# Why don’t investors have dedicated IT resources?

*Venturelytic blog series*

# Why do most VC and PE investors have no dedicated IT resources?

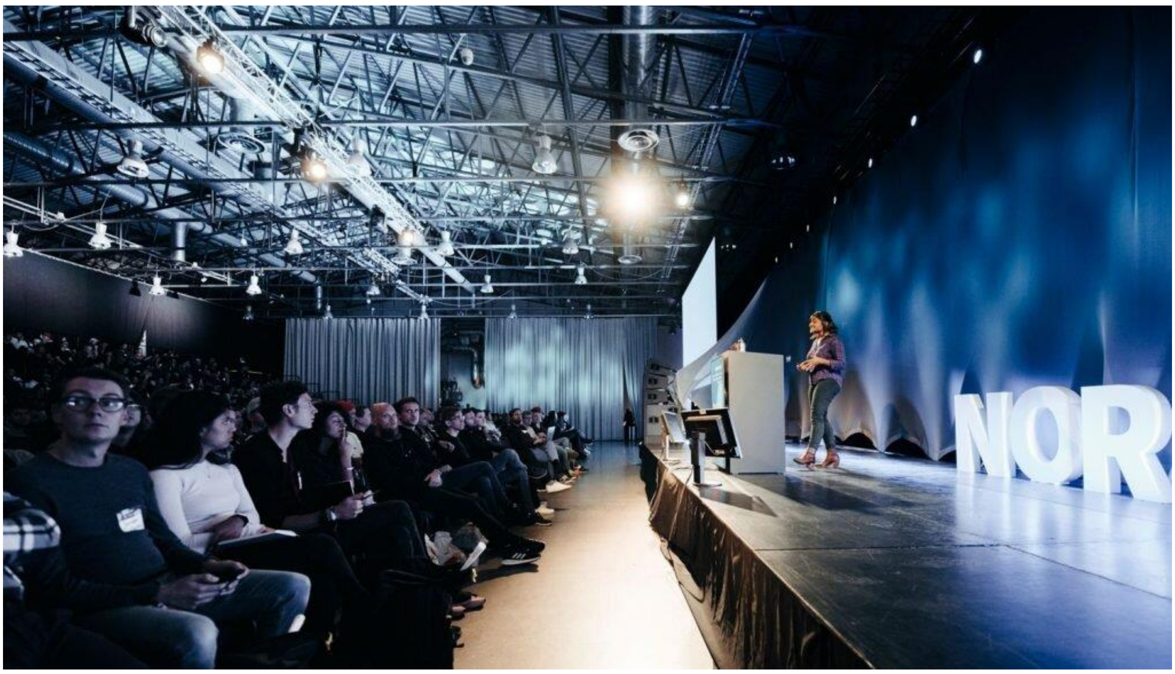
At moments, when I come out of a busy period of meetings and my day-to-day bubble full of to-dos, questions come up that unintentionally connect multiple experiences. They mostly start with a single observation, followed by similar ones in the period after. Sometimes these patterns aren't new or remarkable at all, and sometimes they are, but they always leave me with a question. These questions often stick with me for a longer time before I almost always eventually ignore them or put them in a freezer. Now, I've decided to put a little more thought into it to trigger others to also think about it. One of these questions is: why do most VC and PE investors have no dedicated IT role or resources?

## REASONS WHY

This question came up after taking a look inside more than 25 VC and PE funds in the last year, while on the other hand, building up internal IT capabilities at Venturelytic and seeing our partners work on improving IT processes at lots of portfolio companies of these funds. While these portfolio companies have dedicated IT professionals or departments that streamline their internal processes, their investors often don't. After giving it a bit more thought, I came up with the following reasons:

1. Scale: VC/PEs initially prefer to focus on making investment decisions rather than setting up an operational infrastructure. The lean structure seems intentional to maintain agility and minimize overhead costs.

2. Earning/Fund Structure: Most VC/PE funds are structured in a similar way, where their general partners are rewarded via a management fee, carry, and catch-up model. As management fees often make up 1.5-2% of the fund's total size, the size of the fund directly determines the cash available to the general partner. For example, if a GP manages to raise a first fund of 10m and has a 2% management fee, it only has 200k to invest in the team



and other internal matters in the first couple of years.

3. Relationship-driven Industry: Everyone knows investing is based on personal relationships, and the quality of those relationships often prove their value during the sourcing and closing phase of the deal flow and fundraising process, and in general, when running an investment fund. This network-driven nature seems to translate into a personal hands-on mentality and way of work in every aspect of running the business (fund).

4. Culture: Coming from a PE firm, I experienced the effects of a deal-driven culture myself. When you are remunerated based on the number of deals you close, and you're involved in those deals if you sourced them yourself, it creates a competitive culture in which everyone carefully protects his or her self-sourced deals. The ones that are most successful in spotting new deals have limited incentive to work in a more centralized way, even though this might benefit the firm as a whole in the long run.

5. Delayed Results: The investment business has long feedback cycles. As a GP, you're not sure if you're doing well or not for the first couple of years, before realizing your first exits. This might make investors a little hesitant to invest internally in the first couple of years.

6. MVP Mentality of Startups: This one probably holds most for VC funds, who see hundreds of fundraising startups each year that all try to operate as lean as possible. This way of thinking might eventually also affect the funds themselves.

## WHY SHOULD THEY?

Enough with the reasons for now. There are probably even more reasons that confirm the observation that investors often lack a dedicated IT professional in their team. More important than explaining this phenomenon, is answering the "why would I care" question. Why is this question relevant at all in the first place, and why would VC and PE funds invest in getting IT expertise on board?

