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Private equity Cloud formations with Bas Kamphuis, Wingspan

Capgemini

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[00:00:00] And we started recording and all of a sudden I had a blocked nose and the exact same things just happen. No, it's just evidence that God has humor.

Welcome to Cloud Realities, a conversation show exploring the practical and exciting alternate realities that can be unleashed through cloud driven transformation. I'm David Chapman. I'm Sjoukje Zaal, and I'm Rob Kernahan.

And this week we're going to be taking a deep dive into the world of private equity, a fascinating business where other businesses are bought, developed and sold and helped along through investment.

And we hear how cloud transformation and new technologies can really help in that journey. But before we get to that, I was going into the office the other day and [00:01:00] we have a big conference room on the floor that Rob and I typically work on. And in that conference. room, there's a really big whiteboard.

It's sort of a big curving whiteboard that goes around the room. And as I was approaching my desk, I had my morning coffee. It was a real kerfuffle going on around this room and everyone was sort of trying to look in through the window. So I walked over to it and I heard Rob inside and he's like, David, come and have a look at this.

And he'd written in almost the equivalent, the physical equivalent of eight point font, completely covered the whiteboard. uh, and he turned around and I said to him, Rob, what's confusing you this week?

It takes a lot of effort to get eight point font on a whiteboard. Well, I thought it was, I thought you were really getting after something. You are really. Challenged architect, exactly. Uh, skills, skills with a Z. Um, it was about the future of news, Dave, the future of news. And you know what, you get this thing [00:02:00] where the internet is great.

We all love the internet apart from the fact that it's done some bad things. Like the wreck, the commercial model of news agencies and destroyed society. But apart from that, we're all right. So, right, you go, you get this sort of clickbait, uh, everybody expects the news for free. So it's wrecked the commercial model.

Trust is in decline massively. People don't trust the news anymore. You've got people are accessing it less, so people are reading less news and then you get this misinformation on the rise and you get like nefarious States hiring tens of thousands of people to publish. Absolute and total rubbish. Uh, the conversation is starting with governments about what do they do about this.

Mm-Hmm. But you know, what happens next with news? 'cause it's in, its like massive decline. Now, didn't something like a Wikipedia come out? Like, which is like everybody starts to understand That's a good source of truth. Or, or is there just going to be this continued decline in the truth is disappearing and you can't trust anything?

And I was quite frankly, Dave, with all that [00:03:00] eight point font, I was getting very confused with what's happening to news. You know, I'm not surprised Rob. And the other thing I would add to that. Which I think is sort of implicit, but it's the sort of the world of social media in the world of generated news by untrusted, untrusted things.

So, you know, you can read it, you can read a tweet that looks perfectly legitimate, but you find it's like, you know, some dude with eight followers typing from his basement versus, you know, something that the BBC has put together through months and months of rigorous. investigation. So that's, that's a concern for me.

And then whether, you know, whether you believe or not, Musk's claim that one of the things he wants to do on what used to be Twitter now X is to try and bring a completely neutral, non politically biased dialogue, you know, whether you buy that or not. I don't know whether that's showing up on x. So all of those things to me as well feel like, [00:04:00] you know, like are all part of this battleground for where truth lies.

And even if, even if you do go back to say. More trusted news outlets, they always had a certain lens, right? You know, like use newspapers had certain political leanings, but at least that was relatively declared. Editorial controlled and there was always based in fact. Yeah. So although they might have put a political angle on it because they're left leaning or right leaning, it was still based in the truth.

Yeah. Whereas now you just get utter hogwash. And the other thing is people will read one thing on like a social media platform, two lines of text and that forms their opinion for the future. Absolutely. Check your facts in a completely sort of biased way as well or rather what a chamber Yeah, that's exactly the phrase I was looking for like the echo chamber nature of it and then people become very militant about that position Which which they which they haven't really even backed off to anything Rob, I'm sorry to say I'm not sure we're gonna be able to unpick this this [00:05:00] confusion on this episode But no, it will take some time.

Let's group in that conference room and we'll rework. I'll get it down to six point. I'll try harder. Well, look on that. No, let's turn to our major topic of the day. And I am delighted to say that we've got Bas Kamphuis with us. Bas is the owner and founder of Wingspan, a private equity organization, and he is going to give us an insight into the fascinating world of investments.

