A matter of timing

CFOs shopping for cutting edge back office software can be stymied by the difficulty of migrating data into a new system. But frequently it’s the matter of choosing the right tech for the firm’s current stage of development and appointing an in-house staff member to lead the effort.

by ROB KOTECKI

Nowadays, software providers to the private funds industry offer powerful, flexible systems; but introducing them can be a headache, with data snafus and less than intuitive processes. One exasperated CFO explained that InvestTran was amazing... two years after they introduced it. In most cases there’s a huge data migration project that takes time and resources from already overworked back office staffs. Some CFOs have test driven every tech option in the market and concluded it’s easier to stick with their homegrown ways or continue to outsource their fund administration.

There are real upsides to implementing an accounting, LP reporting or CRM solution, but making the most of them involves understanding what a firm’s current needs are. A first-time fund will likely outsource its fund administration, but could still use an LP portal and a CRM. A fund hitting its stride with a third or fourth fund is in the best position to take advantage of a full suite of programs, but only if they’re willing to devote the resources to implement it properly. For more mature funds, they should take the time to review current processes and gradually phase in new software solutions, starting with the latest fund first.

The first timer

However, first-time CFO joining those three dealmakers who spun out of Blackstone shouldn’t underestimate the infrastructure and effort involved in administering a fund internally with a tech solution. “There’s an education process for a lot of new CFOs, in terms of walking through what’s required and what we have to offer, from the CRM to a reporting portal to the full suite,” says Eric Bernstein of eFront.

Most CFOs we spoke with, and even a few tech providers, admitted that using a third-party administrator is the preferred route for that first fund. There isn’t enough work involved to maintain a full-time staff, yet when there’s a capital call or tax season hits, it helps to have the resources of an outsourced solution. That’s not to say smart in-house technology can’t make a difference.

“When launching that fund, the priorities are centered around managing the customer relationship,” says Jon Boch of SunGard. “So you’ll want to look at an investor portal and possibly adding a CRM to the stack.” The investor portal might seem excessive without a parade of LPs, but Bernstein notes: “Even if they don’t manage an enormous amount of assets yet, they clearly want to communicate they’re mature enough to do so, and a branded, professional portal can do that.”

Some argue that the first-time fund is the best time to implement a front-to-back office system: “There’s no legacy data to migrate, no ‘this is how we’ve always done it,’ to wrestle with,” says Mark Lacana with AltaReturn. And most software providers offer a cloud-based system so there’s no need for a massive IT infrastructure investment. “You already need an LP investor portal because you need the same quality of reporting as a veteran firm, along with a robust CRM that does IR and portfolio tracking, deal tracking,
and assists the fundraising effort, so why not set up the entire system from the firm’s very inception?” says Lacana.

The answer might be that the first CFO doesn’t have the time or staff for even tech-assisted fund administration. And some CFOs swear by their third-party administrators who manage the entire effort. But for CFOs frustrated with the response time of fund administrators or simply looking for greater control of their operations, today’s tech offerings can sound like a godsend. But there are costs beyond the sticker price.

The inflection point
The third to fourth fund seems to be the sweet spot for introducing a major overhaul. Any homegrown process of Excel and Quickbooks may get unwieldy at this point, but there’s not a massive amount of data to move into a new system. There may also be resources to build that in-house administration team to use the software.

“About 80 percent of my clients are these firms at an inflection point, looking to upgrade their processes,” says Bernstein. “They’re my favorite to work with because they’re in a great position to collaborate and make the best use of what we can do. They’re also the most curious to tap our experience with other firms and hear what we’ve done in the past.”

But the truth is that many firms manage for much longer than that fourth fund using the same processes they launched, out of inertia or the sheer work of implementing new systems even this early in a firm’s development.

The new sheriff in town
One of the toughest scenarios in implementing a new system is also one of the most common: a new CFO is appointed to a relatively mature firm with several funds, and a staff already used to their own way of working, no matter how dysfunctional that may be. How can a CFO launch a new system with so much legacy data and such ingrained habits quickly?

The short answer is that they can’t. “I urge new CFOs, to take a step back and understand what you have and bring in the current vendors and vet everything,” says Bernstein. “Because the issue might be how it was implemented and they might repeat the same mistakes with my offering.”

Often it’s better to make small changes to the current systems than to introduce a whole suite of offerings all at once.

The consensus seems to be for a phased-in approach, in which the latest fund gets uploaded first, and the historical data is added later on. The older data can be much harder to decipher since there may not be much staff that recalls that line item from 2002. “We’ll get historical data for IRR for all their portfolio companies or do LP reporting historically, but how often do you need every credit or debit from ten years ago?” says Lacana.

The second key is to appoint a “super user” who can oversee the project inside the firm, someone who’s accountable for the data migration and training. This way the software provider “trains the trainer,” and has a single point of contact for customizing the system and troubleshooting problems. However, that super user shouldn’t be expected to do their day job during the implementation process, as the long-term project will always take the back seat to today’s fire.

One CFO who struggled with InvestTran for years managed to find a controller who had eight years of experience with the program, and as soon as they joined, the system delivered on its promise.

But even the best systems won’t be installed overnight. Most software providers suggested that, even in the best-case scenario with a fully engaged staff and relatively clean data, it would take between two and five months. A single fund might be uploaded and operational in a little over a month, but it’s rare that the job ends there.

These systems are very much like adding a staff member. One that needs to be vetted, trained and educated in the culture before they can be left alone to do what they do best.