

The Unique Dual Role of the Private Equity CIO

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The PE CIO Exception

Most of the world has a vague idea of what bankers do behind the scenes in their modern chrome and glass offices. Some might picture bankers in front of a wall of monitors making trades or running massive spreadsheet models, important tasks for sure, but not the driving force behind innovation.

There is an exception: the CIO of a private equity firm. These firms are always on the lookout for the best alternative investments for their own investors. Their CIOs are expected to help grow the firms from a technology standpoint and also make sure that the current platforms keep the lights on. But today's private equity CIO has additional work – arguably the most important role now that financial engineering is giving way value creation through operational improvements and creating unique customer experiences.

As they evaluate companies for investment, PE firms are increasingly relying on their CIO to ensure that the technology used at portfolio companies can drive cost efficiencies and keep consumers engaged and margins high. In today's ultra-competitive markets there are few high-quality opportunities hiding in plain sight. So the CIO, in this important dual role, is also on the hook to monitor the IT leveraged at enterprises that might make good additions to the firm's portfolio.

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If anything, having a dual IT role within a company not only gives a CIO a command of what technologies and services are the best in the marketplace for financial services firms. The CIO must also have a good idea of technologies that are increasingly turn-key and out-of-the-box – advanced yet economical solutions that are able to address the needs of a variety of businesses.

Suppose a PE firm comes across a specialty software company as a potential investment. Upon further study, the firm learns that the company happens to own large stakes in 10 other promising automation start-ups. They figure out that just selling the stakes in the automation start-ups to a global robotics firm could reap millions. And the software company owner can go on writing innovative specialty platforms. Looks like a solid PE investment so far.

Another scenario where the CIO of a PE firm can shine is in the development of a market consolidation play with so-called “bolt-on” acquisitions. The strategy is to establish a dominant company that provides significant value. Vital to this strategy is ensuring that the new platform company has the right technology for market growth. As an example, we worked extensively with the REV Group. It’s a platform created by a PE firm through the acquisition of four separate specialty vehicle companies.

Indeed, the PE firm’s CIO, already managing its own processes & technology in order to drive innovation (and keep the lights on) needs to ensure that his counterpart at this potential portfolio company knows which technology solutions work best. The additional challenge is that a suite of technology solutions and services that works well for one company in the portfolio might not be ideally suited to another one. The proactive CIO ensures the technologies deployed at portfolio companies actually help the company stay competitive from a technology view. This alignment process helps generate the returns investors expect.



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The private equity CIO must also make very certain that when the firm determines to exit a portfolio company investment, it had better have its technology centers in near-perfect working order.

We can joke about a CIO helping keep the lights on, but in reality the CIO is responsible for everything, including technology compliance & regulations (lots of fine print and excruciatingly detailed processes). But the PE model for the CIO also includes creating value in portfolio companies by increasing customer revenues and driving cost efficiencies with the effective use of technology. Welcome to the new normal. CIOs at PE firms that embrace this dual role position themselves and their firms for greater success.

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