Bas. Delighted you could join us today. Do you just want to say a quick hello and introduce yourself? Yeah, no, fantastic. Great seeing, Sjoukje, Rob yourself, of course, Dave. And, uh, yeah, let's dive into the topic. Eager to, uh, to see where it goes. Today, we're going to talk about private equity. In the world of private equity and and how private equity organizations are leveraging tech themselves and how they're using it in their portfolio companies to drive better outcomes for those companies so bad let's start with some like [00:06:00] real level set.

Basics around private equity for the listeners that aren't that familiar with this world you give us a view on what it is and maybe give us some definition about what what a private equity company seeks to do and how it operates. Yeah, let's jump into that. So private equity is at the highest level.

It's a different form of ownership. I mean, I'm sure everybody's familiar with the stock market and shares giving you a slight right to ownership in a company. Private equity is an alternative form of ownership, if you will. What a private equity company does Is it creates a large fund where high net worth individuals, pension funds get to invest and they commit a sum of money and fairly large sums of money for us, normal mortals.

And they promise a superior return on that investment in return for you locking your money up for 10 years. Right. And so what [00:07:00] private equity then does on the other side is it acquires companies. And tries to create superior value and it can do part. It can do that partly on the premise that it's not publicly listed.

There is no quarterly disclosures that need to happen. You can make the investments and go underwater because it's private, right? That's the, that's the attractiveness there. And then ultimately they, um, and we can talk more about what the formula is there, but they sell these companies at a higher outcome because they partly.

Invest a part of the money that attracted from the high net worth individuals. They partly financed it with a bank loan. And so that's called the leverage buyout and the leverage buyout basically says, okay, just like buying a home. If I finance the home 20 percent myself, 80 percent is a mortgage on the bank.

Whenever I sell it. The loan amount is still the [00:08:00] same. My money has grown exponentially if the house appreciated, and that's the whole premise of private equity. And then, uh, the seller, then you return the money back to the investors. You get your own fee for all that good work that you've done. Thanks for that.

Very succinct and clear description. And private equity is an industry this year then, so we sit at the beginning of 2024. We're recording this in January, and with the outlook on the year at the moment, there is still a lot of talk about economic headwinds. There is still a lot of debate about.

Investment, whether that's perhaps private equity, investing in certain sectors or whether it's organizations investing into a large scale tech and digital transformation, what's the vibe in private equity at the moment when, when they're looking at an assessing 2024. Yeah, so maybe a little bit of my specific expertise is specifically in the software and the technology segment of private equity and [00:09:00] for the last little bit more than a decade, it's been an amazing.

An amazing result because and reason mark and reason predicted in 2010 that software will eat the world and he therefore said, hey, as investors, we really should go big on software because it's going to permeate everywhere and that for us in the technology industry. We knew that in 2010, but. Wall street didn't London didn't necessarily as such there's been an insurgence of private equity firms that became either solely focused on technology or added it to their portfolio and these are massive companies, right?

Blackstone and and the likes. And so on average, the return on the invested capital from 2010 to 2020 has been 2. 6. Uh, the, uh, return on invested capital. So you invest a hundred dollars, you get 360 by the time the journey is over. [00:10:00] And that, that was super attractive. And it all was based on a very simple formula.

I. I create a fund. I invest in, if possible, a little bit of an older software company. They have customers that enjoy the software. They've proven that it works for them. Uh, but it's sticky. Software is very sticky. Customers cannot just stop using it. Typically, it takes a migration or something else to take over.

So it's a safe investment from that side because customers won't run for the door. And so. I invest, I get near free money from the bank to pay for the full amount of that company. And then I have, uh, three initiatives. One, I, uh, we call that synergies in the industry. But what it means is I cut, I cut, I try to consolidate two, three firms.

And therefore I can reduce staff in general and administration, finance, HR. Engineering [00:11:00] development can actually be turned down and so I start operating cheaper therefore my EBITDA improves the second one I do is I add other companies to it and so if I look at the revenue of the company the company grows faster than industry.

