

COHNREZNICK HOSPITALITY QUARTERLY

Strategic insights for transforming your hospitality operation

VALUE CREATION
Q2 2021



“Value creation” is a buzzword you might hear on a morning business show, or even when talking to that cousin who thinks they know everything at Thanksgiving. Regardless of where you have heard it, the real question is, do you know what it means? Better yet, do you know how to create it at your own company?

“Value creation is executing proactive, conscious, inspired, and imaginative actions that create better gains or benefits, including enhanced returns on investment, for customers and stakeholders.”

– Gautam Mahajan, Founder Editor of the Journal of Creating Value

In this issue of CohnReznick’s Hospitality Quarterly, we will define value creation and explore two main strategies that can help you accelerate value creation within your organization: Data strategy and transactions. We will also provide useful tips and business cases to empower you to accelerate value creation within your organization, or to trust in CohnReznick to help catalyze it as your strategic advisor.

What’s most important to understand is that value creation is applicable to not only your organization, but also your customers. So when you look to drive value in your business opportunities, start with the goal of enhancing your business’s value chain, and aim to ultimately end by delivering greater value to your customers.

The value chain

It’s been over 35 years since acclaimed business theorist Michael E. Porter first discussed the concept of the “value chain” in his influential 1985 book “Competitive Advantage.” A monumentally powerful tool, the value chain is as important today as it was then. The framework breaks down a company into its core business capabilities in order to identify its differentiating capabilities and how they catalyze a competitive advantage and create value for both internal and external stakeholders.

A company’s value chain is part of a larger business ecosystem, a “value stream.” The value stream includes suppliers and distributors and ultimately concludes with value being delivered to customers.

By applying this lens, how value is created within the company and also within the larger business ecosystem, managers can become enlightened to consider and see each capability not just as a cost or an activity, but as a step that needs to add some incremental value to the product or service their customers consume.

View your company through the lens of the value chain. Execute proactive actions to enable your company’s differentiating capabilities and create value for your customers and stakeholders.



Information empowerment

Technology and data drive almost every aspect of your business – finance, operations, productivity, customer experience, and performance.

For many hospitality operations, technology has become core to competitiveness. Yet, the true value creation potential of technology can go unrealized...

One of the first steps to realizing the true value creation potential of your organization is becoming a data-enabled organization. This means that the data that your organization produces across its entire ecosystem is being harvested, and can be effectively and efficiently leveraged. Data is integral to an organization's success because it forms the foundation for discovery and insight.

“Analyzing your data to understand what is relevant and then adding context transforms that data into information and, ultimately, insights.”

– Paul Ricci, CPA, Partner, Technology and Data National Leader, CohnReznick Advisory

79%

of restaurants consider their data strategy for sales and service prediction and optimization to be only moderately, slightly, or not at all effective

