

# Private Equity Insights: *The Painful Truth About Your High IT Costs*

*“Outsourcing for big companies has been around for a long time, but mid-market “cloud” options have certainly disrupted traditional models in recent years.”*



## **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, resultantly 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 you 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, the IT landscape has changed significantly over the last 5 years, and although most PE firms have adopted a new Cloud-based/outsourcing model, they often experience increased costs. IT is now stuck 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 that we will outline below. 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, quickly transforming IT into your most lauded secret weapon.

## **Inexperience Leads to Higher Costs**

*While there are certainly progressive rising stars* in the mid-market CIO ranks that have the skills and mindsets to capitalize on these new trends, most mid-market CIOs will end up increasing costs because they are being asked to do something very difficult with little practical experience in today's changing world of outsourced IT.

Typically, the outsourcing model 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 on 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.

## CIOs want to do it themselves

*Almost all CIOs spend most of their careers* in the technical ranks of a “do-it-yourself” IT shop. When this happens, their experience only applies to insourcing, and they tend to make decisions based on preserving or increasing internal staffing. Outsourcing quickly became the enemy for most CIOs because it took away jobs and didn’t always lead to the best results. For these reasons, IT leaders today have very mature skill sets around insourcing and typically VERY little experience outsourcing.

The challenge here is that there is an overwhelming amount of data supporting the theory that the mid-market just doesn’t have the economies of scale to support all the skill sets necessary to pull off a DIY strategy with today’s technology trends. Unfortunately, without the material skills and capabilities, production and operating costs increase. Additionally, insourcing can 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 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 of M&As often leads to rushed outsourcing choices in order to accomplish short-term goals, such as on-time TSA exit. 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 big pile of disconnected partners. In an outsourced model, you may have to pay a little more for one quality vendor to fill multiple roles, but your overall cost will go down dramatically by eliminating the need to hire people to manage gaps between vendors. This will free up your IT leaders to work on strategic value creation initiatives, such as asset rationalization and optimization.
2. Increased staffing because you picked the wrong Cloud vendor: The second most common issue is picking Cloud vendors that don’t manage their own assets, forcing you to “staff up” and take on the hardest part of IT, which is HR and IT operations. There is a reason why most of the big Cloud players don’t manage their own assets – they know how difficult it is. Even though there is a larger margin in services, Cloud vendors who have unlimited resources want nothing to do with what they are providing to the market. Likewise, mid-market IT shops become quickly overwhelmed by these services.

## Suggestions to Prevent Run-Away Costs

*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 savvy to adopt new models.

Do yourself a favor and think carefully before going to a big cloud player 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 player who values you as a client.

## Mission Accomplished with Heroic IT

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