Because I just keep buying additional revenue and add it to the top line. And then the third one, I'm hoping that by the time I want to sell it, the multiple valuation is, uh, is attractive. And what that is, is basically you take a multiple on EBITDA or a multiple on revenue, both have improved in this tactic.

And I sell, I give the bank their, their part of the money back and the rest is for the investors to, uh, I know there are any specific headwinds going into 2024 that you're seeing that's changing those strategies or making you amend them? Yeah, so there's, there's, uh, and I'm sure that everybody is well aware, the cost of capital has increased dramatically.

Yeah, right. [00:12:00] And in this business model, That is very important. And again, back to the home and housing market, the same thing as in private equity with the cost of capital now on average, 9%, probably higher for many companies that have less purchasing power. The leverage buyout is not that attractive because you need to pay those interest payments.

And those interest payments actually drag down EBITDA, which is one of the key KPIs that you're trying to improve. Um, so cost of capital makes people also quite hesitant. Then the companies that have started this journey six years ago have a high expectation of what their worth buyers are much more hesitant because they need to take care of that interest payment.

So there's a huge gap between what sellers of software companies expect to receive. And what buyers are willing to pay. And then what we saw last year, very informative here with gen AI and AI, [00:13:00] every private equity company had FOMO. They all needed something that had the word AI in it. Um, right. To just place your new portfolios popping up everywhere.

Yeah, that FOMO has disappeared. There is no more, I need to own something Gen AI. There is now a, I don't want to catch a falling knife type of prevailing sentiment. And so what you see is deal flow of exits is down 86 percent over the last two years. Wow. Most companies therefore are held much longer. The thesis was, uh, ideally, and this was early days, but three, four years of a holding period, and I create superior returns, 2.

5 times the invested capital in three, four years, amazing outcome. Everybody happy. That's no longer the case. The holding period on average is well above six years, and that's the companies that are selling today. Uh, there's a lot of companies that are not being brought to [00:14:00] market. There's very little in terms of IPO activity.

And we saw that yesterday in EQT's earnings release as well. They are highlighting the exact same findings. They're holding longer and they're waiting for market conditions to improve. Part of that is the Fed lowering interest rates. And so nowadays then when you're looking at. Organizations that you might want to invest in what are you looking for in those companies that might be different from what you were doing 18 months ago.

I'm particularly interested in the comment you made there about Jenny. I and yes, it must have been like everybody just trying to buy everything last year. Now it's it's more judged. So how would you characterize that judgment and new parameters given cost of capital? The new parameter is actually, uh, I believe it's only one thing.

Is it profitable? Right. Yeah. Okay. Yeah. Right. Private equity is the more maturing form of private ownership. Well, actually, before you move on on that, that might sound like to a listener [00:15:00] who's not been in this world, like a really obvious thing. But actually, in the past, am I right in saying the organizations that weren't profitable have also been invested in?

Because there's a route to that. Over a five year period, right? Yeah, and it's, uh, for, for startups, the rule, uh, one of those rules is three, three, two, two, two, which means that in the first five years of operation, the company triples in size in year one and year two, and it continues on a very rapid growth cycle in year three, four, and five, that was one of those metrics that made unicorns, if you will, right?

Um, Now, uh, for private equity, it's down to profitability again. And you see the, even the VCs are looking, is it profitable? Cause if it's profitable, it can weather the storm. You just keep operating and presuming that it's a good product that customers derive value from. It's okay. It sounds like when you're talking there about [00:16:00] it, there's there's core patterns with like tech startups that they all seem to go against the same pattern.

Timing might be slightly different. Is that fair? Or is each one very different and you have to judge it? Or is there a sort of you can almost predict when certain events are likely to occur within the life cycle of a new organization or something that you're buying out? There's a very deliberate plan, Rob.

It's called the investment thesis. Yeah. Yeah. Yeah. Right. As you buy a company, you think you're going to be able to do better than the current ownership, because you tend to believe that you have a number of top line initiatives, right? And there's, there's very obvious one. We were going to be able to increase the pricing.

Uh, we're going to be able to, if we're a European company, we're going to extend into North America. We're going to create more meaningful and impactful partnerships. Uh, and that's all top line focused, right? Or we're gonna, and this is, this is a favorite of mine. We're going to cross sell. We're going to buy two companies and on the [00:17:00] customer base of both, we're going to actually generate a solid sales channel into those customers.

