Best Practice Procurement Guide

Market Data

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Best Practice Procurement: Market Data

Thanks for reading our Market Data procurement guide!

We designed this paper to enable you undertake a best practice approach to selecting vendors. We cover the types of content available, key criteria to consider when looking at vendors and an in-depth guide to demoing and reviewing potential products - including tips on how to avoid common tricks employed by sales teams.

Selecting and managing market data providers within a wider technology stack is a complex and ever-evolving task:

- Data providers require less implementation and tend to be more easily replaceable than software services which are embedded deep within the work-flow. As a result, they tend to be reviewed more often; switching or adding multiple data providers is common.

- Investment and advances in technology can substantially alter a provider's quality and depth of data in a relatively short time frame - regular reassessment of vendors is necessary to maintain the most powerful roster of products.

- It is common for multiple data providers to sit side-by-side within a client organization to provide a superior resource - this offers opportunities for substantial value-add, but also requires constant maintenance to avoid wasted fees on services that are no longer delivering value.

- As the specialized technology market for private equity and venture capital explodes, the role of data is evolving, with the lines between software and data becoming increasingly blurred as data integration becomes more powerful and acquisitions offer exciting new possibilities for deeper value-add.
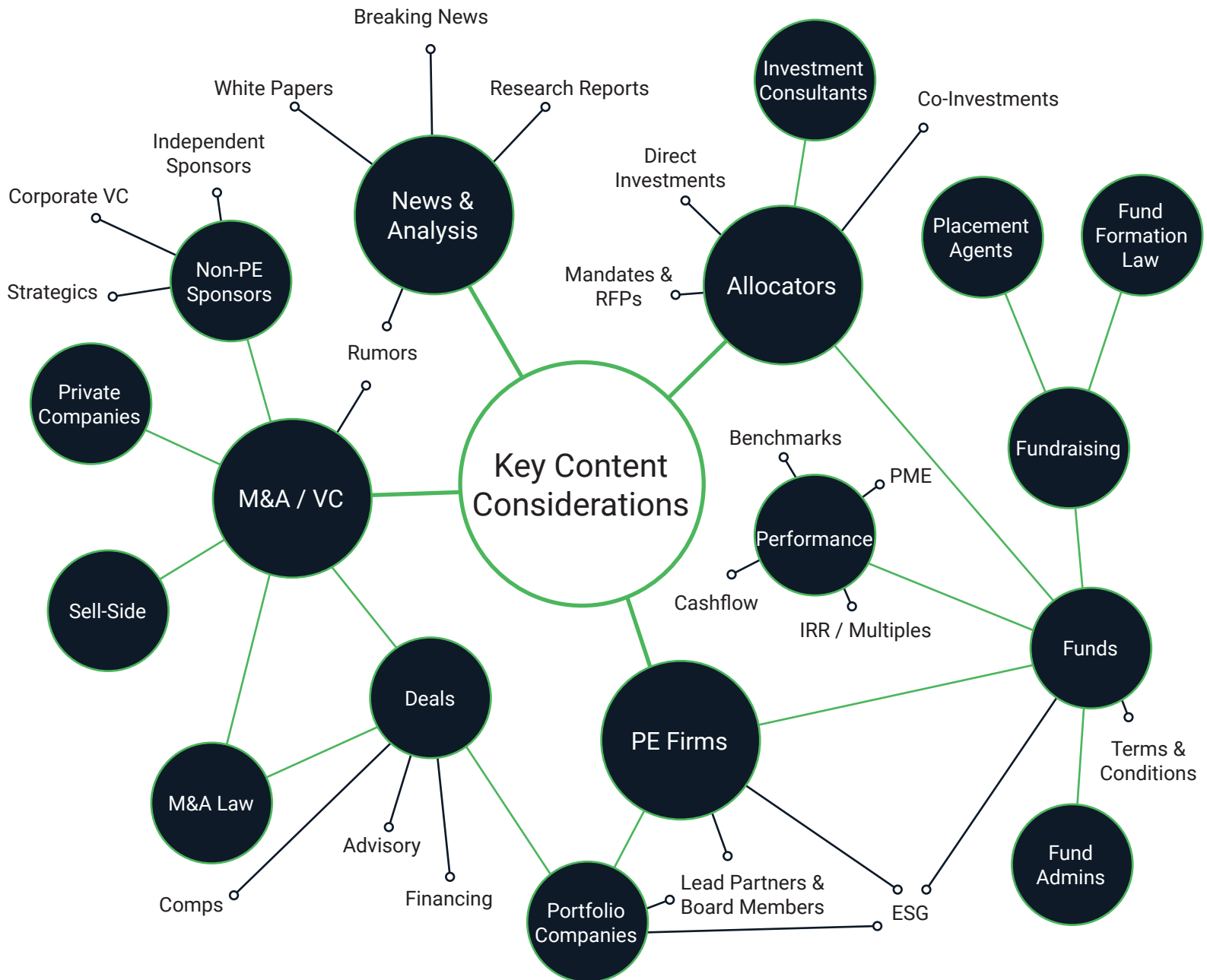
We hope that you find this guide to be useful in your procurement efforts.

