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– **Steven T. Berg**
Managing Partner
Castanea Partners
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Interview with Steven Berg

What's the meaning behind your firm's "Castanea" name?

Castanea is the name of the family of plants that includes chestnut trees. Our firm began as a family office, investing capital generated over several generations owning and operating businesses. We wanted to continue that tradition by referencing the chestnut tree, which was in the name of many of the family's prior investment funds.

How has private equity changed over the past decade?

Most significantly, the basis of the relationship between private equity firms and the companies they invest in has become much more collaborative. At Castanea, our primary role often has little to do with serving as a source of money, or as a financial engineer. Our goal is not to load up a company with debt and then squeeze out cash flow. Instead, everything we do is related to nurturing growth; partnering with our portfolio companies to grow their business significantly over the long term. In some cases, this means getting directly involved in helping to drive value, and in other cases, it could mean staying completely out of the company's way.

Our typical process for determining how we can add value begins with identifying all the things a company does really well, and then defining either what's currently lacking or what new capabilities will be needed going forward: 2 or 3 areas that can make the difference between a good and great company. Those areas of focus — ranging from product design to marketing or operations — can present the greatest opportunities for a private equity firm to add tangible value, either by leveraging its in-house expertise or engaging its network of external resources. Outside of those areas of focus we are certainly engaged and supportive, but we give our talented management partners the room they need to continue to succeed.

Is sourcing of prospective portfolio companies a challenge?

Sourcing is not really a problem. There are plenty of opportunities out there. Sometimes companies are presented to us by investment banks, but often, we find them ourselves through rigorous first-hand research. We scour the internet, read industry publications, attend trade shows, study products on store shelves, and talk to retailers.

The most difficult aspect of sourcing is determining which companies are worth pursuing, and then aggressively seeking them out… because if we're excited by something we see, it's very likely that another private equity firm is excited by it as well. Part of the evolution of private equity is that firms are upping their game…by becoming more focused. Not too long ago, most private equity firms were generalists. One day you'd be talking to a heavy manufacturing firm, and the next day talking to a cosmetics company. The industry has evolved, and become far more specialized by industries, and by sectors within those industries.

At Castanea, for example, our investment focus is consumer products and services. But within that vertical, we have deep in-house expertise in personal care, food & beverage, outdoor, and fashion apparel & accessories. This increased level of specialization is becoming a pre-requisite, in order to have the knowledge and experience to offer companies and to strengthen our decision-making. In cosmetics, for example, we have an entrepreneur on our team who built a successful company from scratch. That individual gives us greater confidence in our investment decisions in that sector. That high level of expertise also differentiates us in the eyes of company founders, who understand that they can get money from many different sources, but very few firms possess a first-hand understanding of their business and their market.

What are some other factors in building a successful private equity firm?

Private equity as an industry has become much larger and far more competitive. For a private equity firm to succeed, it must first be able to recognize when a company is on to something special. This pattern recognition, based on experience, enables a private equity firm to identify a potential success story when it sees one.

You also need a differentiated approach to succeed in private equity. We think Castanea is differentiated and doing great things for companies, but it's really difficult to convince someone of that on the phone. They've heard everyone else's pitch, and in truth, many firms don't sound THAT different. Very often, you're the 5th firm knocking on a company's door. That door opens most often when the CEO has already spoken to someone else that your firm has worked with. We're fortunate to have great working relationships with management teams that we are currently partnered with, or have partnered with in the past. That's how we get our foot in the door.

Our reputation, and the ability to consistently generate referrals is based on how we work with companies. Together with management, we want to determine where and how we can be most helpful. What we're seeking is a collaborative partnership that builds trust and breeds success.

Castanea looks for companies with "passionate customers." What does that mean?

Customer loyalty is a key to business success, and we look for companies that can demonstrate a passionate following. We measure this in different ways. For example, we might examine a company's social media buzz; not only the quantity, but also the quality of comments. We look for companies with customers who absolutely love them, and who serve as brand ambassadors.

Another "passion" indicator we use measures a company's relative frequency of ratings. For example, in the craft beer industry, there are websites that rate every one of the hundreds of craft beers that are available. By matching the number of positive ratings against the number of barrels of beer they sell, you can gain a much more accurate gauge of a craft beer's popularity. When a beer with low production volume has a large number of glowingly positive customer reviews, that suggests genuine customer engagement. Those are passionate customers.

At Castanea, we seek out brands with customers who are not only passionate, but relatively small in number. Then we help them to increase the size of their audience, without losing any of the magic. In fact, this investment formula is part of our firm's heritage. Our founding partners previously ran Neiman Marcus, in which their family owned a controlling interest. Neiman Marcus is a legendary passion brand whose success has had a great influence on our investment strategy.

Are there any common traits of private equity success and failure that you can share?

Commonalities of our failures have been related to attempting too much too quickly operationally, and asking too much of a team that doesn't have the resources to pursue multiple initiatives simultaneously. We've learned that it's critical to calibrate the action plan based on available resources, and to avoid being overly optimistic about what's possible. Most often, we are working with small companies, and simply maintaining their rapid pace of growth without adding any new initiatives is a challenge.

Secondly, as you add capabilities and talent to the team, it's critical that everyone's roles evolve and that you don't underestimate what's required to properly bring new people on board. We have great success when there's an action plan that's appropriate for the team members, and where the founders are receptive to evolving their roles. The CEO, in particular, needs to ensure that the process not only involves bringing in key individual talent, but also yields a well-functioning team where the whole is greater than the sum of its parts. This takes patience, as well as discipline not to attempt to do too much too quickly.

Does your industrial engineering degree have any application in your current role?

Indirectly, yes. Specific engineering knowledge isn't very relevant to marketing cosmetics or apparel companies, which is good because I've forgotten everything I was taught. But an engineering degree does develop analytics and problem solving.

The founders we partner with are almost always creative geniuses. They've envisioned and launched an amazing idea for a company and a brand — and they repeatedly demonstrate their creativity with new products, new designs, new branding. Our contributions are primarily analytics and problem solving, helping them maximize the impact of their creativity. That's where an engineering background is helpful.

Why do you keep such a low public profile, compared with others in your profession?

Keeping a low public profile is not something I consciously work at. I guess anonymity comes naturally. Castanea Partners is not a firm that invests in self-promotion, because we want the spotlight to be on our partner companies, their founders, and their management teams. They're the stars. We're there to support and help facilitate. And we don't mind staying backstage.

Steven Berg Biography

Steve joined Castanea as a Partner at the firm's launch in 2002. He has nearly 20 years of private equity experience in consumer products and retail brands.

Prior to joining Castanea, Steve was an investment professional at Bain Capital, a leading private equity firm.

While at Bain Capital, Steve worked on a variety of new investments in addition to having significant operational involvement with Bain Capital portfolio companies.

Prior to Bain Capital, Steve was a consultant with Bain & Company, a leading strategy consulting firm. At Bain & Company he served clients in consumer products, retail and manufacturing.

Steve received an MBA from The Wharton School of business, where he was a Palmer Scholar. He received a B.S. Engineering, magna cum laude, from the University of Michigan.