That one, we can do an entire podcast on that because I don't think it ever happens. But that's the playbook and then on the side i'm gonna put them on a singular CRM system like salesforce. I'm going to consolidate all these financial departments onto one net suite And i'm going to install workday to Right.

Those are some of the places. I mean, I mean a lot of that sounds like Common sense in the sense that these were the way these are the strategies you would use to grow a company And did you think there's a blocker somewhere in the ethos of these companies that doesn't? Why haven't they thought about this already because it's a consistent pattern or a consistent set of plays Is there something in the mindset that's just?

Doesn't get them to the place that you are that says, well, this company here, you just do all these things. It's obvious almost with the way you say it. Well, it is obvious, but mind you, uh, what you [00:18:00] buy is a company that has genuinely tried to do all those things in the past as well. So it's the expertise you're adding.

So you're adding the expertise of how to execute on those strategies. That's the key difference. Yeah. And we're talking PE in general right now, right? I think, um, different types of PE flavors are there in the market. There are those, uh, PE companies that are very hands on. Uh, they have entire teams in the private equity company that are phenomenal individuals that know how to run and operate and scale.

Software company you also have very hands off investors and they say you guys keep doing what you're doing i will buy you right now and let me know what we need to invest in and i'm gonna look for company two three and four to add on companies to increase the size of and that's my job as a private equity i'm not gonna tell you how to run your private equity right both flavors exist.

The premise that we see in the terms of the headwinds that you were asking about, [00:19:00] right? Cost of capital, the, the FOMO has, has, has left the building, and, uh, and the buyer seller expectation gap. There's also a couple of tailwinds that are phenomenal in the software industry, and I'm, I'm highlighting three.

One is cloud is not just a net new normal, it's the data. Especially in the context of Gen AI is the only defensible mode you have around your software business. It's the only thing that you can protect because if Gen AI evolves in some of the doomsday scenarios, which I don't believe in, but I do believe Gen AI will be able to observe how an application works and rewrite it.

Bas, Gen AI has been observing Rob for quite some time now. It's still confused about me. We're all worried. You're right to bring that one up as I, I can tell you can't go. So data is actually the only [00:20:00] thing that you control and you can defend and you can monetize. And we've seen great examples of companies that have taken that successfully, uh, to market, or at least are better off.

And then the third one is Gen AI itself, right, as a topic. And Gen AI, The real question, who's going to monetize that? Uh, but the fact that it's here and it's here to stay is, is, is without a doubt. Now, what do you do if you're a private equity owner, you own a software solution, you know, that startups have much lower cost of getting started and potentially the ability to understand what the market really needs.

And you have all this technical depth sitting there. If you still ship software to customers on prem, Gen AI is not even a starting conversation. Now, you have to have a deliberate strategy as well, but the three tailwinds are very significant, right? The good news is, lots of innovation, and [00:21:00] at an ever increasing pace.

I don't think we've ever seen the pace of things that are moving forward, uh, as big as it is today, but it will never be as slow as it is today either, so there's no time to waste. What's your sense of the tailwinds and when they actually counteract some of the headwinds you're just describing about? Is that You know, first half 2024 we talk in 25.

How long do we think that the economic headwinds are going to last? Have you got any analysis on that from what you've been looking at? Yeah, this is boss's opinion and boss's is not in on Wall Street. And I entirely recognize that this is involved. Hang on, I'm just logging onto the investor panel now to make me trade going on bas the info?

No, I, I think it'll will, it'll, the, the, the, the cost of capital hand headwinds will last well into another two years and, and that is inflation has to be contained and [00:22:00] we still get. Tons of positive economic news, which will make the fed hesitant to actually do so. Now we probably see a rate drop, right?

But we're talking about 0. 25, uh, right? Uh, and, and so the cost of capital is there. Therefore, the formula for PE is different. That said, there's a lot of dry powder. There is a lot of institutions and net worth and high net worth individuals that have promised. Hundreds of millions of dollars to these private equity firm and said, go make this money work for me.

