TresVista
Catalyzing Your Impact

Optimizing Operations: Balancing human capital with technology to prepare for the uptick in deal activity

Introduction:

"From 2010, technology related deal activity grew at a 15.2% CAGR peaking in 2021 with a record 2,352 deals conducted in the year driven by near zero interest rates, a strong economy, high technology adoption and peak valuations."

The data for the statement above was pulled from a private markets database with a few clicks, visualized using a dashboard, verified over a few web searches, and is likely being read and distributed over various communication channels, all enabled by technology. Over the last few decades, technology has not only been able to process more volume but has achieved this while reducing costs. Computing power has increased by nearly 35x from 2013 to 2023, while the cost of storing data has fallen by about ~60%[1] in the same period. Technology-enabled improvement of company operations has been reflected in financial results, which in turn have resulted in high returns for private market investors due to performance-led improvement in valuations in the last decade.

The conundrum, however, is that investors and advisors reaping extraordinary profits through these investments have themselves been rather laggards in managing resources in their own operations. New and relevant technology is only one piece of the puzzle, the other and more consequential piece being the users of these tools, i.e. human capital. Many investors still use spreadsheets for investment management and while this is still ubiquitous, there are newer tools and newer skillsets developing alongside that investors and advisors need to pay attention to embrace the digital transformation of the M&A space. From CRMs to RFP tools, and data room analytics to portfolio dashboards, these tech solutions combined with the human capital provide the optimum resource combination for scaling operations.

Human Capital and Technology Stack

The increased attractiveness of private capital markets has led to more fund inflows into the space, resulting in exponential growth in the number of deals pursued and closed. This has also resulted in increased competition for quality assets, forcing managers to be more operationally efficient while having to collect, process and analyze more data than ever before.

While mega-funds and large advisors have access to a deeper bench and can experiment with and deploy tech-enabled investment support functions, those in the middle market may have to deal with significant upfront technology and human capital costs if built in-house. In a 2023 Survey, 72% of managers with over US$15b of assets under management said that they relied on technology to mitigate margin erosion, compared with only 24% of managers with under US$2.5b of assets. Investors in the middle market have generally relied on more short-term margin improvement methods. This is because of the challenge of containing technology costs, especially when the promised value is not delivered to investment teams.

A popular example of this is CRM deployment. While CRMs have a significant upside, the road to operational efficiency is roadblocked by the need for upfront data cleansing and continuous data maintenance. Managers typically quoted a timeframe of at least 24 months to implement a CRM while the vendors marketed a 90-day implementation period. Similar inefficiencies exist across the entire tech value chain.

It is only more likely that investment firms will continue to build their technology stack as they risk lagging behind the adoption curve. In embracing more capable technology solutions, the biggest likely obstacle then encountered is the inadequate human capital skillset to be able to fully utilize the tech tools while maintaining a solid understanding of the underlying investment strategy and business. While there may not be many studies on why technology fails in M&A, we can draw lessons from other industries, where human capability (27%) and program leadership (25%) are main reasons for failure to extract maximum benefits from technology[2].

Skilled Human Capital as an Answer to Technology Deployment

Technology is unique in that late movers can still catch up to early innovators by executing better. We've seen it in the case of Apple and smartphones or Zoom and video calling.

Late movers also have the advantage to learn from the mistakes of their predecessors. However, we also have the examples of companies like Blockbuster, and its failed

1 Moore's Law, Our World in Data, March 2023
2 Digital Trends in Operations Survey, PwC, 2024

attempt to enter the digital streaming space. What differentiates the winners is execution.

In private capital markets, early movers gained a significant competitive advantage by deploying tools that enhanced decision-making. The advantage was absolute, as technological solutions enabled investors to look at more data and make more informed decisions. They were able to collaborate with a larger network of individuals, both for fundraising and investment diligence, while all operational functions such as fund accounting and regulatory reporting were being automated and optimized.

We have seen technology adoption in mid-market M&A mature in recent years as a post-COVID world saw firms turn their focus inwards towards digital infrastructure and outsourcing of internal functions. Early adopter advantage has started to fade although one could argue we are still a few years away from being mainstream. This is also likely due to the dearth of talent in the marketplace that can marry technical knowledge with traditional business understanding, and a steep learning curve for existing employees to learn new tools.