Don't forget, PE Stack's Vendor Profiles platform offers complete coverage of all private equity software, data and platform providers, including 35+ data providers. Registration is free and instant, for more details visit our website:

<p style="text-align:center">www.pestack.com</p>

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Key Considerations - Content

Private equity and venture capital are multi-layered, complex asset classes generating numerous types and sub-categories of data. While some of the larger providers cover most if not all of the market, many specialize or have strengths in specific sectors. In addition, scope can vary by geography, investment focus and size. In simplified format, Here are the main areas of content offered by data providers today:

Key Content Considerations

- News & Analysis
  - Breaking News
  - White Papers
  - Research Reports
  - Rumors
- Non-PE Sponsors
  - Independent Sponsors
  - Corporate VC
  - Strategics
- M&A / VC
  - Private Companies
  - Sell-Side
- Deals
  - M&A Law
  - Comps
  - Advisory
  - Financing
- Allocators
  - Investment Consultants
  - Co-Investments
  - Direct Investments
  - Mandates & RFPs
- Placement Agents
- Fund Formation Law
- Fundraising
- Performance
  - Benchmarks
  - PME
  - Cashflow
  - IRR / Multiples
- Funds
  - Terms & Conditions
  - Fund Admins
- PE Firms
  - Portfolio Companies
  - Lead Partners & Board Members
  - ESG

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Key Considerations - Vendors

There are many factors to consider when selecting a vendor. It's vital to gain a good understanding of both quality and quantity of data, while attention must also be paid to the quality of the service itself, both in terms of technology and support via the client services team. Here are some of the more important factors to consider when selecting market data vendors.

Key Vendor Considerations

Data Sources
- Proprietary
  - Industry Organization
  - Financial Institution
- Filings
  - Courthouse
  - Mail-Order
  - Online
  - Scraping
- Web
  - Human Research
  - Web Watcher
- Direct Contact
  - Crowd-sourced
  - User-provided
  - Phone Interview
  - Email
- Quality Control

Pricing
- Renewal increase guarantee
- Cost per seat
- Cost per location
- Professional Services Fees
- Data / Download Fees

Data Access
- 3rd Party Integration
  - CRM
  - Analytics
- Direct
  - CSV
  - Excel Plug-in
  - API
- Platform
  - UX
  - Desktop
  - Analytics
  - Alerts
  - Mobile
    - Apps
    - Mobile Web

Scope
- Data Types
- Asset Class / Fund Type
- Geography

Client Services
- Support Hours
- Training
- Bespoke Analysis

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The Selection Process

As a buyer, you are looking for the best solution for a fair price. Quality vendor salespeople are a great resource for buyers, but the potential for a misalignment of interests is high. Minimize the risk of poor decision making with the following key steps:

Step 1: Establish the use-case(s)

Market data can add value to a variety of different functions. A clear, concise understanding of what you are looking to achieve provides a strong foundation for good decision making. Communicate this when demoing the product so you see the most relevant data and functionality. For example, "We are an investor relations team seeking to raise a first-time US-focused early stage venture fund".

