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Rebranding private equity

The private equity industry has emerged from the credit crunch and recession with its reputation largely intact - transaction volumes are rising, and optimism is the order of the day. The recession has drawn attention away from those firms and portfolio companies that have gone to the wall, as well as from the reputational issues that damaged the industry back in the boom years. But the private equity business model has been severely tested, and the industry has learned the hard way that it has to come out of its shell if it wants to build trust.

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Firms that were called 'secretive' by journalists just a few years ago now boast media-rich websites and lengthy, full-colour annual reviews. The most forward-looking firms are also taking part in reputation research and are – finally – paying attention to their brands. What should firms that are considering a re-branding be thinking about?

1. Show how you create value

The new brand should incorporate a consistent message about the way the firm will create value that (a) rings true and (b) plays well with limited partners and other investors, management teams at investee companies, and partners such as sponsor coverage departments within investment banks. The tendency now is for firms to emphasize 'active ownership' to counter the perception that private equity firms are just financial engineers. But it's important not to overdo it: the appearance of excessive activism could put off potential investee company managers who value their autonomy.

2. Identify genuine points of difference

Private equity firms struggle to differentiate themselves. Business models tend to be similar, and many firms are instinctively conservative and prefer to keep a low profile. As a result, firms tend to tell their stories and present themselves to the world in a similar way. When re-branding, they should work hard to uncover and project genuine points of difference. This will mean positioning themselves carefully against current and potential competitors, based on a realistic analysis of market niches, business models and strategies.

3. Take transparency seriously

The 2007 Walker Guidelines have given the industry a framework for transparency while in Europe, long-standing concern about the motives and behaviour of private equity firms is likely to result in tighter regulation. As a result, firms are becoming more transparent about their activities and are stressing their belief in responsible ownership, although many have opted to stay on safe ground, focusing attention on business models and strategies rather than disclosing data on performance. At the level of the brand, firms should remember that both perceptions and reality are important: they need to be seen to be doing the right thing.

4. Find out how others see you

When conducting a re-branding, the temptation is to allow the leadership team's (usually strong) convictions to determine the brand strategy. But this is always a mistake. The reputational damage the industry sustained at the height of the boom makes it clear that the views and expectations of stakeholders and influencers and society as a whole should be taken into account, as well as the business model, positioning, values and culture of the individual firm.

When it comes to their portfolio companies, private equity professionals have always understood the importance of strong brands. Private equity firms' recent experience of a hostile climate of opinion has convinced them that in the more competitive post-Lehman era, they need to invest in their own brands as well. ■