If they're not buying companies, that money is just sitting there. And that's called dry powder, right? Now I do believe that the average private equity firm has two choices. One of it is to amend an extent, we call it in an industry. So you basically, you go back to the bank and you say, Hey, I know I.

Promise you the money back in 2028. I think we need to start talking [00:23:00] about 2032 before we exit. Um, and that amended extent strategy is basically, uh, also referred to as prey and delay. Uh, and hope that the value is still there at the back end. Two very different takes on this. It's the same action.

But there is also the ability, if you had a longer holding period, And so therefore you can think different about the, the, the, the things you can invest in today to generate true organic, genuine growth. That holding period is the opportunity in which you say, can I think different about these three technology enablers that we just discussed?

And so that's kind of the move and improve, I call it. Use this prior period to generate additional value for end customers of the software applications. Therefore, the investors in the long run and let's actually dig into that in terms of the use of those [00:24:00] technologies. So the tailwinds, the things like cloud and Jenny I in transforming the companies that.

are sitting in the portfolios that will then drive new value over time. So give us a sense, maybe from a cloud transformation perspective of how you see that being applied within the world of PE to drive that new value. That's a great question. So what we believe is that there's a lack of understanding on what cloud even is in, in the financial industry, right?

Tech industry, certainly startups are well aware of what it is, but ultimately clouds. Has been applied for. A number of reasons, but I highlight three. One of it is, of course, the security posture that the software company can take on the backs of a Microsoft or an Amazon or Google platform. The other one is the linearity between what you sell in terms of software and what it costs you to service that customer, right?

So there's linearity. Therefore, you don't need to [00:25:00] invest big upfront. Customers don't need to invest big upfront. That linearity is attractive. And then third is the near infinite scalability of these platforms. If I'm going to go from Germany to the US and I run on a cloud platform, that's a technology decision, easy to make versus what you had to do in the past.

The real secret to value in a cloud transformation from a private equity perspective. Is you get to rethink your pricing methodology and think about that, right? And if there's one thing that has, I think, been the biggest contributor to Amazon success is the on demand consumption model, you pay for what you use, and if you don't use it, you go away.

That was very different before they introduced that you can, as a private equity firm, you can think about what can I do in my pricing methodology to lower the barrier to entry. How can I make it a two way door decision versus a one way door decision to [00:26:00] commit to this software on the backs of the cloud transformation, those things become possible.

So what I'm trying to convince an investor from is that sure, there's all kinds of technology and TCO type of benefits with a cloud transformation, but those are actually not that interesting. The question is, what else can I be doing for my sales and marketing? Functions for my partner capability for my innovative capabilities for engineering and.

operations all together on the different pricing methodology, different pricing strategy. Have you seen a good example of that where you've been advising a new, a newly acquired company, maybe you're, I dunno, six to 18 months in and you're starting to implement this stuff and what it's, what it's done to its underlying EBITDA.

Yeah, no, there's a, there's a company called Insight Software, fairly big in the private equity. They're owned by TA Associates and HG Capital, two [00:27:00] phenomenal PE firms. They have 70, 80 different software acquisitions in the portfolio. And what, what we did with them is we slowly started moving specific high value software applications to a much more agile cloud deployment model.

Now, the observation with them was that customers loved the software application, but they hated all the technical work needed to keep those applications up and running. It required a database and it required network connectivity. And so we basically, we took that solution and said, Dear customer, there's just a web URL.

You're going to log on to it in the future and you have nothing else to do. In the packaging and pricing, we therefore said, If we taking all that work on ourselves, plus the cost of infrastructure, we're not just going to take a perpetual revenue, uh, pricing to a third of that. Cause typically as a, as a software [00:28:00] company, you want to make the same money in three years.

We're actually adding value and customers agreed and customers said, I'm more than willing to pay extra because all I want to do is leverage the application. I don't want to be an expert in how to operate the application. Does that make sense? Yes, it does. So what you effectively did there was you, you transformed the way that that company, or they transformed the way that that company is delivering its product by cloudifying that product, which allowed that that organization then effectively to sell not only the benefits of its software, but actually the convenience of the cloud at the same time.

