

Private equity firms win with leadership-on-demand

Private equity firms score the first win when they successfully close a new deal. Then the real work begins. With their investment in Direct General Corporation, two private equity firms recently learned the value of leadership-on-demand and how leveraging interim executives can help optimize the success of their portfolio companies.

Direct General's Road to a Public Corporation

All 50 states in the US have minimum laws mandating drivers to maintain auto insurance, making the auto insurance industry lucrative and highly competitive. The top three auto insurers blanket television and radio with advertisements that promise discounted rates to good drivers. But what about high risk drivers? Or drivers that may not have active bank accounts, good credit or steady paychecks? Enter Direct General Corporation based in Nashville, Tennessee which serves 13 states in the Southeast. Direct General was founded by the William C. Adair Family in 1991 to provide non-standard automobile insurance, term life insurance and premium finance to this underserved, high risk category. The company's focused and niche approach has resulted in a thriving business.

In just two years, the company issued an initial public offering (IPO) and built a reputable and industry-leading insurance holding company. By 2006 Direct General had 500 neighborhood sales offices and approximately 2,500 employees. The company became known for offering affordable rates to

high-risk drivers, flexible payment schedules and a fair claims process.

However, with a changing economy and rapidly declining sales, Direct General's management felt the pressure of anxious shareholders and an apprehensive board of directors. To ensure it remained long-term focused vs. short-term earnings focused, the management team was prepared to revert the company to private status, and looked to private equity investors to enable the transition.

Going Back to Private

Private equity firms routinely provide capital for acquisitions, internal growth, to facilitate liquidity or a sale for existing shareholders. In 2007 private equity firms TPG Capital and Calera Capital acquired Direct General Corporation and earned a premium for the company's shareholders. The acquisition of the \$600 million company was an opportunity for investors to build on the insurer's strong foundation of network stores, to increase customer satisfaction and to make operational improvements in the business. When the acquisition was complete, the investors appointed Dan Tarantin as CEO. Tarantin was highly regarded for his extensive experience in consumer finance, insurance, retail operations and cross marketing.

"Investors saw a valuable company leading a niche market. With strong leadership and teamwork, we knew we could improve customer service, expand

geographically and make Direct General more profitable,” commented Tarantin.

Common Problem

A common challenge private equity firms face are gaps or weaknesses in the executive suite. Tarantin took the reins of Direct General in March 2007 and found the senior vice president of sales position was open. While an executive search firm scoured through resumes to fill the position, Tarantin found himself stretched between running sales and fulfilling his CEO responsibilities. Compounded by a worsening recession, sales continued to decline and Tarantin could no longer run Direct General effectively without filling the critical sales leader position.

“Having the right highly functional and motivated team is a top priority for any company and I wanted to take the time to find the right person,” continued Tarantin. He and the board of directors agreed the best option for the short term was to utilize a growing business strategy known as leadership-on-demand, or interim executive management.

Top-notch Private equity firms are now utilizing leadership-on-demand as a viable option to supplement the management teams of their companies. This model enables growth-focused companies to engage with an experienced C-level, VP or director level professional for a specified period of time to mitigate risk, fill a performance gap and steer the company into profitability. Leadership-on-demand, also referred to as interim executives, is not a solution used only in challenging business situations. Interim executives are increasingly being sought by private equity firms to maximize the profitability of their high-flying companies as well.

Short Term Role with Long Term Results

Before he could dedicate the time to finding the right candidate to fill the sales executive position, Tarantin needed to complete key sales restructuring projects. With these core changes in place, the new executive would have a solid foundation for growth. In January 2009, Direct General engaged with Cerius Interim Executive Solutions to provide an experienced interim vice president of sales executive to optimize sales operations and maximize revenue generation.

“Leadership-on-demand provided us the opportunity to have an experienced sales executive come in, roll up his sleeves and be the change agent to restructure Direct General’s sales organization. More private equity firms are choosing leadership-on-demand to mitigate the risk of hiring a permanent executive too soon,” stated Tarantin.

The Cerius Interim Sales Executive was engaged for one year on a part time basis to complete three main projects. The projects included: restructure the staffing models, redefine agent compensation, and roll out a store-in-a-box concept. During the engagement, the Cerius Interim Executive worked closely with the management team and quickly gained credibility and built rapport.

Store-level performance became a priority, new sales training was implemented and selling processes were executed to achieve customer retention, renewals, new business and add-on business.

“Two of the most effective changes made were aligning sales leadership and creating incentive plans. In addition,

monthly contests initiated by our interim sales executive boosted motivation, momentum and impacted the bottom line,” said Tarantin.

The sales processes and best practices implemented by the Cerius Interim Executive in one year will have long term results for Direct General. The new staffing models resulted in \$3.3 million annualized payroll savings and a year-over-year revenue run rate improvement of 20 percent. The efficient processes also increased online sales productivity by a 24-point improved hit rate. The Cerius Interim Executive also established best practices for the store-in-a-box roll out and opened six new stores with the sales team as part of his year-long engagement.

“Cerius Interim Executive Solutions delivered a performance-based professional that was always mindful of execution and results. The depth of experience and wisdom the interim executive had was invaluable and laid a strong foundation for Direct General to further stimulate growth and profitability,” concluded Tarantin.

When a permanent senior vice president of sales was selected by the management team, the Cerius Interim Executive worked closely with him for two months to transition leadership. This ensured no gap in leadership and helped preserve continuity and momentum.

Like many other private equity firms, TPG Capital and Calera Capital realized a healthy ROI on their leadership-on-demand decision for this portfolio company that had a gap in senior management. Cerius is the largest provider of interim executive management services in the US, and

works with private equity firms to develop new strategies for growth, carry out organizational or cultural change, manage complex projects, or fill business-critical roles currently vacant. More information about Cerius can be found at <http://www.ceriusinterim.com>.