

# Private Equity

## Securing your firm's future with intelligent business applications



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# Executive summary

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Historically, Private Equity firms have maintained a personal and manual approach to storing, sharing and evaluating investor, financial, target and market data. As a specialised and highly expert sector, knowledge and connections are highly prized and the capability to derive insight from them successfully is a crucial differentiator.

A combination of new factors are putting this proven approach at risk; increased regulation, competition, globalisation and a greater demand for fast-paced decision-making. In this 24/7 digital world means that the rigid processes and individually held insights are now not agile or responsive enough to meet the growing expectations of investors and clients.

Adopting an effective technology solution to meet these new and changing needs is a challenging prospect. But the rewards from getting it right are significant. In the last five years, we have seen a digital revolution in the way organisations and individuals interact with one another. In this evolving market place, our experience has shown us that the firms who adopt a new digital way of working are better equipped to maintain core activities and meet regulatory requirements, while continuing to be an attractive and credible prospect for investors.

In this thought paper, we discuss the risks and opportunities of action and inaction and suggest accessible approaches to securing your Private Equity firm's digital future, where far more than an operational efficiency gain is at stake.

Authors Jon Archer & Nick Birch work at Xpedition to deliver intelligent business applications and business consulting to Private Equity firms.



# Investor and regulator pressures

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Private Equity firms are battling ever-changing challenges on every front. Local and international regulation continues to expand and evolve, adapting to a global marketplace and technologies that enable rapid and widespread information transmission. Investors are well aware of this, making ever greater demands in due diligence, assessing Private Equity firms' capability to handle the data processing and reporting that's needed to meet regulatory requirements and satisfy their risk management criteria.

Larger Private Equity firms may have deeper pockets and more extensive resources to create impressive IT infrastructure and recruit and train knowledgeable teams with expertise in data and information management. This may go some way to explain the accelerated growth of larger investment organisations, with investors feeling more secure and confident in their strategy and support framework in these less certain times. However to contradict oneself we have experienced some larger PE clients recently that have deep pockets, but are limited by their inability to adopt change. Have you thought about your own positioning and adoption for the future?

Greater scrutiny by investors and ever-increasing expectations of the power of digital to provide instant insight also means pressure to produce reports on demand. Our clients in the Private Equity sector tell us that investors expect more and more ad hoc and regular customised information. This consumes a great deal of time and effort to produce manually, always assuming the Private Equity firm is able to lay hands on complete and up to date data and even combine it with external sources.



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**“In just one year we see a 400% increase in investors that now rank a Private Equity firm’s ability to handle reporting requirements as the most important when selecting a firm.”**

Source: EY Global Private Equity Survey 2016

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# Digital investment is daunting

We observe that intelligence and an appetite for opportunities are in abundant supply in most Private Equity firms' teams. But even so, not many are yet embracing digital technology investment.

There are real barriers for many smaller firms. Historically, their success has been driven by the knowledge, experience and decisions of key individuals. Seeking to systematise that knowledge and information is a big step. We hear about the fear that the value of personal skill and talent will be lost. There is an understandable sense of not wanting to "fix it if it ain't broke". The individual approach, coupled with rigid and proven processes to meet regulatory requirements, has been effective so far and it feels like a big risk to challenge or change that.

Because this is a new area of knowledge for most Private Equity firms, there's a lack of existing expertise. Clearly it's hard to make the case for technology investment if no one internally has experience of deploying it or lacks an informed understanding of the potential it brings for business growth.

Of course, there's the option of buying in expertise, either by employing someone to explore and champion technology for Private Equity, or by using external consultants. But these are unknown quantities. The expense of recruiting or engaging a third party, on top of the perceived potential cost of the technology purchase and deployment itself, is unclear and daunting. We understand that Private Equity leadership teams are reluctant to open the floodgates to cost and disruption, with no substantiated view of the business benefits nor the time, resources and sums involved in achieving them.



# Why risk becoming extinct?

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There's a common misconception that adopting current technologies is a "nice to have", that might save a little time and automate some basic processes. But it's actually not a question of systems improving efficiency and tightening up administration. In fact, we detect a far more serious risk of Private Equity firms being left behind in the marketplace, as the reality dawns on competitors and they take action to secure their future success.