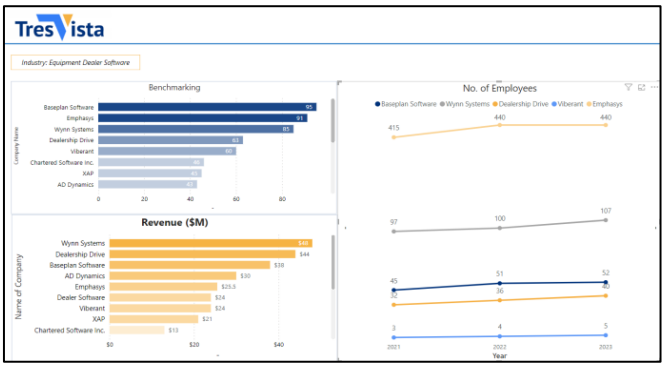
The scope of differentiation by employing niche solutions that are firm specific still exists. "Differentiation enhancement", an approach where technology is used to improve and scale what already works for your firm, is a common approach. For example, some PE funds outperform benchmarks due to their robust ability to drive operational results for their portfolio companies, backed by their strong operating partner network.

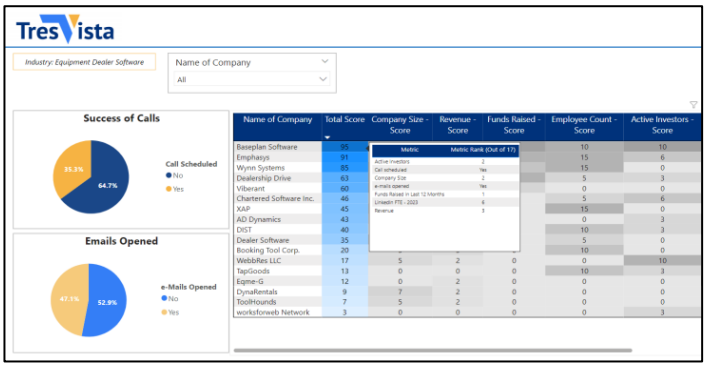
Human-centric digital transformation will drive results at investment firms. We believe that the right partners are the ones that can bring the right overall solution. This not only involves understanding the investment narrative, but also matching that narrative to a technology solution that helps firms be faster and more accurate, and at scale. We've outlined below just a few examples of how the right combination of tech and human capital can elevate different stages of the investment process.

A Case Study on Deal Sourcing

Technology is revolutionizing deal sourcing, especially with data scraping and dashboarding tools. Data scraping algorithms extract crucial insights from vast data sets available online, aiding in market analysis and opportunity identification. Dashboarding tools then transform this data into actionable visualizations, enabling quick decision-making and risk assessment. These technologies streamline communication and collaboration among global teams, enhancing efficiency in deal origination.

For example, consider a deal that comes across an investor's radar. The target company is a D2C rental software company. As a D2C software company, customer reviews are crucial for customer acquisition. By using web scraping and APIs, a quick sentiment analysis can be conducted from different social media platforms like Twitter, Reddit, and other specific software rating websites to analyze trends and patterns in customer feedback. By standardizing non-structured data, investors can have more meaningful insights and deeper conversations with the management team. This data can then be used to set up tiered company dashboards using proprietary scoring algorithms that rank companies based on available metrics such as employee count, employee growth, funding raised, active investors, financial metrics, to name a few. These dashboards can pull in data from public sources automatically using ETL (Extract, Transfer, Load) processes and from private sources through APIs of different databases. Visualization tools like PowerBI or Tableau then represent the processed data in an easy-to-digest format. By bringing together these insights, skilled dealmakers can use their market knowledge, relationship-building abilities, and strategic foresight to analyze data, negotiate deals, and deal with regulatory complexities in a more informed and timely manner.

