients always hit the bullseye.

Q What are the opportunity costs of the resource gap for managers?

There are two forms of opportunity cost. First is just the cost to the private equity firm and their professionals. PE firms can theoretically do everything we do, but at what cost? We estimate we save them, conservatively, 12 hours of time per project, net. Each of those hours is worth more than $3,000, so on every project we are saving clients $36,000 in opportunity cost alone.

The second form of opportunity cost is even more impactful and that is the end result. During my earlier days in PE, the returns were much higher, and I could afford to not get everything right. Today, returns are meaningfully lower and there is little room for error. We are helping our clients differentially build value by giving them the exact right third parties they need at the exact right time.

Q As private equity matures, how can BluWave help firms differentiate and specialize?

The private equity industry used to be about optimizing companies to get attractive returns. Today, it's very competitive with hundreds of sponsors participating in every auction, often paying perfect prices for imperfect companies. To stand out, PE firms need to see something that's not in the investment bank's book. General insights from generalist advisers don't cut it anymore. We're equipping our clients with specialized resources that identify unique information that gives them a fundamentally different perspective in a competitive process.

The other challenge is that the ecosystem of service providers is constantly changing, people leave, businesses get acquired, and quickly the resources you know are out of date. This requires not only knowing what service providers are good at, but also watching how the ecosystem changes in real time. We see how the PE resource world evolves on a daily basis and keep our clients up with the latest.

"Private equity requires third parties for virtually everything"

Q What trends do you see going forward when it comes to demand for third-party providers?

One of the biggest things we are seeing accelerated by Covid is digitization of sales and marketing functions, such that digital cues are now driving market insights for many businesses. Traditional tools that private equity firms use to assess companies don't capture what's happening in that digital landscape, so digital marketing due diligence is now emerging to give insights on how companies are performing in that world, how they can do better and how they compare to their peers. That information is critical and that element of due diligence is a key emerging trend.

The other thing is that historically due diligence in private equity was focused around a 'trust but verify' approach, confirming what was being represented was true. The best private equity firms are now using due diligence not only to test and verify but also to inform value creation and transformation plans, to understand what's possible for the company. Bringing in expert insights gives a buyer a strategically different perspective on value levers that others don't see, enabling them to make much more informed decisions on valuations.

In my PE earlier days, my team was typically one of a relatively few number of private equity firms competing in an auction. If we won, we had room to figure out what to do with the asset afterwards. Today, there isn't room in the returns. PE firms can't afford to not have an angle before they buy a company. The majority of what we support for others is value creation, but the nature of due diligence is certainly changing as it becomes much more insight-driven than confirmation-driven. ■