



The industry view

Q&A with Luisa Delgado, Chair of Partners Group portfolio company Schleich.



Luisa Delgado, Chair of the Board of Directors of Schleich

An entrepreneur and investor with extensive board experience, Luisa Delgado is the Chair of Partners Group portfolio company Schleich, one of Germany's largest toy manufacturers. Here, she explains how consumer tastes have evolved over the course of her career, what Schleich is doing to harness the digital transition and why she was initially hesitant to work with private equity.

You have focused your career on consumer-facing industries. How have the demands and priorities of consumers evolved since you first entered the business world?

Consumers have evolved as regards what and why they buy. There is much more focus now on health and the environment – products that do something good, or certainly don't do anything bad. Where products come from is incredibly important nowadays, whilst it wasn't really 30 years ago. Customization, or at least personalization, has also become important for a consumer who is in search of differentiation.

How we buy products has changed dramatically. We want to be able to buy things anywhere and everywhere and have them delivered or pick them up however we want. As a consumer, nowadays I expect to be engaged with what I buy, to see it on social media, and know the story behind the product: who made it, where, and in what way.

You joined the Schleich board last year, when Partners Group acquired it. What was it that first attracted you to the company?

The brand – I love brands. I think brands are like people – their personalities, their character, their values. It's fascinating to be able to be part of a brand's development and bring it to the broader world.

There are many brands out there, but very few have the power to touch your heart and mind. I think Schleich really does that – it is a "love brand" and love brands are the Nobel Prize winners of brands. You look at a Schleich figurine and you just know it's a Schleich character – it is distinctive and authentic. You see how it brings out the best in children's imagination and, also, frankly, touches us adults.

While my Germanic friends would certainly all know Schleich, I realized it wasn't as well-known internationally. So, the attraction was figuring out how to preserve and develop

what's great about this authentic love brand, develop it internationally, and make sure that, operationally, the company can enable that.

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Schleich is a very traditional toy company in an increasingly online world. How is it managing the digital transition?

At Schleich, we have reflected very carefully on whether digital interaction could and should, ultimately, replace human interaction in play. Schleich makes toys, for sure, but its toys primarily help to educate children, enabled by the figurines that engage children and develop their ability to imagine and tell stories through play. As we all know, this is key for human development, growth and leadership.

Our vision is to amplify haptic and human interaction with Schleich characters through digital mediums. The figurine is the haptic aspect and haptic interaction is at the core of the brand – we want to carry that forward with pride. But we also want to emphasize the educational benefits of haptic interaction because touch – the ability to feel and move figurines – is all part of fostering imagination through experience.

Then you have the digital part. Imagine a child looks at its lion figurine and wonders, “How old does that lion get? How much does it eat? Where does it live?” Digital enables that learning in easy and fun ways and fosters curiosity. Imagine if that child could then also watch a Schleich animation illustrating the lion's life?

What are the key focus areas at Schleich on the ESG side?

We see ESG as a clear driver of value creation, central to the articulation of our overall strategy. Sustainability is integrated into Schleich's purpose and DNA.

We are purposefully focusing on plastic use on the environmental side. We are studying cradle-to-cradle applications as we believe that could provide the ultimate circular approach. We are looking at every step of the production process and every material to be sure that they are compatible with our environmental aims.

Packaging is key and we have to act fast on that. It has traditionally been a big topic for fast-moving consumer goods companies – you have a lot of empty space; you have a lot of plastic – it can and must be simplified. So, we are really looking at the whole end-to-end chain from conception to production to selling. We are well on our way with our plans, led by one of our strategic transformation project teams that we have mandated to study the opportunities. This team reports back to our Strategy Committee every month on progress, alongside our six other strategic project teams.

On the social side, there is our workforce, where we focus on inclusion, diversity, health and safety, and employee and community support. Our company's educational purpose is about our societal contribution and collaboration with childcare and education experts. It's an area that I feel personally very strongly about. At Schleich, diversity, of course, means gender and race, but it also means attracting international talent because we want to be an international company. We are purposefully opening our talent development to different cultures to better understand and serve our consumers across the world.

