

PRIVATE EQUITY'S GUIDE TO NICHE IT PROCUREMENT

THE HOLE THAT **STRATEGIC IT SOURCING** FILLS IN PE VALUE CREATION PLAYBOOKS

Explaining the IT Procurement Niche

Private Equity's increased focus on portfolio operations as a lever to drive returns in their investments has resulted in firms hiring not only Operating Partner generalists that have strong track records and institutional know how around efficiencies and expense reduction, but also functional experts like procurement/supply-chain specialists that can advise portfolio companies on more focused areas of the business. Additionally, they bring to bear an army of vetted 3rd parties that can be deployed across the portfolio to help execute their overarching strategy. As firms have built out these "centers of excellence", holes remain in niche areas such as IT procurement which this paper focuses on.

This is true for several reasons:

- 1. IT procurement is a different beast than most indirect spend.** While some technology has been commoditized, many technology solutions remain incredibly nuanced and clouded in technical requirements that many procurement professionals do not have a full grasp on.
- 2. Generalized IT/Technology consulting firms do not prioritize this spend.** High level digital transformation projects with ERP, corporate transformation, business planning, etc. are high ticket items that oftentimes leave the nuts and bolts of IT as secondary considerations. Many of these firms outsource IT sourcing projects further down the stack as they come up within their larger engagements, but this leaves the PE firm in the dark on other opportunities in the portfolio as they are not prioritized and pursued.
- 3. Generalized procurement consulting firms do not bring IT implementation expertise to the fore.** Nearly half of all IT sourcing projects fall apart at implementation. As we know, it is one thing to procure a solution, and it is another to realize a successful implementation. This, again, holds particularly true in the world of IT. This category remains a challenge for procurement professionals. Even in large enterprise organizations with very mature procurement, oftentimes you will find a dedicated IT procurement team that sits outside of the primary group.
- 4. Nobody likes infrastructure projects.** Getting down into the trenches on an 800-location network project is not where many like to live. This goes for your portfolio companies IT team as well as the more generalized consulting firms mentioned above in #3. The path of least resistance is often patching and add-ons, so these opportunities stay under the radar and get swept under the rug for years at a time.

As competition increases in the marketplace and premiums paid continue to rise, private equity will be required to further optimize their portfolio spend in increasingly niche areas of procurement. The profit-leverage effect demands such focus and will ultimately prove-out the importance of the IT procurement niche as the wave of digital transformation continues to swell, and IT budgets continue to increase.

In this guide, we will explore why IT procurement optimization should be part of every OP's playbook, why IT procurement spend is notoriously stubborn, how IT transformation via strategic sourcing is a unique growth enabler as well as cost compression opportunity. We will also explore how to identify opportunities quickly, learn how to transform and optimize your spend, and ultimately harvest those benefits using our playbook.

IT PROCUREMENT SPEND

Why Is It So Stubbornly Difficult?

This paper assumes some sophistication of category spend and procurement strategy in order to highlight the unique challenges of IT spend. If a company lacks any centralized indirect spend control, it is almost certain that there is significant opportunity for savings and optimization within their IT spend bucket.

Nevertheless, we find time and time again that the inertia of spend in this category consistently presents unique challenges to both procurement and IT professionals. This typically manifests itself in the following ways:

- 1. High capex legacy infrastructure.** Companies today retain a considerable amount of technical debt. Legacy on-premise solutions which required significant capex spend and expensive vendor maintenance contracts continue to weigh down IT departments and make it difficult to replace.
- 2. Staff institutional knowledge.** This technical debt extends to the IT department's human capital and the team's expertise in these legacy technologies, processes, and maintenance. System and network admins, directors of infrastructure, and other members of the IT staff can hold biases to technologies in which they have immense experience and knowledge. This issue is compounded in the organization in which the IT department oversees sourcing.

3. Technical requirements. While spend optimization is always the goal, running straight up and down category spend to reduce costs can be a dangerous game. Companies increasingly rely on technology to deliver exceptional levels of user experience to both customers and employees, high and consistent performance, as well as a robust security posture. The ability to understand these requirements, design solutions that map to the strategic goals of the organization, and have procurement expertise in sourcing the go-forward solutions is an elusive trifecta that most companies as well as PE's bench of consultants do not have in one place.

4. Implementation scaries. One of the primary roadblocks to change in the IT spend category is the ever-looming reality of managing an implementation/service delivery, particularly those that involve process changes and new workflows, as well as location turn downs and changes. Transformational projects, in particular, can oftentimes involve a "lift-and-shift" that can require nearly full-time resources to manage and ensure new solutions are ultimately realized to their full potential.

These unique characteristics and challenges create opportunity. Therefore, as PE builds out its centers of excellence, it will be in their interest to ensure their portfolio companies are given the tools and expertise to tackle these challenges and nest this niche expertise into their broader operational and procurement initiatives throughout the portfolio.

