Choose Your Partners Wisely

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Abstract

If you ask CIOs what qualities they seek when selecting an IT solutions provider, likely responses include "product lineup", "technical skill sets", "fulfillment capabilities", and "price. In light of the current economic downturn, along with weak financial results reported by many of the publicly-traded players in the space (including at least one Chapter 11 filing), we submit that "strong business fundamentals" must be added to that list. This White Paper overviews five characteristics that define winning IT solutions providers in any economy. »

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When It Comes to Selecting an IT Solutions Provider, Business Basics Are as Important as Technical Skills

If you ask CIOs what qualities they seek when selecting an IT solutions provider, likely responses include "product lineup", "technical skill sets", "fulfillment capabilities", and "price. In light of the current economic downturn, along with weak financial results reported by many of the publicly-traded players in the space (including at least one Chapter 11 filing), we submit that "strong business fundamentals" must be added to that list.

Any good CIO considers risk mitigation a critical part of his or her job. Why risk reliance on a partner who may be in jeopardy of stumbling in its delivery, losing its best people, or disappearing altogether?

Given the economic slowdown and the maturation of the solutions provider industry, it's a fact that the strong will get stronger, and the weak will ultimately fail. If you want to pick a winner, here are the qualities to look for.

Choose a "Real Company"

Many, perhaps even most, solutions providers are little more than sales offices with some technical skills thrown in. It makes sense that they start out this way; the founder is usually a successful salesperson with solid contacts at a growing OEM and some good customer relationships. But, as they expand, these companies need to add process and invest in infrastructure or they risk growing dangerously out of control.

Size is not always a good indicator of whether or not this is happening. In fact, we've been amazed at how large a business can grow without the benefit of solid management systems or a strong operations team—until it begins to unravel, that is.

Look for a partner with a willingness to invest appropriately in back office staff, information systems, and infrastructure. A process around human resources management—an organization with structure, clear reporting channels, recruiting and hiring guidelines, and performance evaluations—is critical to finding and retaining the best people and to creating a team of contributors. A strong operations officer and/or Chief Financial Officer, with adequate staff support and an IT system robust enough to provide information to make meaningful decisions, is another sign of a "real company" mentality.

Dewpoint, a Lansing, MI-based technology integrator with both commercial and public sector practice groups, has recently made several major infrastructure investments and does not take the process lightly. "We recognize that, as the business grows, we needed to evolve from the

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'wearing of many hats' that is so common in young companies and add people with specific functional expertise," says Andy Kotarba, Dewpoint's CEO. "It's important to recruit the right folks—the ones who are not only highly-skilled but who can also fit well into the Dewpoint culture—and we've worked hard at that. It's been an expensive proposition at times, but one that we know is critical if we want to continue to thrive."

Be especially careful when considering a partner that has grown mainly via acquisition. While acquisition activity is certainly a legitimate way of building a business, it is all too often used merely as a path to reach a target revenue number, usually to attract capital from the public markets. We have seen a number of situations in which the acquired companies were never adequately integrated into a single business; they were essentially left on their own to operate as before—often with an additional layer of "corporate overhead" thrown in. Remember that ten $10 million businesses with consolidated financial statements is not the same thing as a $100 million business!

Choose Companies That Invest With Discipline

Well-considered investment decisions are critical to building a solid business for the long-term. It is all too easy, especially in the technology arena, to fall victim to "shiny object syndrome"—chasing the latest hot trend only to abandon it when the hoped-for results don't quickly appear. Far more difficult is the combination of rigorous analysis to uncover the most promising opportunities and the guts to see them through to ultimate success.

Corporate Technologies, Inc. ("CTI") and has honed its research and development capabilities over the last fifteen years for just this reason and is convinced that its investment is the overarching reason the company is able to provide superior IT products, services, and solutions to its clients. Based in Burlington, MA, CTI has built a multi-million-dollar Technology Lab, a robust data center environment that allows its dedicated R&D staff to thoroughly vet products, uncover interoperability issues, and refine its solutions methodology before deployment in customer settings. Corporate Technologies' CEO Harry Kasparian says, "Our significant investment and commitment to sophisticated vendor-independent testing define our strategic direction and is the backbone of our IT Strategy practice. Our clients count on us to objectively assess every product, service and solution we recommend, and we are continuously investing in the resources required to live up to this expectation."

Disciplined investors take prudent risks throughout the business cycle—not just when times are good. They know that a business built for the long term requires ongoing resources and that the best opportunities often present themselves in more challenging markets.

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Investment capacity requires adequate capital, and the best solution providers consciously maintain strong balance sheets and forge meaningful relationships with capital providers. Beware highly-leveraged solutions providers. They can easily become too dependent on volume to make interest and principal payments; if revenue falls, their cash cushion will erode rapidly.

