Private Funds
CFO

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Fast growth, challenging markets: How tech is helping PE firms stay competitive

Investment in tech, and getting partners on board with it, has been crucial to surviving and thriving in one of the most challenging markets the industry has seen.

Private equity firms have experienced accelerated growth over the past 10 years, with assets under management increasing from $2 trillion in 2013 to $4.4 trillion in 2022 – both a boon and a burden as they contend with conditions in the market for both deals and talent, as well as increased regulatory requirements, competition for investor dollars and operational investment needs.

In EY's latest benchmarking survey, 87 percent of firms polled reported continued growth, and half stated the growth at their firm would be accelerated.

"I think it's important to also educate the partnership about how you've grown and what your firm needs to manage that growth," said one CFO and managing director. "You have to really think like an analyst and explain to them why you need certain new hires or new programs."

Technology was among the determining factors of a firm's ability to cope with these challenges, attendees at the CFOs & COOs NY Forum pointed out.

"I would say the lack of investment in technology really came through loud and clear during the pandemic," one PE CFO/CCO said. "The technology infrastructure just wasn't there to support the level of transparency people needed. And people started realizing their investments could be at risk because business continuity plans didn't actually work because nobody ever tested them. You saw huge losses because nobody was prepared. Firms lacked access to data, and they couldn't make quick investment decisions or handle requests that came in."

A second CFO/COO agreed, saying "one of the toughest things we experienced was just getting access to the information we needed to stress test companies and make decisions quick quickly."

Tech also has been critical in streamlining operations in order to both stay competitive and ameliorate margin erosion at the management company as more and more is asked of finance and accounting teams.

"I would say that in driving efficiency, it's important to continuously review your operating model in terms of what systems were improvements when they came and where you can make additional improvements," a fourth CFO said.

That's key to educating partners as to the value of tech investment. But such investment can also directly benefit deal teams while making the jobs of non-deal staff easier.

"Technology has allowed our employees to just focus on what's important to them to do their jobs," said the first CFO/COO. "So our deal guys can be deal guys and focus on making good investments instead of preparing data."

And easing that pressure on non-deal staff is crucial to retaining talent in what has become the most challenging talent market the industry has yet seen. "Turnover can be disruptive, especially if there is a lack of finance talent, and it can be an inhibiting factor in the firm's growth, both as an organization and as a private fund manager," the CFO/COO said.

The second CFO/COO added: "It's all about striking a balance between what you need as an organization and what you need to create a welcoming and supportive and flexible culture so people will want to stay and will want to join."