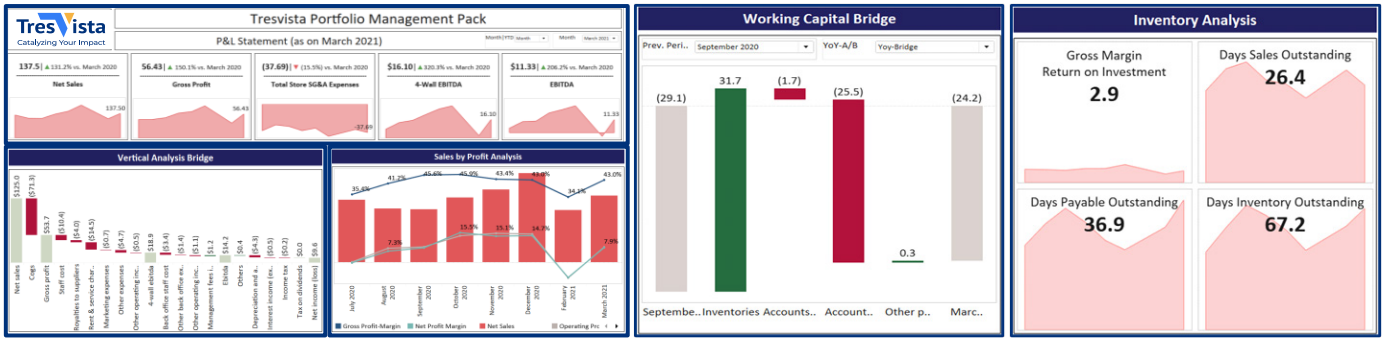




In conclusion, while technology provides data-driven insights and operational efficiency, there is still a very necessary human involvement in not only bringing together the data, but also acting on it using qualitative judgment necessary for successful deal execution.

A Case Study on Due Diligence

The drive to create more value has encouraged companies to be more data-driven with their business operations. An abundance of data residing within these companies has in turn also pushed investors to be more diligent while evaluating potential investment opportunities as well as monitoring portfolio performance. Traditionally, most investors have focused on evaluating historical financial and operational data. Today, top performing investors have been running statistical models to predict future performance as well. Typically, the responsibility of running the analysis rests within the investment team, however, considering the quantum of data now available and the complexity of the tools used to analyze them, traditional methodologies almost become a bottle neck in the process, especially for time sensitive, high data accuracy and easy visualization analysis. The correct skillset combined with the right tech stack should be working alongside the investment teams to find "needle in the haystack" takeaways through advanced and expedited analysis.