Yeah, they deleted the undifferentiated heavy lifting as they like to say 100 percent drop 100 percent now that that was but that's a great use case and I think an average leadership team in the software company say let's do that, right? The unintended benefit was we could rethink pricing. And how we provision the solution [00:29:00] therefore what used to be a six eight week poc cycle for an average enterprise customer to even validate that the solution works become something like if you want to see this work on your data we can do so by the end of the day right and so sales.

It's a very different conversation from a try to convince with PowerPoint slides and words to here's the solution. Test drive it. Let me know what you think. It changed everything. Therefore, partners started thinking different about it. Matter of fact, Azure, Microsoft and AWS now saw a solution that they were happy to take into their customers.

Industry segments because it was such a light touch and high value and so all of a sudden the partner methodology changed because there was a different group of partners that helped me get in a higher echelon of trust with the customers I was trying to convince all these things work together on that transformation.

I mean, that's a great model of how you've [00:30:00] changed the entire go to market cost structure and pricing structure around something purely by reinventing the underlying platforms. And in terms of then broader aspects of cloud transformation, we often talk about things like the knock on effects of delivering in a different way.

Now that might be. You know, that's the product cycles that you might have been able to generate new releases and new functional releases quick, more quickly changes, perhaps to the internal operating model and culture of that organization. Are you seeing that the depth of cloud transformation possibilities being enabled as well?

Yeah, no. So that is actually what we really focus on. And it's, uh, it's through the various project. It's proven out again and again. So many companies have seen cloud data and gen AI. Now we're going to make the same mistake as an engineering opportunity. [00:31:00] Right. That's where we start and right. And maybe the CIO should get in involved to lower, uh, or increase the discounts we're gonna get from these hyperscalers.

And that's about it. And then, I mean, I won't mention the names, but there's been very large software companies coming up with a cloud solution that is basically invented by engineering and good for the balance sheet of the software company, but not good for customers. They have no idea why they would buy into this.

And so that is kind of our, our lesson learned. There is across the core functions of a software company, and we are very opinionated that there's only four core functions in a software company that matter at all, sales and marketing, partnering. The build capability and the run capability, so build, engineering, run, operate the rest of a software company is there to serve those four core functions.

Yeah, and I apologize to all the [00:32:00] heads of HR, but I don't think you need to say that they also support that. Yeah, yeah, they're very supportive of whatever their business wants to do. That's right. So, but as you think, okay, we're going to do big, meaningful things for our customers, it needs to be articulated across those core functions and they need to all do a bit of a soul search.

What does this mean for me? And where you, we, what you've seen in the past is great progress in technical capabilities coming out of engineering and a Salesforce that's not willing to adopt it because that's not what they're incented for. Very pragmatic problem that you often see. Therefore, the cloud solution fails to find the adoption, underperforms investors, kind of myth that it didn't quite work out.

All of that needs to come together in a strategy, right? Uh, and so that, that's what we're helping with. We, we have a very specific [00:33:00] maturity model that says, okay, from reactive. Support on cloud problems that customers had. Customer calls you and says, tell you what our corporate standards are snowflake and we have power bi to give the data back to end users.

Um, that's reactive where you want to be on the other side. Five steps later is intelligent right where it's multi tenant cloud native applications that are instantly provisions can be have agility in terms of reacting to market changes and all that stuff it's very deliberate but it's across those four core functions sales partner.

Run and build now when you're in a situation where, and I think this happens relatively often where you you're scaling a company and growing a company and you're going through some of this transformation, you can see the costs going up because you're trying to scale with demand, but that might not necessarily yet be in step with [00:34:00] revenue.

How do you reset that situation? So obviously some of it can come through some of the changes you've just been describing, but. There's sort of a, it can be a fundamental problem that cancer to get that in sequence and get that sequence correctly. How do you deal with that? Yeah. And, and thank you for, cause I, uh, as one of the things that, that is very prevalent in the minds of, of, of the private equity investor and it's, it's the fish model.

Right. And it's referred to as eating the fish and then picture for a moment, a graph with only two lines, one is revenue and the other one is cost and with any big initiative, uh, that's as fundamental as changing how you sell, what you sell. Revenue will go down as you transform and cost will go up because you need to invest in additional capabilities right now we believe that there is a number of proven [00:35:00] steps you can do to make those lines less impactful one on the revenue side there is a No need and hardly any company does it these days to go all in on subscription from perpetual or from subscription to on demand, right?

