Crowe Horwath

DUBLIN CHAMBER

SME Pinnacle Programme

Helping ambitious SME owners reach new heights

Pinnacle Programme – Session 6

How to recognise, build and protect value in your business

Patrick Kennedy, Non-executive Chairman of CarTrawler, Deputy Governor of the Bank of Ireland Group and former CEO of Paddy Power, joined the Pinnacle Programme to discuss his experience and the lessons learned throughout his career building significant shareholder value in the businesses he has been involved in.

Between 2006-2015, Patrick turned bookmaker Paddy Power into one of Ireland's most dynamic and successful companies. Under his stewardship, the company more than tripled its staff from 1,300 to over 5,000 and turned into a billion-euro business. He oversaw its international expansion and the explosion in the online and mobile markets, flipping the revenue model from 80% Ireland and 80% retail to 80% international and 80% online.

Patrick spoke in candid detail about his ten years of experience in Paddy Power, some of the issues they grappled with and the lessons he learned along the way.

Recognise your strategic advantage

When Patrick joined Paddy Power in 2005, he felt that "what was most striking was the analytical backbone of maths and technology" in the company. Looking at his competitors, who were long-established second- and third-generation bookmakers, he recognised that Paddy Power's technical expertise was a major advantage, and he felt confident that they should position themselves as a maths and technology business going forward.

This insight informed their recruitment strategy, so while their competitors hired bookmakers and attempted to teach them maths and technology, Paddy Power's approach was to hire the smartest maths and technology people from Ireland and abroad and then teach them about the bookmaking business.

At that time the global betting and gaming market was worth about $300bn and was growing steadily at just above GDP. However, the key thing was that only 5% of the market was online, and Patrick felt that "the online piece of the pie was going to explode".

By identifying their strengths and a potential weakness in their competitors, they were ideally placed to maximise the emerging opportunities in the sector.

Invest in your people

Patrick attributes the success of the organisation to the talent of its people. "The main learning that I took from my ten years in Paddy Power is that the single biggest predictor of future out-performance in a sector is to have the best people in the sector."

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He feels that hiring might have been the area that he and his colleagues made the most mistakes in, but he can also appreciate why this happened. "If you are going to try to hire the best, you need to be creative and search for the non-obvious hires. You need to take risks and not all of them are going to work." The important thing when mistakes do happen is to recognise them early, hold your hands up and be as fair as possible in solving them.

Patrick recognised the pivotal role a robust people strategy had for the business, especially as it scaled. He admits it may have been an area of weakness for the business early on. "We had grown so quickly and we thought a lot of the informal processes that were in place to get us to where we were would continue to work fine. But the reality is that as you get bigger, you need to formalise a lot of these processes".

When Patrick joined Paddy Power there were 1,300 working in the organisation, and when he left there were over 5,000.

Paddy Power HQ in Clonskeagh, Dublin

Keep a strategic focus

For businesses to be successful, they need to know their area of focus. For any firm, but especially a high-growth firm expanding overseas, there is the risk that you "chase every car that drives by".

Patrick believes that "it is key for a management team to be really clear on the top five things that they want to accomplish, and don't let them be distracted by a long list of ever-changing possibilities." Each opportunity should then be viewed through the lens of how well it serves the five core strategic objectives, and board meetings should be seen as an operating review against those five priorities.

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Patrick talked about avoiding the short-term opportunity of buying profit streams with what looks like attractive business opportunities, but which do not serve the long-term strategy of the business. "Another thing for us was to be clear about what we wanted to do, and more importantly then what we weren't going to do. M&A should be the servant of strategy, not the master of strategy".

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Know your markets

Patrick talked about how early failed attempts to expand into international markets helped inform and refine their international expansion strategy.

Their decision to expand into Australia came after two failed attempts to crack the German and Spanish markets. Thus they were more cautious, and spent the time and resources to gain a better understanding of the local market. In fact, when they could see a potential opportunity, they sent a senior member of the team down to Australia a year before investing in order to get to know the market, the customers, the competitors and the regulator.

After careful consideration, it became clear that they needed to enter the market through acquisition, rather than organically as they had attempted in Germany and Spain. The market was at a scale and rate of growth that entering organically would have been too slow. Instead they purchased the number two and three players and combined them to take a market-leading position.

Crowe Horwath partners Gerry O'Reilly (left) and Brian Geraghty (right) with Patrick Kennedy at the Pinnacle Programme

They invested heavily in customer research to inform their brand strategy. They kept the existing Australian brand but adopted the Paddy Power tone of voice and marketing approach.

They also learned from earlier failures in making sure they had a senior team with local experience, so they left the Australian management team to run the business with two senior managers from Dublin – head of online and head of risk.

Keep agile and adapt to changing conditions

Patrick feels that a key strength of Paddy Power was that it kept an approach and structure that allowed it to be agile and make decisions quickly. A phrase that Patrick mentioned was that "Perfection is the enemy of good enough," which was a bit of a mantra within the organisation. There was a culture of "just get it done".

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When Paddy Power recognised the potential of online and mobile platforms, they were able to maximise the opportunity, while their more traditional competitors were slow to adapt. This allowed Paddy Power to steal market share and build a market-leading position online and on mobile. They were the first bookmaker in the world to feature on the iPhone and Android app stores.

In fact, these technologies are changing business models fundamentally. Proximity to market and proximity to customer, which used to be key obstacles to international success, are turned on their heads with e-commerce. Your potential customer base and competitor set is now global.

Although not a market for Paddy Power, Morgan Stanley predicts that by the end of 2018 there will be more online transactions in China than in the rest of the world combined. In fact, with 65% of the world's population living in Asia, it is a far more important market than the US and Europe, which are markets we would be much more familiar with.

Another implication of these new business models is that as they emerge, the life span of companies is shortening substantially. "60 years ago the life span of an S&P company was 61 years. Today it is 15 years and there is only one company from the original Dow Jones index that is still in the index." Part of that is due to the pace of change, but part of it is also due to the failure of businesses to adapt.

Eight key drivers of business value

1. Financial performance. Not just your bottom line but how effective are you at turning topline revenue into bottom line profit and are you trending in the right direction.

2. Growth potential. Do you have a business model that can be easily scaled? Buyers buy into the future potential of a business.

3. Independence. Over dependence on either a key customer, supplier or employees will be a value destroyer.

4. Cash generative. Valuable businesses are ones that can generate cash and require less cash to fund operations or growth.

5. Recurring revenue. What is the proportion and quality of automatic, annuity-based revenue you collect each month? Think subscription-based models like Netflix.

6. Market control. Not just about scale but about how differentiated is your business from your competitors and how easily you can protect your market share.

7. Customer satisfaction. Satisfied customers are more likely remain with you, buy other products in your offering and refer you to other customers.

8. Independence from owner. Are you stuck in the owners' trap where your company is dependent on you day-to-day? A huge destroyer of company value.

About Us

Established in 1941, Crowe Horwath is a leading accountancy and business advisory firm in Ireland. Throughout our 75-year history, we have developed an unrivalled understanding of the Irish business environment and built a national reputation in auditing, tax and business consultancy.

We work with a variety of clients across commercial and public sectors. Our services include Audit & Assurance, Tax, Corporate Insolvency & Recovery, Corporate Finance, Consultancy, and Outsourcing.

We are also independent members of the eighth-largest accountancy network in the world, with colleagues in over 750 offices across 130 countries. Through this global reach we are able to offer clients a seamless service when trading internationally.

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