Look For a Robust Business Model

Strong businesses are built around a combination of growth and risk mitigation—one factor without the other is a recipe for failure.

Companies grow by crafting and offering solutions that customers want, and they are not afraid to invest in doing so. A willingness to put dollars and people into the process of finding, analyzing, and refining solutions is a sign of a company that wants to build a business for the long term; chasing "hot trends" or easy answers is not. Signs that a solution provider is on the right track include a growing base of customers, gaining a larger share of customers' IT spend, increasing revenues, and expanding margins.

On the risk mitigation front, we like to see companies with a diverse business line-up, especially one that involves a mix of OEM partners, a lack of customer concentration, and a focus on several, rather than just one or two, growing industry sectors. Be wary of revenue that is driven mainly by the OEM partners; companies that truly add value can generate their own business. Finally, make sure that you are working with a team of performers—not just one or two sales stars who can leave the company (or get hit by a bus!) at any time.

Laurus Technologies, a business consulting and IT solutions provider based in Itasca, IL, has focused on diversifying its business line-up over the last two years, with impressive results. From its roots as a player in the systems integration space, the company has added a business applications consulting unit with specialties in SAP and Oracle, an IT staffing group, and a newly-launched managed services practice. It has also set up units with dedicated client executive, sales and technical resources concentrated on serving the health care and education verticals. These initiatives have involved a combination of organic growth and acquisition activity. "We are constantly scanning the horizon for new opportunities and working through the 'make vs. buy' analysis," comments Laurus CEO John Udelhofen. "We've had success building out our business model both ways and will continue to be open to new areas."

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Harry Kasparian at Corporate Technologies is also a strong proponent of building a business on a platform of technology diversification by offering clients carefully selected technology choices. This approach considers each client's present investments while also allowing CTI's consultants to present new alternatives involving more disruption but higher payback. "Four years ago, we launched a business intelligence/data management practice that has since gained great traction. We selected Business Objects (since acquired by SAP) as our initial partner after much analysis; we liked what they had to offer from a technology standpoint and as a business partner. We've since expanded our practice to include Oracle's business intelligence suite. In the storage arena, we work with both Sun Microsystems and Network Appliance. This multi-partner approach separates us from competitors who are really "vendor franchisees" and allows us to put customer interests first when recommending the best solution."

At the same time, CTI's model is designed to be both vertically and horizontally integrated. Kasparian comments, "All of our practices, including our systems integration, storage, BI/data management, and IT staffing business units, have been aligned internally to support and encourage collaboration. It is critical that we operate as one organization."

Choose Companies That Are Important to Their Partners

As the technology industry matures, OEM's have come to realize that their channel needs to be made up of strong players. It's not uncommon for the channel to account for 50% or more of an OEM's volume; too many weak links can lead to disaster in today's ever more competitive environment.

OEM's know this and increasingly focus their own resources—management attention and investment dollars—on their top partners—the very same companies that meet the tests we've outlined above. Building a resilient partner group with the capacity to meet the evolving needs of the market and to handle complexity and growth is essential to their own success and has become a top priority. So look for companies in the "top tier" of their primary OEM partner structure.

Work With a Winner

The days when a channel partner could merely resell equipment and expect success are over. It's clear that integrators must focus on customer needs and on ways to truly add value. Doing this requires a solid foundation—a strong underlying business—and a thoughtful approach to building for the

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future. Choose your partners wisely, and you will reap the benefits for years to come.

About Perimeter Advisors

Perimeter Advisors assists owners of promising mid-sized companies to create more value in their businesses by offering them a proven process, in-depth experience, and strategic advice. Perimeter's principals bring several decades of growth-company strategy and private equity/venture capital experience and work on initiatives ranging from organic growth opportunities to corporate development projects, capital raises, and succession planning. To learn more, visit our website at www.perimeteradvisors.com and learn about *The Value of Outside Insight™*.

About Corporate Technologies, Inc.

Founded in 1994, Corporate Technologies, Inc. is one of the largest providers of complete IT solutions and services to enterprises in the Northeast. We provide clients with professional services expertise in the areas of IT Strategy, Business Intelligence, and Data Centers, supported by a selective product line, support contracts and services, IT staffing solutions, and financing options.

The company is a top partner with many technology leaders including Sun Microsystems, NetApp, SAP/Business Objects, Oracle, Symantec, VMware, Juniper, and F5 Networks. Its annual investment in R&D and the company's market-leading Technology Lab allow Corporate Technologies to continually evaluate and recommend the best current and emerging technologies.

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