On the governance front, I see Partners Group's entrepreneurial governance approach as a major driver for value creation at Schleich. The articulation of the interdependent roles of executive management, board and investor, and agility in that construct, are important in driving the pace and sustainability of our progress.

Schleich is your first board role at a private equity-owned company. Is it fair to say that you initially had a few reservations about the industry?

I had four reservations about the private equity industry. The first one was that the industry is not always well understood by society at large, and is, more-often-than-not, looked on suspiciously. The second concern was the business model: does private equity really add any value through operational and thus sustainable transformation, or is it simply financial engineering?

The third concern was a certain elitism I'd observed in the industry over the past 20 to 30 years, which struck me as being rather divisive, and even pompous at times. I was also concerned about the extent to which employees of an investee company would be included in major value creation undertakings and rewards. Finally, I was unsure what ESG credentials private equity would really have. Those were my four concerns, all touching aspects, and, ultimately, personal and professional values that are important to me.

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How were those concerns resolved?

With regards to business model: I have learned that well-led private equity can deliver operational transformation, as Partners Group does. Private equity does not have to rely on magical financial engineering and it is also not merely financial supervision.

We are in a sector that envisions, facilitates, drives, directs, and invests in operational transformation. We're adding value with financial and intellectual capital. We coach and support our executive management and strive for excellent performance. The Partners Group network is powerful – just the other day I was on the phone with another Partners Group Lead Operating Director exchanging learnings. That's incredibly rich and enables us to bring so much more firepower to help management drive the business forward.

On the elitism point, I quickly experienced that one of Partners Group's strengths is being down to earth. They like mountains; I come from the mountains – there is no place for elitism on a climb. As to ESG, I've seen the desire to prove that investing in ESG performance along very defined parameters creates value in an asset and, as a consequence, adds to its sustainability going forward. I like the methodical approach to that and am glad to be able to contribute to that effort.

And what about private equity's public reputation?

I continue to be concerned about the industry's reputation. I have come to the conclusion that there is a real opportunity

to build the reputation of private equity and increase the level of trust toward it, and I want to contribute to that. Building that trust is crucial as private equity managers invest more and more capital across the world.

What's missing, in my view, is the simple and compelling narrative of the purpose of private equity for society at large, and the tangible actions that can build trust in that narrative. Many people work in a company where the owners have come and gone over the years. The business direction changes, things stop and go, and this results in the build-up of pressure and uncertainty. Every owner talks about value creation, but employees at large are left with the question, “Well, value created for whom?” I think that is the essential question underlying reputation and trust.

I have seen over the past months very thoughtful initiatives by Partners Group that clearly indicate that stakeholder engagement and care is a priority. These relate to employee inclusion and broader stakeholder care through ESG priorities.

It's early stage, but I can see the positive impact on Schleich employees and stakeholders. For our customers and suppliers, knowing and trusting the private equity investor is a foundation for sustained, superior value creation. That starts with understanding the investor's values and operating principles and being involved in developing a strategy to jointly achieve stretch objectives. It includes building trust that in working toward these joint performance objectives there is give and take. For example, the pandemic has shown the need for responsible company support, on the one hand, and employee performance above and beyond normal expectations, on the other. Transformation requires training, investment, and offering learning and development opportunities to all employees. It is inspiring to participate in bringing this higher-order purpose to life for a superior business benefit. It is an unbeatable virtuous circle, in my view.

About Partners Group Partners Group is a leading global private markets investment manager. Since 1996, the firm has invested over USD 135 billion in private equity, private real estate, private debt and private infrastructure on behalf of its clients globally. Partners Group is a committed, responsible investor and aims to create broad stakeholder impact through its active ownership and development of growing businesses, attractive real estate and essential infrastructure. With over USD 96 billion in assets under management as of 30 June 2020, Partners Group serves a broad range of institutional investors, sovereign wealth funds, family offices and private individuals globally. The firm employs more than 1,500 diverse professionals across 20 offices worldwide and has regional headquarters in Baar-Zug, Switzerland; Denver, USA; and Singapore. It has been listed on the SIX Swiss Exchange since 2006 (symbol: PGHN).