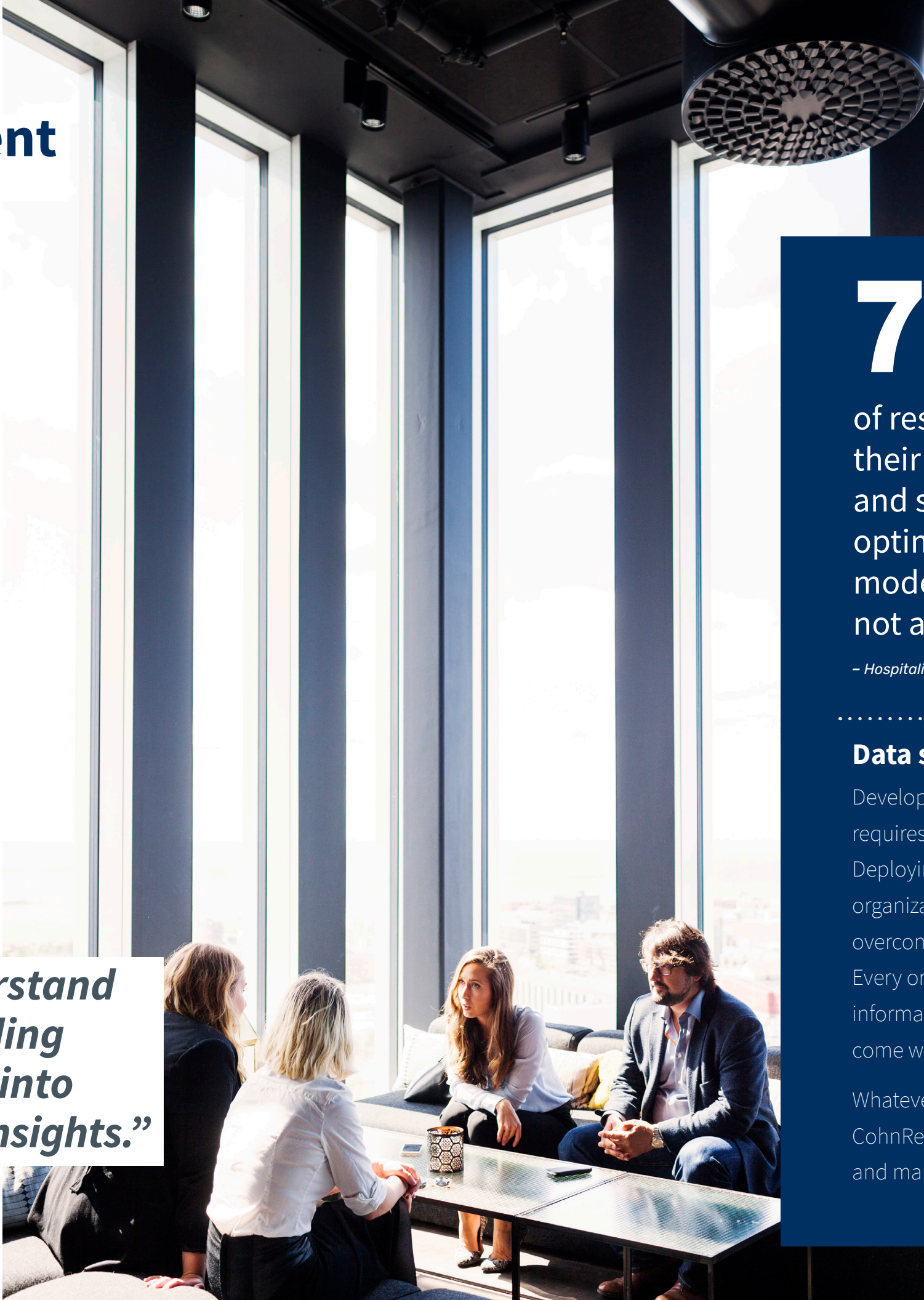
– Hospitality Technology's *Restaurant Technology Study 2021*

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Data strategy

Developing a successful data strategy often requires bold decisions and creative ideas. Deploying a strong data strategy with broad organizational adoption often requires overcoming corporate cultural barriers. Every organization has specific data or information needs, and those needs often come with a unique set of challenges.

Whatever your level of data maturity, CohnReznick can help define, implement, and manage your data strategy.



Best practices: Data strategy

Organized and efficient use of data can be a catalyst for value creation. Growth companies need alignment of marketing, operations, finance, and human resources to operate with agility and efficiency. A fully integrated enterprise resource planning (ERP) platform can have significant impact on profit and growth drivers, thus enabling organizations to strategically advance their digital maturity and meet evolving market requirements.

Boost your competitive edge with ERP



Strategic insight

Information fuels the digital ecosystem. When centralized on your ERP platform, disparate data points can be harnessed to yield important business insights, tight customer connectivity, and market advantages. Data should be consistent, complete, and accurate to translate smoothly across the ecosystem and help your team make informed decisions.



Revenue optimization

Modern ERP platforms offer the openness and ability to integrate with leading-edge, best-of-breed technology products and platforms (e.g., analytics, POS, customer experience, IoT, mobile, 3PL, document management, and workflow), which opens a world of new possibilities. For instance, artificial intelligence and machine learning can be combined with ERP data to enhance operational processes like inventory planning, logistics, supply chain performance, and production.



Operational agility

Cloud-based ERP can give you the agility to easily evaluate and respond to market changes. Reviewing financial impacts in real time drives efficiency, and “anywhere, anytime” access gives decision-makers insight to act quickly based on powerful KPIs.