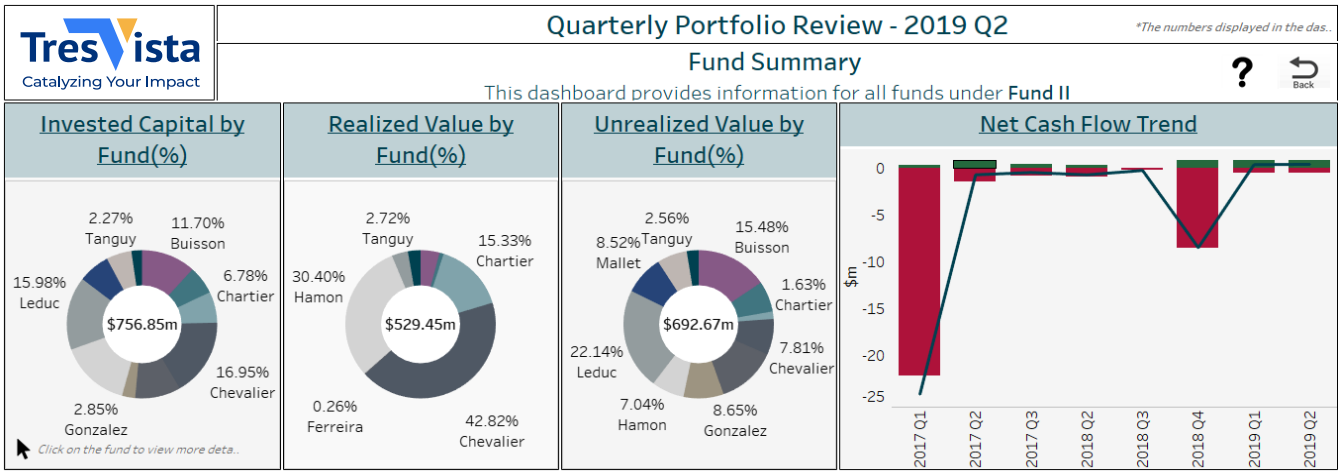


When a potential investment opportunity has a wealth of data available, investors can leverage support to design dashboards that track and analyze financial and operational performance. Findings can be presented using interactive charts that are deciphered easily and generate actionable insights. Some types of analyses include price/volume analysis, competitor benchmarking, recurring revenue analysis, and scenario simulation using statistical models. In one specific example worked on by the TresVista team, the entire process was automated and significantly reduced turnaround time by ~30%. Due diligence is an increasingly interesting avenue to incorporate data analytics and ML-based research, not just for analysis of historical performance but additional insights using predictive analytics. We believe leveraging such data models will very quickly become mainstream and will be a key tool for investment teams to identify high ROI investment opportunities more quickly and competitively.

A Case Study on Portfolio Monitoring

An effective portfolio monitoring process impacts much more than just investment performance. Portfolio data tracking impacts the fundraising channels that use this data to feed back to LPs, as well as sourcing teams that are looking for add-on opportunities. In a TresVista bi-annual survey of mid-market investors to gauge investor confidence, the amount of time spent on tracking portfolio company performance has steadily increased over the last 2.5 years[3]. Greater data transparency has become a key area of interest for LPs, especially with areas such as ESG requiring a more structured approach to relevant data sourcing and tracking. There are many tools available to investors that do a thorough job of portfolio reporting, though the challenges faced are usually the same when dealing with businesses in the middle market. Disparate data sources, unstructured data, quality of data, and reliance on manual processes impede the ability to deploy effective analytics solutions. The initial lift is therefore reliant on human intervention to gather and sanitize the relevant data, and then the software tools can provide users with the ability to look at fund level metrics like Gross and Net IRR, IRR benchmarks, MOIC, Asset valuations multiples, along with portfolio level metrics like quarterly financial statements and key operational metrics. Ease of exporting reports, cross team collaboration and scalability enable performance tracking, risk management, value creation and timely reporting. Even with software solutions in place, investment teams still require capacity to track, assess, and understand portfolio level movements, and how these insights translate to the valuation process.

[3] TresVista Investor Confidence Index, TresVista, 2024



Software platforms are only as good as the data that gets fed into their system. Before data from portfolio companies can be fed into the system, it must be extracted from the source, cleansed, standardized, and prepared for upload. These activities require significant human input and capacity load when executed through internal resources. The right solution can supplement these processes and help develop customized tools for portfolio monitoring services, as provide support teams for the heavy lift around data collection and processing. The goal for investors should be to have these processes running on cruise control while focusing on more critical activities such as portfolio value creation.

Balancing Human Capital with Generative AI

Human skill was distinguished from previous generations of technology by last mile critical thinking. The future, however, is a little bit more uncertain as experts are developing technology to imitate human critical thinking without bias. While any comment on the future of Generative AI, or GenAI, would be conjecture at this stage, the technology as it exists today holds immense potential to redefine operations, though only when combined with the right skillset. Most opinions on GenAI center around replacing human involvement, though a more popular opinion emerging is that the rise of GenAI will lead to the development of a new skillset around human involvement to maximize the utility of GenAI. Running the right queries and understanding the uses and limitations will be paramount when leveraging GenAI. In the dealmaking space, as deal flow grows, more solutions will be built around GenAI's capabilities, including writing emails for executive outreach, running competitor screens with analytics on product differentiation, and running industry analysis on size and projections. In our view, deal execution could move to a three-tiered model,

This model can work for the entire deal value chain, from fund raising and sourcing, to capital deployment and portfolio management, and lastly, to exit strategy.

Conclusion

Technology has had a quantifiable impact on various aspects of business, including boosting revenue and improving margins. However, in today's environment and beyond, the human capital element cannot be decoupled and is still the key component responsible for delivering value promised by technology.

Private capital investors and advisors will find it difficult to ignore technological advancements and equally crucial will be sourcing the right labor skillsets. To learn more about how TresVista can support your digital transformation strategy, feel free to reach out.