Time to ditch the spreadsheets!

Many CFOs need to improve operational efficiency, and they are uncovering the challenges to achieve it, says *Frank Palmeri*, managing partner at fund administrator Broadscope

The private equity CFO role has dramatically changed as the industry has become increasingly subject to regulation. Limited partners are requesting more data in a variety of formats and firms have more vehicles to manage with complex structures in new regions and new investment strategies.

Indeed, our 2017 CFO survey released in November found that 64 percent of firms have increased the number of back office and operations staff over the last three years, 38 percent are outsourcing more operations, while 42 percent spend more time on training. With CFOs increasingly being asked to do more, we caught up with Frank Palmeri, managing partner at fund administrator Broadscope, about some of the challenges they face and how these can be addressed.

Palmeri: technology has come a long way

"CFOs really need a technology solution that stores, tracks and reports the vast amount of data that's being produced"

Q What would you say are the biggest challenges faced by today's private equity CFOs?

Frank Palmeri: Today's private equity CFOs are increasingly trying to understand how they can achieve greater operational efficiency as a maturing private equity industry has made their role incredibly complex and their workload more demanding. They are fighting to keep abreast of regulations, ensuring their firms are compliant with AML, FATCA and CRS, among others.

At the same time, LPs have become more demanding in terms of the amount and granularity of information they receive and the formats they receive it in. For example, there is a drive for firms to embrace the ILPA templates, but not all investors want this and so there is inevitably duplication of effort in compiling investor reporting, creating even more work.

Q Where are these challenges being felt most acutely?

FP: The large players are generally coping well as they tend to have significant in-house resources to call on. Meanwhile, the managers of first-time funds most often opt to outsource their back office from day one to provide reassurance to prospective investors. It's in the mid-sized firms where pressures are greatest.

Q Why is this?

FP: These are firms that manage multiple funds, have an expanding number of portfolio companies to monitor, are regulated and are expanding their operations. Yet many of these firms can't get out from under the legacy systems and spreadsheets they've been using for years. The amount of manual input and manipulation that this takes is growing exponentially and so it's a model that simply no longer works. These CFOs really need a technology solution that stores, tracks and reports the vast amount of data that's being produced. And they need to attract and maintain a talent pool capable of meeting the demands of their expanding operation.

Q There have been technology solutions and outsourcing providers in the market for a long time now. What has prevented these firms from taking action before now?

FP: It's a daunting task for CFOs – they know they need to improve operational efficiency, but struggle to get there, mainly because they are just too busy. Working the same old way gets the task completed, but it is inefficient and time consuming. It's easy to get stuck under spreadsheets and Word merges. Before you know it, the next quarterly report is due or deal funding or distribution. Many CFOs find that they don't have the bandwidth to explore other options that would, in the long run, free up their time to do higher value, more strategic work.

That is beginning to change, in part because the amount of data to be tracked and reported on has reached a critical point at which it is becoming unmanageable without a technology solution. But also because there are broader conversations taking place about how to improve operations right across the firm – not just in the back office, but through the middle and front office functions as well. Private equity firms are beginning to use technology to improve the efficiency of their CRM, fundraising, deal tracking, portfolio monitoring and investor portals as well as accounting and fund administration.

Q One of the sticking points has also been that the technological tools haven't always been designed with the peculiarities of private equity in mind. To what extent has that changed?

FP: Technology has come a very long way over the last 10 years in all sectors and the private equity business is no different. There are strong technology platforms available today specifically designed for private equity. Fund administration solutions integrate CRM and accounting modules and store data in a data warehouse so that it is possible to pull down the data that is needed when it is needed. Reporting on ILPA templates, for example, can be put together very easily now and all reports and documents are linked to and stored on secure web-based portals.

Q Improving efficiency right across the firm sounds like a major task. How are CFOs approaching this?

FP: The key for CFOs is to first make an honest assessment of their available resources. Do they have the resources to evaluate, select, implement and maintain effective technology solutions for the front and back office? Should they consider outsourcing their back office operations to a capable fund administrator? Front office technology tools are now widely available and extremely powerful. If you think through the detail, there is only limited cross-over of data being tracked between front office and back office systems. And sharing this data in an automated feed is relatively straight forward. So, CFOs don't need to be boxed into a one platform solution for all of their needs.

Q Firms clearly have the option of upgrading IT and managing in-house, but given your experience of being a fund administrator, what are the challenges CFOs face once they have opted for and found an outsourced solution?

FP: First up, it's worth saying that many firms take a long time to reach a decision either way, even once they reach the conclusion that they need to act. CFOs are doing a lot of very intensive due diligence before making their choice. That's as it should be – it's a critical service, after all, and the beginning of a long-term relationship.

Some CFOs still worry about losing control of their data. Yet today's portals have eliminated this as an issue – firms have secure access to their data 24/7 through dynamic reports and dashboards. And then there's the question of data conversion, a topic that can create high anxiety for many CFOs. Yet if this is well planned and executed, this doesn't have to be a headache – and certainly not one that the CFO should have. A good fund administrator will convert the data and reconcile it at their end, enabling their system to be operational within 60 days. ■

The outsourcing conundrum

These are some of the questions to bear in mind when weighing up whether to upgrade IT and manage back office operations in-house or whether to outsource:

- Will my current team embrace new technology?
- Do we have the resources to set up the technology, convert the data and maintain the system, while keeping up with my increased workload?
- How have other firms managed this?
- How would we address data security and cyber-threats?
- Will we need to lay off staff or can they be redeployed?
- What is the cost/benefit of keeping work in-house?
- Which fund administrator would be the best fit for us?

Frank Palmeri *is managing partner and co-founder of Broadscope Fund Administrators, which was established in 2011. He founded Palmeri Fund Administrators in 1991, serving as president and CEO until its sale in 2007 to State Street Corporation, where he became senior vice president of its private equity fund services group.*