Case study: Increasing value creation with ERP

Solving the right problem

Following an acquisition, a privately held U.S. casual restaurant chain with over 100 units was struggling with a massive amount of disparate data that existed across the organization. Information was housed in different data sets on different platforms, and the lack of a common lexicon across the platforms resulted in a longer run time for the CFO and controller to produce financial statements. In addition, the business’s preexisting set of financials was being aggregated via their data warehouse using third-party applications, complex formulas, and scripts to connect and map the various accounts and reconcile transactions. This process was extremely cumbersome and took too long to produce accurate reports for the finance team.

Realizing the needed solution

CohnReznick’s Hospitality Advisory practice helped transform the group’s financial operating model by reviewing and streamlining their financial processes and creating new business methodologies that encompassed operations across all the restaurant entities. The enterprise selected NetSuite as the sole ERP for their entire operation, and CohnReznick’s team copied, converted, and migrated all data from the other, disparate platforms into a new instance of NetSuite. This helped to realize efficiencies such as:

- The ability to report to their financial institutions more timely and accurately leveraging a “one-stop” financial reporting hub accessible to anyone in the organization with access to NetSuite
- New and improved functionality that enabled all the entities to operate together in a standardized and connected approach
- A dramatic improvement in visibility to Revenue and Expenses
- Increased visibility into sales across all stores and all entities on a daily basis, as opposed to weekly and sometimes monthly in the legacy environment



Turning challenges into opportunity

Data can also be the determining factor in timely identification of issues and the ability to address challenges before it's too late. Changing economic conditions, operational challenges, or the natural business life cycle can cause businesses to find themselves facing threats to profitability or viability, and early warning from data and appropriate corrective action by management may be the difference between thriving and failing.

When your business is challenged and internal and external forces are mounting, it can be difficult to see clearly and to determine your next move. To guide your business forward, you will need to triage, stabilize, and implement creative solutions based on well-reasoned analysis and institutional knowledge. Working with the right advisors with fresh eyes to identify root causes and curate and implement fast corrective action plans (including fixing operations, divesting non-core assets, transacting to partner, or raising capital) can be a critical component to righting the ship – and catalyzing value creation.

Turnaround and restructuring

- RAPID Assessment
- Options analysis and forecast optimization
- Cash flow and budget modeling
- Cash flow management and maximization
- Short-term profit improvement
- Creditor and vendor management
- Financial stakeholder workout (exit or rehabilitation)
- Out-of-court restructuring
- Crisis/interim management (CRO, CEO, CFO, COO)
- Fiduciary oversight and support (trustee, receiver, ABC)
- Bankruptcy advisory (pre-filing planning, post-filing management)
- Valuation services
- Capital sourcing and asset monetization
- Managed exit and wind-down management
- RAPID transaction planning and execution

“If the opportunity is a good one, the means to getting a transaction done can almost always be found. Success post-transaction derives from an unwavering focus on Cash, Communication, and Control.”

– Cynthia Romano, Global Director, Restructuring and Dispute Resolution Practice, CohnReznick

Sometimes, a challenge can lead to value creation via an opportunistic acquisition. Savvy buyers tend to see opportunity where others see danger.

If you're interested in pursuing an opportunistic acquisition as a buyer, consider these key factors:



Invest in strong, loyal brands that you can reinvigorate and grow.



Measure twice, cut once: Plan, analyze, and stress-test before moving forward.



Forecast growth in sales in multiple ways based on worst-case and best-case scenarios.



Do not lose sight of key business fundamentals in the glamour of a deal as you plan, acquire, and integrate.



Consider how to expand reach and presence in a capital-efficient way.



Plan for improvement, but be able to live with the conservative scenario.



Align people, processes, and technology to maximize value and transition the acquired company from bad to good and good to great.



Innovate to capitalize on your differentiators.

Maximizing transaction value

Even in a healthy situation, completing a merger or acquiring or selling a business can be a complex process with a dramatic impact on how a company moves forward, on both sides of the deal. In order to best create value, buyers need to confirm that target companies fit their strategy, are reasonably priced, and will integrate effectively, and that the acquired management team's goals are aligned with their own. Sellers need to focus on getting the best possible price, closing the deal, and successfully managing the business through transition. Accomplishing all of this requires that you have the right advisor advocating on your behalf and helping you assess risks and rewards and navigate transaction intricacies.