Strategic IT Sourcing for Growth (and Spend Reduction)

In the world of procurement, the profit-leverage effect is touted (and rightfully so) as one of the most powerful levers to increasing EBITDA. Simply put, for every dollar saved, all things being equal, you would need to generate many times more in additional revenue to have the same impact on the bottom line.

The rapid development in technology and IT solutions across a wide range of categories has presented a unique value proposition to organizations as they look to transform their infrastructure and key systems.

Strategically sourced technology has the power to improve both; increase revenue and reduce spend.

Efficiencies, productivity, collaboration, UX are all enabled and empowered by new technologies while oftentimes having a lower total cost of ownership (“TCO”) than existing solutions and legacy services. Outside of a well-run sourcing project, these lower costs are typically realized in the form of consumption/usage-based pricing, reduction in hardware requirements, managed solutions reducing the internal resource allocation to run day-to-day operations, and an extremely competitive carrier environment.

Oftentimes, our engagements here at Resourcive result in a complete reallocation of potential savings, or even net new spend given the opportunity to create so much value on the growth enablement side. A more generalized procurement approach to the IT spend can easily miss the opportunity for transformative solutions that can impact the business on the growth side of the equation. Furthermore, the underlying trait of these newer, more transformational solutions is that they are not like-for-like compared to legacy solutions and therefore making it difficult to standardize vendors, pricing, SLAs (Service Level Agreements), etc.

Often, however, it is a best of both worlds scenario where transformative solutions are sourced and spend goes down. Recently, in a large network project with a multi-location retailer with over 500 locations, our team was able to revamp their entire network and save over \$2 million per year, while also increasing availability, speed, performance, and reliability of their store connectivity. These improvements enabled enhanced customer in-store experience, and as a result increased sales volume.

Indicators of Opportunity

- 1. Lack of spend visibility.** In this space, if you do not watch this, it grows and not in your favor. If you ask your CIOs for a breakdown of their IT spend with contract status and SLAs and it is not readily available, there is a lack of spend visibility. The level of detail (location, usage, headcount, etc.) and accuracy are equally important because it is not enough to know where money is spent, rather how the money is being spent.
- 2. Legacy technology.** If your portfolio company is still utilizing an on-premise PBX (voice) there is a large opportunity for savings and improved services. If their network connectivity has not been modernized, it is not optimized for performance and spend. The post-COVID decentralized work environment, as well as increased cloud application usage, demands a strategic review to ensure you have technologies in place to meet today and tomorrow’s requirements.

- 3. Disparate technologies.** Any organization that has gone through M&A and/or has had a decentralized procurement history will have opportunity for vendor consolidation and improved systems/processes. Done the right way, this has the potential to not only reduce the administrative burden of a disparate network but also provide buying power to achieve savings and synergies across the organization.
- 4. Larger strategic change.** Oftentimes, a PE investment thesis requires significant strategic changes in their companies. These updated roadmaps and growth strategies require an IT infrastructure and toolkit to enable and support these objectives. Furthermore, in a hyper competitive marketplace further emphasis on leveraging technology to maintain a competitive advantage is necessary.
- 5. Staff turnover.** Anytime you have a new C-Suite coming in is a good time to prioritize holistic reviews for business units. We also see this further down the chain when Directors or VPs of IT are hired and there is opportunity to arm them with more tools and resources. In conjunction with a fresh set of eyes, there will be less legacy debt to existing vendors and technologies creating a ripe environment for transformation and savings.
- 6. Current bench resources are not experts in IT procurement.** Looking at your portfolio of preferred partners, do you have a partner that specializes in IT procurement? For all the reasons laid out thus far, this is a clear signal of opportunity within the broader portfolio.
- 7. Strategic or Tactical?** Has your IT business unit done a strategic review in the past three years? While there are tactical ways to achieve savings and increase performance on a case-by-case basis, without a strategic review of the entire environment there are likely to be efficiencies, savings, and productivity opportunities left on the table.

Digital Transformation Happening Now

There are key areas or pillars of the tech stack where opportunity generally resides. Within each pillar is where you'll have to dig deep to identify and execute on the right solution. Here are some examples of the projects that are taking front and center stage in our engagements.