Step 2: Key data requirements

The use cases dictate the key data requirements - the needs of deals-focused professionals will be different to investor relations. When buying a solution for multiple functions, ensure that all use-cases are considered and that requirements are established ahead of the assessment stage, providing a framework for robust procurement. For example, "We need to isolate fund managers with a specific focus on media companies with EBITDA range of $250 - $500mn".

Step 3: Assessment

Coverage

Coverage is important, but differences in how providers track various metrics make apples to apples comparisons very challenging - in some cases stats are deliberately inflated to appear superior. In the absence of agreed, standardized metrics, we suggest ignoring vendor claims of superior coverage. For a meaningful assessment, identify what you care about and view actual results side by side. If you are focused on finding US allocators with a VC focus, who cares about European performance coverage? Does one source have results the other doesn't? Creating a Venn Diagram for coverage of your area of focus can be a good starting point, but try and standardize the methodology in determining this coverage as best you can, and take vendor claims with a pinch of salt, especially as they relate to competitors.

Vendor Coverage Comparisons: Apples and Oranges?

- Secondary buyouts - Counted as one deal or two deals?

- Insurance companies - Are passive subsidiaries counted as separate allocators?

- GP commitments - Are GPs allocating to their own funds accounted for in overall LP statistics?

- Fund classification - Are different structures of the same vehicle counted as separate entities?

- Performance - Only funds with net IRR and/or multiple? Or funds with any metrics? Outdated funds?

- Contact information - What proportion have emails / phone numbers? What proportion are senior

- etc

The Selection Process

Actionability / Data Quality:

Quality and reliability tend to be far more important than coverage. If you're seeking LPs, does the vendor maintain future-looking investment plans, contact preferences and direct contact information? Will the level of detail allow you to tailor your approach? Certain products are more actionable for specific use cases than others. Make sure you view a cross section of the platform's relevant data. Salespeople know which areas of their product are weak and strong; make sure you take control and ask to see specific entities you know well so you can assess quality. Ask yourself if the depth and reliability of data align with your requirements from Step 1 and 2. Using the Vendor Considerations model, seek to understand the research methodology and quality control systems for each platform you review.

Interface and Functionality:

The best data in the world is useless if it's impossible to access. Take each shortlisted provider for a test run, don't just watch a demonstration, consider functionality for your specific use case. How easy is it to identify the top 25 firms that represent potential buyers for a specific company? Does the platform perform the analytics you need? How powerful and granular are the alerts and reports that the platform can deliver to you? Is the vendor employing AI to deliver value-added content suggestions and functionality?

Integration:

The importance of integration has increased substantially in recent years and should now be a core selection criteria. Integration with work-flow tools will maximize the value-add of market data, ensuring that you are using an effective stack of interconnected services. Many front office solutions feature native integration with major data suppliers. Demo this integration and consider the functionality. If native integration is not an option, is data available in an easily database-izable format? Is there an API, and if so, how does it work and at what additional cost?

Pricing and Licensing

At scale, market data providers are operating with high margins. This can lead to significant variation in pricing, it's important to understand the key considerations in this area:

- Beware of aggressive customer acquisition. It is not uncommon for vendors to offer incredible pricing for year one before bringing in substantial increases for subsequent years. Such increases are fine if transparent, but this is often not the case. Ask for multi-year pricing or maximum price increases to be written into a contract.

- Ask about limitations in terms of licensing and data access. Is there potential for unexpected charges? It is common to see fees levied for actions such as: exceeding a certain number of downloads, activating a third party integration, exceeding a set number of login locations, API functionality etc.

- Lock in pricing guarantees: If you foresee your subscription growing over time, ask for written pricing guarantees around additional users.

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Introduction to PE Stack

PE Stack helps private equity and venture capital fund managers, allocators and service providers to initiate a best-practice procurement process when selecting data and software products.

We do this by maintaining a comprehensive database of solutions, available to view on our powerful, free online platform. We are constantly monitoring the market for new private equity and venture capital focused products.

We offer free advice, helping buyers to compile shortlists and evaluate solutions effectively.

To sign up for our platform, visit our website: www.pestack.com

What do we cover?

Our goal is to maintain coverage of all software and data providers with specialized solutions for the space, including data providers, back office, portfolio monitoring, front office, marketplaces, analytics and more...

As of Summer 2019, our platform includes full details for the following vendors:

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