There is products that sell well and products that have a much easier time to explain what the added value for customers. And you start face facing that approach and you, you add functionality on the cloud provisions function, uh, solution that is not available OnPrem. So, and, and with Gen ai, that's really defensible.

You can't. Give large language models on Prem. You can do it in an open source, but the cost of operation would be counterproductive. So you can actually add. Innovation to your cloud platform 10 times easier to some software that needs to be shipped. Now, as you, as you do those things, you can also charge for what you provide and you can [00:36:00] think different about the value that you're able to provide.

So therefore, there's things we can do with packaging and pricing. Third one that we can do to impact revenue is the. Ecosystems around Google, Microsoft, and AWS are massive. I actually think they're the biggest partner ecosystems, uh, in the world. They have very specific programs on how you partner well with these companies.

Now, a subscale software company, and I'm talking a hundred million, 500 million revenue, doesn't have the power. Or the voices to actually get those programs unlocked in these hyperscalers. So there's a little bit of expertise needed, but if you do it right. If, if the, the Oracle Salesforce within Microsoft is aware of what you do for Oracle customers and it, and it operates integrated with an Azure solution, they will absolutely introduce you to their customers, right?

So there's things we do [00:37:00] to make the revenue actually on a faster growth trajectory and the cost line. We, we actually improved that just by expertise, getting it right. The first time, right? Very common experiences, companies start building on cloud provisioning, virtual machines. And they go home at night and the machine's still running and ticking.

And then at the end of the month, we see the bill and we're like, Ooh, there's a lot more expensive than we thought. If you start, and it is a very minor example, but if you. Create some deliberate approaches, like who is accountable to monitor the spend on these platforms and are they actually, do they have the tools to see what's happening, where we're investing money?

Gen AI is fairly expensive, so that is kind of what we're doing to, uh, To make the cost line less, less deep and the revenue line, uh, and so what emerges is funnel it no longer the cost line going below the rev or the revenue line going below the cost line, [00:38:00] it actually, there's a slight impact, but we emerge much quicker.

And now we can actually think about how do we add more value for customers and start growing.

Sjoukje, what you've been looking at this week. So each week I do some research on related ideas and transformation and tech. And this week I thought we should take a look at. The vital role of the cloud for private equity firms. So we already mentioned private equity firms are increasingly investing in and adopting cloud computing software to improve their efficiency and increase their profit.

So it offers a couple of benefits like pay as you go, pricing and 24 hour availability, strong security standards and the ability to manage and store data from anywhere. in the world. It also allows firms to focus on value creation activities. So to summarize, cloud environments are secure and offer low costs and high returns, making them [00:39:00] an attractive choice for private equity firms.

So a question, are these all the benefits or are there very important benefits missing here in this list? I think from the core conversation we had fundamentally, the concept is optimize what you've got and improve certain metrics. So, you know, value is created and cloud from from what we've discussed is absolutely pivotal to be able to change those business models.

It goes back to a lot of what we talk about on the podcast is cloud is an enabler to allow you to change the way you operate and deliver different services and products and business models. Nothing to the core of it. It's understanding that Without it, you can't do these massive changes, but look at the benefit that company values go through the roof because they're able to do something completely different.

So for me, it's like the previous conversations totally reinforced the point of without cloud, you're going to struggle to get your better business model out the door. Just building on that last point, Rob, what I thought that reinforced it is when, when you see it as a repeatable model like that. So, you know, when you're seeing it [00:40:00] within an organization and you're, and you're just looking at the scale of challenge in front of you within your organization, you might look at it and go, it's too big a mountain to climb, but actually, when you're looking at it from the outside, not only does that mountain look a lot smaller.

You know, when you're outside the mountain range, all of a sudden the scale becomes, you know, it's, it's actually quite a small mountain when you see it like that, but also that it's cookie cutter and there's a way that you can go about doing it. Repeatedly playbook concept. But I do think there's a bit in there, which says if you've done it before, it's always much easier.

