



**WHITE PAPER**

# THE PAINFUL TRUTH ABOUT YOUR HIGH IT COSTS

*Private Equity Insights into high IT costs*



## MAKE IT THE HERO OF YOUR BUSINESS TRAJECTORY

IT is often cast as the villain in most mid-market stories. Instead of being the hero that businesses need to succeed, IT is rumored to cost you time, resources, and money while under-delivering on your priorities. Supporting benchmark studies confirm your suspicion and paint a dismal picture of IT. While business technology is supposed to empower value creation, it often demands unbudgeted money approval. This results in derailing strategic initiatives critical to value creation. It's no secret that competitive deals are driving multiples at an unprecedented rate, all while portfolio companies continue to be held hostage by IT.

To save yourself from falling victim to IT, it is important to highlight the ongoing trends of IT, most of which recast IT into a more heroic role for businesses. The reality is that the IT landscape has changed significantly over the last 5 years. Although most PE firms have adopted a new cloud-based/outsourcing model, they often experience increased costs. IT is now

tuck in a semi-permanent state of transition, making it a notorious adversary to many businesses. With the help from IT's best sidekicks (that's us), you can transform your IT implementation to get the best value out of these services. There are subtle, yet important, strategic (non-technical) reasons behind these surprising trends. Have confidence that not only is it possible to deliver high-performance IT, but you can also simultaneously implement IT well below industry benchmarks. These benefits go hand-in-hand to quickly transform IT into your most lauded secret weapon.

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There are certainly progressive rising stars in the mid-market CIO ranks that have the skills and mindsets to capitalize on these new trends. However, most CIOs will end up increasing costs because they are being asked to do something very difficult with little practical experience in today's world of outsourced IT. The outsourcing model typically goes against everything IT leaders have been taught by their mentors and predecessors. More often than not, IT staff have been taught that IT implementation cannot be done correctly with normal budgets. Rather than confronting IT challenges head-on, inexperienced leaders will search for other, more costly, and less effective, solutions. Let's break down why these beliefs exist and what to do about them.

## DOING TOO MUCH: CIOs WANT TO DO IT THEMSELVES

Many CIOs spend most of their careers in the technical ranks of a "do-it-yourself" IT shop. Their experience only applies to insourcing when this happens, and they tend to make decisions based on preserving or increasing internal staffing. Outsourcing has quickly become the enemy for most CIOs because it takes away jobs and doesn't always lead to the best results. IT leaders today have very mature skillsets around insourcing and typically very little experience outsourcing.

The challenge is that there is an overwhelming amount of data supporting the theory that the mid-market doesn't have the economies of scale to support all the skill sets necessary to pull off a DIY strategy with today's IT trends. Without the material skills and capabilities, production and



operating costs unfortunately increase. Insourcing can additionally lead to wasteful activities and substandard components which won't fetch enough returns on the market, thus making IT out to be a costly villain.

## **IT LEADERS COMMONLY MAKE HUGE MISTAKES BY OUTSOURCING**

Outsourcing for big companies has been around for a long time, but mid-market “cloud” options have certainly disrupted traditional models in recent years. Market demand for the cloud has grown exponentially, and while marketing strategies are strong, there are a lot of weak providers who won't make it in the long run. The bottom line is that IT is continually evolving, requiring outsourced leaders who are best equipped with the knowledge to implement these maturing options. The pressure on M&As often leads to rushed outsourcing choices to accomplish short-term goals, such as on-time TSA exits. However, a more thoughtful approach would solve years of cost overruns. The outsourcing mistakes typically fall into two categories:

### **1. Too Many Cooks in the Kitchen:**

One common mistake IT leadership makes is bidding out every piece of IT and ending up having to manage a myriad of disconnected partners. You may have to pay a little more for a quality vendor to fill multiple roles in an outsourced model. However, your overall cost will go down dramatically by eliminating the need to hire personnel to manage vendor gaps. This frees up time for IT leaders to work on strategic value creation initiatives, such as asset rationalization and optimization.

### **2. Increased Staff Due to Picking the Wrong Cloud Vendor:**

Selecting cloud vendors that don't manage their own assets, forces you to “staff up” and take on the hardest part of IT (HR and IT Operations). There is a reason why most of the large cloud players don't manage their own assets: enhanced difficulty. Even though there is a larger margin in services, cloud vendors who have unlimited resources want nothing to do with managing what they are providing to the market. Mid-market IT shops become quickly overwhelmed by these services.





## **SUGGESTIONS TO PREVENT RUNAWAY COSTS**

### **1. Make sure your new IT leader has experience with outsourcing**

and brings a successful, verified set of relationships to the table. If you hire a legacy IT leader whose experience is with buy and build strategies, make sure he or she has the savviness to adopt new models.

### **2. You should think carefully before going to a big cloud vendor**

and be prepared to manage your own systems. Realize that not all cloud vendors are accountable if something goes wrong, forcing you to move again if they don't perform to expectations. You will be better off finding a mid-size provider who values you as a client.

### **3. Accomplish your mission with heroic IT**

by understanding the common downfalls associated with IT departments. Your business can rewrite its narrative: IT will be the hero of your story by generating tremendous gains and value for your organization.