KEYNOTE INTERVIEW

New data sources power dealmaking

Dealmaking has traditionally been a highly personal business, but savvy firms are turning to data sources and technology to gain an edge, says SourceScrub CEO Tyler Fair

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Q Deal origination has traditionally been a very personal business. How has the pandemic changed that?

When I was sourcing deals, if we found an interesting company we would just jump on a plane and go see it, especially if we wanted to show that we're serious.

During covid it has been harder to be in the same room with sellers early on, particularly before the process even starts. So, most of the interactions are taking place online via Zoom or exchanging information via email. That process of getting to know one another does happen online, but at some point, there's got to be a meeting in-person. There comes a point where everybody needs to get in a room and talk, ask questions, poke holes in the data the sellers are presenting and identify the risks. So, in-person time is in shorter supply and becomes more valuable.

At the same time, as dealmaking slowed during the pandemic, money piled up on the sidelines. As things return to "normal," deals are much more competitive as all that dry powder looks for opportunities. It's accelerating processes and putting pressure on teams to move faster.

Dealmaking firms need to see the bigger landscape more clearly than ever in order to find the right opportunities and zoom in where they want to engage so they can start to build relationships early.

Q What parts of dealmaking can be done online?

When I think about the phrase 'online deal sourcing,' I think of something like eBay, where I could list SourceScrub and someone would submit an offer and I could say yes or no. The reality is that model doesn't work for investment-grade companies because there is so much that goes into a yes-or-no decision. Top-tier investors are not going to park a bunch of money into a platform if they have not had the opportunity to meet the CEO in person.

But data and technology are supplementing traditional dealmaking in ways that are starting to separate firms that are putting them to good use from those that aren't. Our research shows that firms taking advantage of technology outperform their peers by a considerable margin.

These firms aren't transacting entirely online, but using online resources to accelerate processes and inform whether or not they think a certain business is worth more time. You can do discovery and track a company's operational metrics and progress, and begin to build a relationship, so that when the time is right, you're ready to move.

Q So, are these data sources basically providing information a junior analyst would have traditionally sourced?

It's the job of the associate or analyst to do the footwork to find good opportunities. Historically that has meant dredging the internet for nuggets, often starting with a conference list or landscape full of logos. It's incredibly hard, time-consuming work that can be a bit haphazard.

I managed a team tasked with this challenge earlier in my career. That was the lightbulb moment for SourceScrub. We discovered thousands of sources filled with valuable data scattered both online and offline. So, we built a human-supervised data operations process to exhaustively collect, scrub and organize and then continuously refresh this information for dealmakers.

Customers use SourceScrub to track bootstrapped companies over time using signal data collected from these public sources, such as headcount growth, website traffic, conference participation or mentions in news articles. By consolidating and making all this information accessible, we are helping investors to scale and accelerate dealmaking processes that would have historically been really slow and difficult.

It is about freeing them up from basic research and data entry to focus on higher value-add activities.

Q What other tools or technology are firms using to source investment opportunities?

Like most industries, private equity investing is undergoing digital transformation.

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Data, technology and process are becoming as important as strategy and network. These tools support the entire process from origination to transaction and portfolio tracking.

Firms are using data services like SourceScrub to more thoroughly and consistently understand market landscapes; they're using analytics to score and forecast performance; sales and marketing automation platforms to scale outreach and communication; and intelligence platforms to track portfolio companies and competitors.

Data is at the heart of it. Our clients are integrating data through API integrations into every part of their workflow – CRM, marketing automation, business development. And in some cases they're using very sophisticated technology to create vast proprietary data lakes that give them an advantage that's really hard to duplicate.

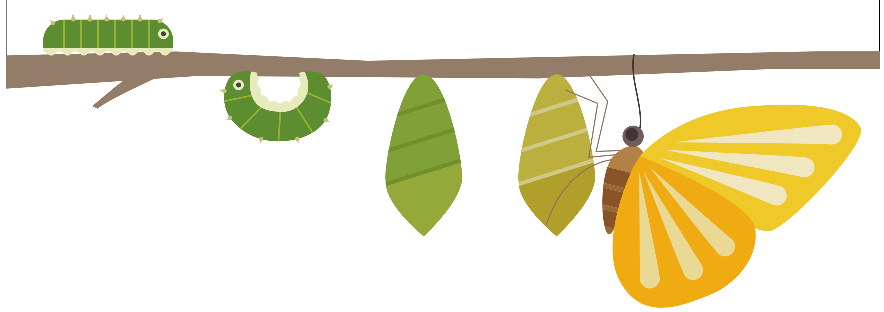
Q How do firms need to adapt to take advantage of new data sources?

It's about technology, but also process and some new specialized roles that are beginning to show up in dealmaking firms.

Technology is obviously important. At the core are data services, CRM and marketing/sales automation tools. These are integrated with other systems to automate processes and make sure data is clean and up to date.

But it's also about process. It's too easy for data to be lost, overwritten or kept in a silo. The best firms make it easy with common technology infrastructure, documented processes and as much automation as possible. If something is hard to do, then people will naturally avoid it and the system doesn't work. Automating the drudgery of data entry and record keeping out of the process is essential.

And finally, people. As data and technology become more important, people with expertise in developing, managing and exploiting those advantages are critical. So, more and more, we are seeing IT titles, development and engineering titles, and data science titles among the roles firms are hiring.



that different, but the probability that you can source add-on deals directly outside of an investment bank is much higher. The smaller companies that folks usually put in the add-on category often do not have as big of an audience in terms of intermediaries and investors that are looking to acquire them. So, the kind of information we provide really supports firms through every stage of deal-making cycle.

Q Do these new data sources erode the role of the investment bank in the dealmaking process?

Absolutely not. I cannot overstate the importance of an investment bank. Generally speaking, deals don't happen without an intermediary playing their role. An investment bank will take the vast amount of data that a buyer needs to consider, and weave a story with it.

The amount of data that is required for a well-managed deal with a top-tier investor that knows how to do their due diligence is just breathtaking. Investment bankers play their role in taking all that data and transforming it into analysis that serves the buyer. Their experience and know-how is essential.

Sellers can't do that on their own. They can't run their business and put in the time necessary to manage a deal. It's just too overwhelming.

Q Apart from finding new deal prospects, how else are firms using new data sources?

The last thing any CEO wants is to feel like they are teaching investors about their business. As an owner, I want someone that already knows my market, that sees an opportunity to come in and help us right out of the gate. Business owners want more than just money, they want support to execute their vision.

Being armed with data on a business allows you to have a higher level of conviction going into any sort of discussion with a CEO. It lets you present the value of your firm in a relevant context and demonstrate how specifically you can help the business owner succeed. Investors who are using data well are able to present their firm as the best partner from the first interaction as opposed to using those earlier meetings to go to school on the business. Firms that are not using data are really starting at a disadvantage.

Then when it comes to managing that portfolio, you might want to do add-on investments. The sourcing process is not

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Q As the pandemic recedes, will dealmaking revert to an in-person business?

Dealmaking has been and will remain a business that needs in-person interaction. But the covid experience forced us all to adapt the way we work around less face time. And as a result we've discovered some things can be done better or faster online.

The key point is that personal interaction is not a very scalable commodity. You have only got so many hours in the day, flights you can take or meetings you can attend. I think investors are looking for every advantage they can get. So, using technology and data to speed up learning and provide new ways to differentiate helps them better focus and take advantage of their opportunities when they are in person. ■