We all know that investors and regulators are becoming ever more demanding and there's a real danger that Private Equity firms will simply be unable to provide the complex and multi-layered reporting and due diligence information they ask for by manual means. You may divert more and more of your teams' time and effort into satisfying these demands, but that has a serious consequence on your ability to deliver your core investment and relationship management activities.

The truth is, there is already a baseline requirement for complex and constant data management, analysis and insight. Choosing not to deploy a technology solution to enable this isn't a question of failing to differentiate or lead in the Private Equity marketplace. Firms that don't do it risk being unable to meet new standard client requirements and could become extinct.

# Investors are changing

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Private Equity firms pride themselves on their deep and long-standing relationships with investors. Many investors maintain their preferences for traditional, offline means of communication and contact. But a new generation of younger and digitally aware investors are now active in the market. We perceive a danger for Private Equity firms who don't acknowledge what this shift in the profile of their investors means. The new breed of investor (as well as some well established individuals who are pro-technology) find digital services provision essential when choosing and dealing with their Private Equity partner.

New generation investors are always on, expecting information to flow to and from them continually through online and mobile channels wherever they are in the world. Private Equity firms that seek to extend their investor base are realising that they need to offer more touchpoints, to suit these investors' preferences and ways of working. That means making investment and performance data available through a range of secured media, including the web and mobile apps. Market-leading technology solutions make it easy to add this functionality and provide the same insights, service levels and expertise, however the customer prefers to access it.



# A big external opportunity

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There's an important external issue with overlooking the technology that's available today to support business operations. If Private Equity firms and their teams aren't able to grasp the potential and risk for their own business of an adoption or refusal strategy, it raises the question of how effectively they can evaluate target businesses in the same context.

We see that Private Equity firms increasingly need expertise in-house to make technology-related judgements about investments. In fast-changing markets with IT solutions and infrastructure that can change the ability of organisations to compete and operate effectively, it's crucial insight. Investors look for an assured and knowledgeable assessment of target firms' technology strategy, status and market position. That includes understanding their current capability as well as whether deployment of systems and data management solutions could increase their competitiveness and profit potential.

Larger corporate investment bodies with a wide resource and skill base internally may be able to provide this kind of insight on demand. Smaller Private Equity firms need to find a way to show that they too can make authoritative judgements. Experience of deploying your own technology solution and a true understanding of the opportunity it presents is a good starting point and provides context and familiarity for all your employees in their day-to-day external decision-making.



# Acquiring digital know-how

If, like many Private Equity firms, you don't currently have up to date operational technology know-how and experience internally, you need to consider how best to acquire this.

It could be that you have talented employees eager to deepen their expertise and champion this area for your business. There may be a development and training opportunity here for them. Or you may be thinking about recruiting someone with proven experience. Some of our Private Equity clients have looked more widely in the Financial Services sector and successfully recruited skilled individuals with enough industry knowledge to contribute immediately to both client and internal projects. Depending on your firm's specialisms, you may consider looking for someone with other professional services or other sector experience.

Third party help is widely available but you need to study the Private Equity track record of your chosen partner. Because the Private Equity industry, particularly in small and medium sized firms, has been slow to set out its demands for CRM technology solutions, not all independent consultants and outsourcers genuinely have the understanding and expertise to recommend and customise a solution that will meet business-critical demands from regulators and investors as well as improving operational efficiency and insight. We have direct experience of this, sometimes being called in to recover an inadequately scoped project or start again from scratch to meet properly defined business needs.

Several major outsourcers offer services and solutions that they're now targeting at smaller Private Equity firms. But the cost and mass approach may not fit your business well. You may prefer a more personalised and consultative approach. We fully appreciate the need to minimise business disruption and deliver an effective and scalable solution in a rapid timescale - attempting to deploy a system with full enterprise functionality may demand too much of your time, resources and budget to deliver overall business benefit.



# Everyday business advantage

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Aside from strategic and competitive needs, there are significant gains to be made in your firm's everyday operations. With data collected and stored in one place and reporting automated, you can save time and free your people to work on core business. You can respond quickly and easily to investor demands for one-off analysis and progress updates, with a system dashboard that makes it easy to locate and interrogate current and historic data, and model future trends. You can adapt and automate processes to meet compliance and due diligence requirements, using secured data to demonstrate care and confidentiality and provide a reliable audit trail.