Deal sourcing



Pre-Transaction

Finding the right acquisition candidate or strategic acquirer is essential to long-term value creation. For sellers, an appropriate market-based valuation will help authenticate appeal for serious buyers. For potential buyers, validating pricing, business strategy, and integration prospects are all vitally important.

Due diligence



Pre-Transaction

Whether on the buy side or sell side, understanding the potential risks and rewards of a transaction is critical. Due diligence can take many forms. Too often the buyer fails to consider the importance of IT due diligence. Technology drives almost every aspect of businesses, yet because it can be infinitely complex, the true potential of technology can go unrealized.

Transaction



Transaction

Negotiation of the purchase agreement is often a painstaking but important process, and neither buyer nor seller should ignore its importance. What is often thought to be crystal clear prior to closing often becomes clouded post-closing. Buyers and sellers may not agree on the interpretation of certain post-closing price adjustments. It is vital to involve a transaction advisor that will negotiate post-acquisition purchase price issues, including working capital and earn-out disputes, or, as required, act as a neutral third-party arbitrator to protect value.

Integration



Post-Transaction

Integration is a key component of any transaction. A successful integration plan should include the following steps:

- Hand-pick key integration leaders during the diligence process.
- Stabilize the customer base with a rapid communications program.
- Create rapid communications around people, roles, vision, and responsibilities.
- Identify a separate but connected team to focus on the core business while the integration team focuses on the acquisition.
- Create a strategy to retain key employees.
- Set realistic goals and timelines.
- Dovetail integration plans with strategic operating plans to facilitate a smooth process after the integration team dissolves.

A recipe for SPAC success

Special purpose acquisition companies (SPACs) are on the rise. These companies, which have no commercial operations of their own and exist for the sole purpose of acquiring a private company and taking it public, raised over \$83 billion in 2020, and have already passed \$104 billion in 2021, according to SPACInsider. This trend is not based solely in one industry but encompasses a vast range of industries, including hospitality.



“Sound program and project management are key to SPAC success.”

– Swami Venkat, CPA, CISA, CFE, ACA, Partner, CohnReznick Advisory

The SPAC trend has created a surge of new activities for CFOs and their teams to manage. In addition to general IPO readiness and normal course of business operational/financial activities, SPAC responsibilities include transaction diligence projects, compliance reviews, numerous fundraising efforts, and additional reporting as required by legal and financial institutions. This creates a critical need to appoint a responsible party to oversee all concurrent work streams, often with extremely narrow timelines. In many instances, SPAC-related projects are time-sensitive, and may require the team to work backward from an estimated transaction date, which itself can be a shifting goalpost.

CohnReznick has deep expertise in managing large-scale projects with different work streams, deliverables, and activities in flight, and the appropriate organization and eagle-eye focus on the details, while also being mindful of driving toward strategic objectives. Our advisors help companies address complex issues by providing practical, proven, and cost-effective project management solutions that allow organizations to focus on their mission and achieve more.

Team



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Cindy McLoughlin, CPA, leads CohnReznick’s Consumer, Hospitality, and Manufacturing Practice. With more than 25 years of experience, she serves many different hospitality and consumer companies, with specific expertise in private equity transactions in the consumer and restaurant sectors.



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Stephen Mancini, MS, MBA, is the Hospitality Industry Leader for CohnReznick’s Advisory practice and sits within the firm’s Strategy and Innovation group. Stephen focuses his practice on areas of growth and innovation strategy, operational value creation, digital strategy and technology integrations.

About CohnReznick

As a leading advisory, assurance, and tax firm, CohnReznick helps forward-thinking organizations achieve their vision by optimizing performance, maximizing value, and managing risk. Clients benefit from the right team with the right capabilities; proven processes customized to their individual needs; and leaders with vital industry knowledge and relationships. Headquartered in New York, NY, with offices nationwide, the firm serves organizations around the world through its global subsidiaries and membership in Nexia International. For more information, visit www.cohnreznick.com

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