Digital Transformation Happening Now

<p>Voice & Video</p>	<ul style="list-style-type: none"> • Legacy, on-premise voice to cloud technology optimization • Microsoft Teams direct routing • PRI to SIP Conversion • POTS aggregation • Hard phone vs. soft phone
<p>Contact & Call Centers</p>	<ul style="list-style-type: none"> • Legacy, on-premise call center to cloud contact center migration • Omnichannel contact center functionality • CCaaS + CRM integration • CX focused decision making • TCO hardware/software modeling
<p>Network</p>	<ul style="list-style-type: none"> • SD-WAN architecture and deployment • Secure Access Service Edge (SASE) • MPLS spend reduction • Broadband, DIA, Fiber aggregation • Bandwidth requirement review, validation, and uniformity • International aggregation
<p>Cloud Computer, Wireless, & MSP/MSSP</p>	<ul style="list-style-type: none"> • On-premise to cloud transition • AWS usage and diagnostic review • Wireless GPO adoption • Wireless MDM selection • MSP and MSSP identification, down selection, and implementation
<p>Digital Transformation</p>	<ul style="list-style-type: none"> • WFH empowerment • Sourcing roadmap creation and advisory • OpEx vs CapEx financial modeling • AI/Biz Intel Empowerment
<p>M&A Support</p>	<ul style="list-style-type: none"> • Visibility over services, carriers, contract status • Expedited redundant service downturn/disconnect • Integration planning • Acquisition diligence • Bridge the gap between IT, Finance and Procurement

Steps You Can Take to Capture Savings Now

This playbook is an abbreviated version of our Value Added Sourcing (“VAS”) process, yet can still present you opportunities for quick wins. A more strategic and comprehensive approach to transform this category is a more in-depth endeavor, but our general approach holds true when looking to capture immediate savings and capitalize on low-hanging fruit opportunities.

1. Get Visibility. When we deliver on average ~30% savings in our engagements, 10% of that is typically a result of simply auditing the current spend. A comprehensive inventory of spend on a location-by-location basis, with employee count, usage, and contract status will oftentimes illuminate circuits or lines that were never turned down at a closed location, for example. The messy world of M&A is a big culprit here, as well as poor vendor management and a lack of consistently auditing spend. This data will:

- a.** Show you locations that are either overspending on things like bandwidth (savings opportunity) or underspending (increased performance opportunity).
- b.** Highlight opportunities for vendor consolidation.
- c.** Contract expiration and renewal dates.
- d.** Identify geographic and regional opportunities for improved service and support
- e.** Identify disparate technology systems, redundant applications, and duplicative services.

2. Technology Assessment. The next step is to determine if your current technology fits your company’s overall growth roadmap.

- a.** Expensive MPLS (Multiprotocol Label Switching) circuits connecting your branch locations may be overkill and you could be better off with dual-broadband connections, or 5G with an SD-WAN (Software Defined Wide Area Network) overlay.
- b.** On-premise PBX systems or contact center solutions should be scrutinized.
- c.** How is your data traversing your internal network as well as to cloud applications?
- d.** Mobility. Are your plans optimized from a spend perspective? What are the soft costs associated with internal resources managing devices, data plans, MDM (Mobile Device Management), etc.?

- 3. Look forward.** Now that you understand where you are at, work with your peers on change management. What is the larger investment thesis, larger growth strategy – align to chart course to realize savings and achieve growth strategy.
- 4. Vendor review:** No matter the IT strategy, in today's world it will be supported and enabled by a plethora of vendors and solutions. With your baseline (visibility & technology assessment) and strategy in place, you can now critically review your current vendors and solutions in place to see if they are able to meet your requirements while concurrently exploring what other options are available in the market. Ultimately, finding the right vendor partner will pay dividends as you continue to grow and prioritize opportunities for improvement.
- 5. Sourcing phase.** Run a world-class sourcing initiative to capture best pricing and terms. Foundationally, this should be a cross-functional effort with strong c-suite support and well-aligned stakeholders. Resources should be allocated to project manage, apply technical and category expertise, and leverage external expertise where necessary.
- 6. Manage implementation.** Once the dotted line is signed, it is time to roll up your sleeves and ensure a successful delivery of contracted services. Resources should again be allocated to manage the implementation, your change management strategy should be rolled out to the affected users, and final billing and terms will need to be reviewed for accuracy.
- 7. Lifecycle support.** Ongoing management of vendors and category spend is imperative to realizing the full benefits of your contracted terms and technology solutions. At the minimum, ensure that savings are tracked, contract terms and SLAs are honored, compliance and security measures are maintained, and a base level of support is provided. More strategically, as business needs change over time, and usage/ consumption models shift, be sure you are in the position to identify and address in a timely manner.

Conclusion

It is important to understand in today's world that this is not a point in time. Strategic IT sourcing is something you must do iteratively and develop as a core capability in your business, otherwise the business case is compelling to find that expertise from a 3rd party with a proven track record of value creation in this niche.

As a private equity investor/operating partner, you will be serving your portfolio well by having a bench resource that is hyper focused on this critical area of technology. When searching for the right partner to address this for your portfolio, it is important to understand if they meet all the requirements of a true "VAS" consultancy.

As the firm that defined the VAS model, Resourcive stands out in its ability to create long lasting relationships with private equity with its persistent value creation and Special Operations DNA.