I would say for the following simple reasons:

- Operational Efficiency and Scalability: An IT professional could automate routine tasks, streamline operations, and implement systems that scale with the firm's growth, freeing up valuable time for the core team to focus on high-value activities. The time of your highly skilled investment managers is too valuable to waste on searching, manual tasks, and repeatable work.

- Increasingly Competitive Landscape: Every year, approximately 500-1000 new VC/PE funds are incorporated worldwide. Over the last 20 years, the number of active firms quadrupled. You'll probably experience more competition yourself, compared to when your fund started. Every fund sits on a lot of unutilized data. Data to optimize your deal flow or your monitoring processes. Having an IT professional on board helps you make your first steps in capturing and structuring this data in such a way that it allows you to use it in refining your proactive investment approach.

- Improve Your Fundraising Efforts: Nowadays, every LP wants you to have a digital strategy/storyline that will form the backbone of your fund for the next 15 years your fund is active. Having these resources and a system in-house from the start will differentiate you in front of LPs.

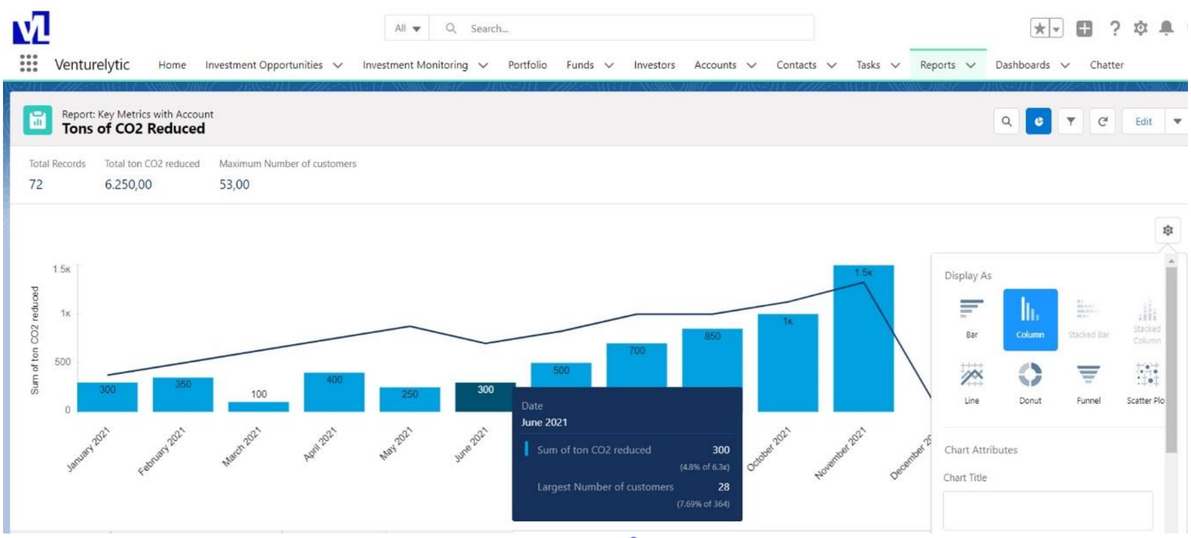
- Lower Barrier to Technology: The barrier to getting resources and technology in-house has decreased significantly over the years. Today, IT resources are available more flexibly, and technology doesn't require a huge upfront investment anymore.

- To Be Prepared for the Future: Investment managers don't have time to proactively think about how to leverage available technologies to optimize their processes, nor is it their expertise. Their agendas are fully booked with deal flow, management, and board meetings. However, they all do recognize the need to move towards a more streamlined way of work. With a knowledgeable IT sparring partner at their sides, they could progress slowly but steadily in the right direction, making sure the fund benefits from the latest technologies.

So, in short, it's mostly the ROI that such a team addition brings. Especially in combination with a platform that can serve as your database and starting point. The combination of both their expertise and the accompanying technology will have a huge impact on multiple lines of the fund (whether fundraising and investor relations, deal flow, or monitoring).

## OUR 2 CENTS

This is why we suggest adding this combination to your fund from its earliest days. Many VC/PE funds delay this choice, believing it to be final and preferring to settle on a definitive decision. But in practice, this is never going to be the case, as processes always change over time. You can start small with a supporting member on IT. Make sure that he or she has a bit of investing experience and understands what is important to you as an investor. We've seen this working best in firms that had young, curious, and enthusiastic professionals fulfilling this role as they had an open mind on the potential of new technologies and were not influenced too much by a previous regime and set of



tooling (I talked to IT managers at funds that were so fixated on the one technology they had experience in, that it wasn't in the best interest of the investor anymore). Last but not least, make sure you clearly define what you want to streamline first, in line with your strategic positioning as an investor. This way, you have the quickest time to value, and your team will notice the difference fast.

## NEW GENERATION OF FUNDS

Today, we observe that more and more investors see the strategic value of investing in technology and technological expertise early on. This will accelerate even more with the entrance of a growing number of investors with operational backgrounds who have seen and experienced the benefits of having a good IT architecture first-hand themselves. We also see this in our client base, where those that do have such a role defined internally can move faster. They ensure that internal bottlenecks and suggestions for improvements from the investment team are not parked but actually picked up, and their 'investment product/service' eventually improves.

The improvement/feedback loop that is so common in the portfolio companies we all invest in will become a factor for VC and PE firms themselves in the coming years. The best will set themselves apart by the speed of this feedback cycle, as do the targets with the highest velocity on these metrics.

## DISCUSS

If you're a PE or VC firm that finds itself in this position and wonder which routes you could take to optimally benefit from the available technologies out there, reach out to us for an free advisory call.

Mathijs Heutinck
CEO at Venturelytic
mathijs@venturelytic.com