As both investors and your own teams become more distributed around the world, 24/7 access to consistent, reliable information online becomes ever more significant. We see that the great contacts nurtured by individual employees are immeasurably valuable to Private Equity firms, but finding out who knows who to get to the right person often takes time. When that information is immediately available from your technology solution, it can speed up decision-making and make the difference between investment won or lost.

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**“Deploying this CRM solution marks a turning point for Bridges Ventures. With our rapid growth and ambitions for the future, we are now equipped to continue expanding, with a foundation of secure, reliable data and well supported processes that everyone in the business can buy into. The insights we gain will refine our decision-making and actions.”**

Xpedition client, Zoe Burgess, Bridges Ventures (Project Ambassador)

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We're often asked about the cyber security risk for financial sector organisations. It is a threat, but crucially, a manageable one. We always recommend deploying full data protection and security measures including training, processes and recovery procedures. Your technology champion or partner should appreciate how important this is and build robust protective measures into business case proposals and plans from the start.

Security threats are omnipresent for both consumer and business technology today. In our experience, technology providers know that it's a top priority concern and therefore a key selection criteria for their clients. Although no one, even national security agencies, can manage out 100% of risk, there are effective and constantly evolving counter-measures available. These stand up to in-depth scrutiny from regulators and stakeholders as well as sophisticated cyber attacks.

# Conclusion

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Are you in the small number of Private Equity firms that don't currently have up to date operational technology know-how and experience internally? You need to consider how best to acquire this so you don't get left behind.

It's easy to be deterred by the barriers to adopting technology as an integral part of your Private Equity operation. If you are at an early stage of considering a comprehensive CRM or ERP solution, the number of unknowns and the potential for disruption and uncontrolled cost can seem daunting.

But there are already forward-looking Private Equity firms who have chosen to take a positive approach and focus on the opportunities of data mastery. We have worked with them and seen them flourish as a result of their foresight. The challenge is finding a cost-effective and workable approach that supports your existing business as well as unlocking future competitiveness and potential for consolidation and business growth.

Change is necessary and unavoidable, indeed essential to survival in a fast-changing, technology led world. Acting now rather than as a last resort in the future means you can benefit from agility and competitive edge as well as deriving efficiency and operational benefits.

We recommend championing this change from the top. Acquire or hire the expertise you need to drive the technology transformation of your business and seek a partner with a deep understanding of the Private Equity market to develop a cost-effective and scalable solution that will bring immediate as well as long-term benefit.



# About the authors

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## Jon Archer

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Jon Archer leads Xpedition's Private Equity practice. He has over 7 years of experience advising, planning and leading implementations of technology solutions that deliver to the particular needs of a specialist sector. He has worked with niche and leading Private Equity and Venture Capital firms in the UK and worldwide.



## Nick Birch

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Nick Birch is a marketing expert in the field of CRM, with a particular interest in Private Equity solutions. He has a deep understanding of the business level pressures that drive firms to seek technology solutions and trusted professional advice.



# **“60% of the UK top 10 largest Private Equity firms listed in PEI’s 2016 report have chosen to partner with Xpedition”**

At Xpedition we guide your path to growth, through the implementation of intelligent cloud-based business applications. We help our clients to understand how technology can empower their business in real terms, and we deliver.

Previously known as TouchstoneCRM, we offer so much more than CRM and business software. We deliver real business value through expert consultancy. We're known for our questioning nature and for challenging the status quo.

We succeed when you succeed, inspiring clients with insight led guidance. Our market leading expertise and industry knowledge will help your business to reach its goals.

We understand your industry. Our experts are passionate about sharing their knowledge, revitalising client experiences and improving operational efficiency. At Xpedition, we'll show you the way.

To learn more about Xpedition, visit:  
[www.xpedition.co.uk](http://www.xpedition.co.uk)

Or contact us on  
020 7121 4705  
[info@xpedition.co.uk](mailto:info@xpedition.co.uk)

Xpedition  
46 Worship Street  
London  
EC2A 2EA