So if you're sat on the precipice staring at that mountain, it looks massive to you, but somebody else comes in and goes, yeah, yeah. It always looks like that first time, but 10th time round. Piling lads, off we go. Yay. And it's that, isn't it? Which is, you know, we've done this before. What's your experience of exactly the conversation that Rob talks about there, which can often feel, I can imagine, can be filled with tensions.

It can be filled with culture clash. Have you got an example of that type of conversation that you've had to unpick? [00:41:00] Yeah, it is. Uh, actually, I'll give you that. And Marcel to speak to the brilliance of the Dutch citizens in the world, right? Marcel is nodding furiously. A Dutch software company, first meeting.

Convinced as they were selling enterprise solutions to very large enterprise customers, say the top of the top 50, I asked them, how do you guys think about cloud? Uh, and I had a full disclosure. They showed me a little bit, uh, the office, uh, and where everything was. And, and we were happened to be in a room with a door, uh, uh, Closed door that was sitting there and they, they articulated the CTO and, uh, and the CEO together.

Uh, yeah, we're, we're selling enterprise, uh, solutions for our big enterprise customers. Cloud is not relevant. They will never go there. There is, uh, it's just not [00:42:00] secure enough. We can't trust it. And I'm like, and so what do we do? Um, well, we do it on our own data centers, right? And that's more secure and they were absolutely, that's more secure.

We control it. And I'm like, and if I understand correctly, the data center is behind that door over there. Right. And they're like, yeah, yeah, that's our data center. And so I stand up, I opened the door, there's no lock and I'm like, and this is the security that was these big enterprise customers. Uh, so yeah, there, there is a mindset, but to, to Rob's point, there is also a skills gap.

And this is a bit of the cultural dilemma of MPE, you're buying software companies that were started 20 years ago, they did something great, they had success, they're serving a customer with an original founder, and he or she is what they saw 20 years ago and they've been Translated that in a good operating business, [00:43:00] the rest of the company is there because of that owner founder, they know what they're doing and they will tell them every day what to do next, right?

These people have seen what they've seen. And the good at what they do but if you are a private equity company and you have speed speed is the biggest thing you're after right how fast can i get to that exit the original team that has built a solution and services customers today. Is not a team that's going to take you to the next level so what do you do as a private equity company you hire new people but all of them have no affinity with the customer no affinity with what the software does so they need six to twelve months to just build an understanding they've been successful individuals to how do you get that management team.

Of some old some brand new people on a cohesive singular strategy and that's where it often goes wrong and [00:44:00] therefore the private equity goes for small incremental value creators open up a new market and it fails or that doesn't fail it has a fair return. But it fails to really reignite the company and become something more than what it is.

Bas, thank you very much for your insights this afternoon and sharing a view into a really fascinating world. It's been great talking to you. Thank you. Now we end every episode of this podcast by asking our guests what they're excited about doing next. And that could be, you've got a great restaurant booked at the weekend, or it could be something in your professional life.

So Bas. What are you excited about doing next? Uh, I thought about that question and they, I, I basically, I'm just happy to be alive. I'm a, I'm a glass.

That's a KPI. I appreciate every morning. And I, I sense that you're somewhat similar. I'm just a glass half full kind of guy. Um, My [00:45:00] kids are maturing and more exciting every day. My wife is doing phenomenally interesting things. Everybody's healthy and happy. And so I'm excited for Saturday, man. You know, man, don't you just get to a point in your life where actually that's about right.

You know, you just appreciate all of those things that are going on around you. And, you know, you sort of stop and take, you know, take a little bit of a. Uh, view of your life and you go, actually, yeah, I'm, I'm bloody lucky. Yeah. This is, this is really good stuff. A hundred percent. Well, what a lovely note to end today's show.

And thanks again, Bas. guys. So a huge thanks to our guests this week. Bas, thank you so much for being on the show. Thanks to our ruthless producer Marcel, our sound and editing wizards, Ben and Louis, and of course, to all of our listeners.

We're on LinkedIn and X, Dave Chapman, Rob Kernahan, and Sjoukje Zaal. Feel free to follow or connect with us and please get in touch if you have any comments or ideas for the show. And of course, if you haven't already done that, rate and subscribe to our podcast.

See you in another reality next week [00:46:00]

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