McKinsey Digital

CIOs are redefining what a successful relationship with their IT providers looks like

As CIOs lead their IT organizations through transformations, long-established relationships with IT providers are set to change.

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Note that these findings are based on a survey done before the current coronavirus crisis, and depending on its impact, any sourcing strategy going forward could look different.

In the digital world, technology is no longer an enabler but a strategic asset and a competitive advantage. CIOs are at the helm of this digital transformation journey and are under increasing pressure to deliver the technology capabilities to enable businesses to generate value.

In this context, significant questions are surfacing about the role of IT providers, which have been a mainstay of the technology landscape for the past two decades. Are IT providers hindering an organization's ability to innovate? Do they deliver on promised cost savings, and if they do, are the savings worth the effort? Are they driving strategic outcomes, or are they serving legacy goals? These questions are increasingly pertinent, as CIOs must both ensure that their organizations can keep up with innovation while maintaining established systems.

To address this challenge, many CIOs are choosing to build up internal capabilities in an effort to increase speed, flexibility, and control over critical technology, often in the context of tech-enabled transformations. At the same time, this challenge is leading CIOs to redefine how they engage with, and what they expect from, their IT providers. As one CIO put it: "Given the shortage of capable talent internally, our resources are focused on working with IT providers to define the problem and then partnering with them to execute."

This evolving relationship with IT providers comes through in our survey of 250 global CIOs and similar technology decision makers.[1] More than half of IT leaders believe that "there is no other way" to achieve their digital-transformation goals without a close relationship with their IT providers. Our survey and interviews point to an active role for IT providers along the digital transformation journey of many companies. However, the focus,
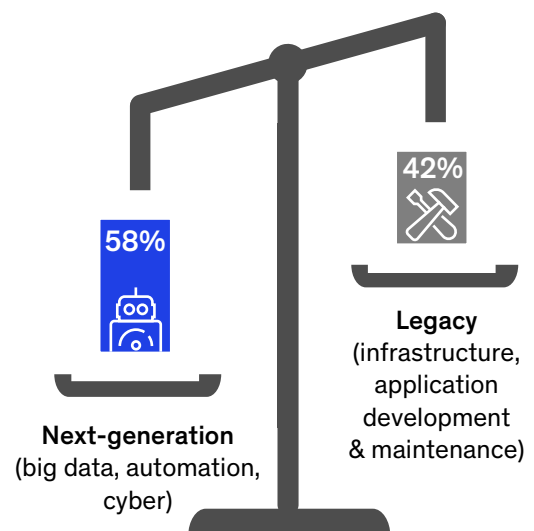
expectations, and players shaping this role will differ significantly from those of the past.

Looking for help disentangling from legacy systems

CIOs are eager to accelerate their businesses' digital transformations. After years of allocating external IT spend to legacy systems, the leaders we surveyed signaled an ambitious desire to allocate more than half of their external IT budget to next-generation services within three to five years (Exhibit 1). However, CIOs seeking rapid progress are often thwarted by their organization's entanglement in the complexities of legacy IT. In fact, 87 percent of leaders cited the "complexity of existing infrastructure" as a key impediment to implementing next-generation services. As a result, CIOs are looking for their IT providers' help in simplifying and streamlining the legacy environment. This will enable digital transformation by freeing up resources and funding that are currently engaged in keeping the lights on.

Exhibit 1

How will you allocate your external IT budget in three to five years?

58% Next-generation (big data, automation, cyber)

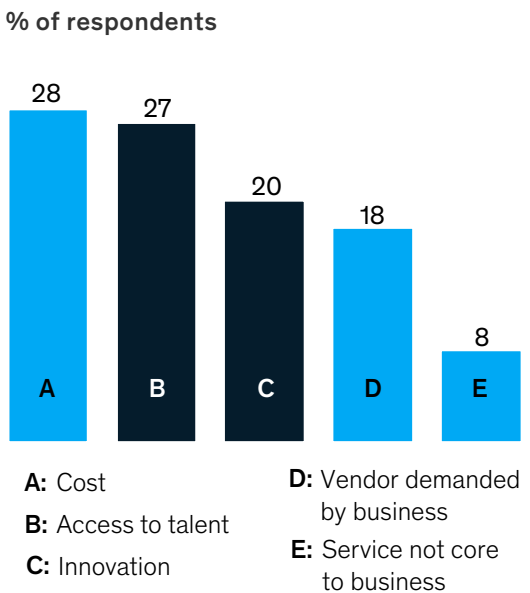**42%** Legacy (infrastructure, application development & maintenance)

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[1] The survey was conducted in the summer of 2019 and covered 250 CIOs and similar decision makers in companies with IT budgets greater than $250 million across more than ten industries globally.

Talent and innovation are a must

While cost is a major reason why most enterprises were and are still working with IT providers, other factors are now gaining importance (Exhibit 2). Leaders cite access to talent and innovation as crucial drivers influencing their decision to engage and continue with IT providers.

Exhibit 2

What is driving your need to leverage external IT providers?

% of respondents

A: Cost
B: Access to talent
C: Innovation
D: Vendor demanded by business
E: Service not core to business

This is also reflected in how CIOs define "good" IT providers. Previously, IT providers were deemed to be good if they fulfilled service requirements within targeted cost targets. Today, while CIOs are generally satisfied with external providers' delivery on cost savings (score 4.0 on a 5.0 satisfaction scale), they are less satisfied with and demanding more from providers in terms of innovation (score 3.9 out of 5.0), delivering business outcomes (3.8), and bringing the right talent (3.8) (Exhibit 3).

In addition, there is a pronounced desire among CIOs to sustain their ability to innovate, especially in business-critical and customer-facing areas. As a result, CIOs—particularly those with IT budgets greater than $500 million—are increasingly

Exhibit 3

Do your external providers meet your expectations?

IT services providers report card

	Executing digital transformation	4.2/5.0
	Designing digital transformation	4.1/5.0
	Delivering cost savings	4.0/5.0
	Driving innovation	3.9/5.0
	Driving business outcomes	3.8/5.0
	Bringing right talent	3.8/5.0

seeking to engage with IT providers that strengthen their internal talent's ability to innovate and drive the business's digital strategy. According to one CIO, "We are no longer impressed with a 'hand the keys over and let them drive' model."

Providers, like CIOs, have to serve the entire business

When it comes to selecting IT providers, roughly 60 percent of the CIOs surveyed believe that business-unit leaders will be either the sole decision makers or joint decision makers with the CIO (Exhibit 4).

For this reason, CIOs are shifting their role to become true working partners to the business and focusing increasingly on how technology can drive business outcomes. While doing so, they expect IT providers—who have traditionally primarily interfaced with the CIO—to do the same. It is not surprising, then, to find that some 60 percent of CIOs consider the "ability to engage with the business" to be a key criterion influencing the selection of IT providers.

Exhibit 4

Who leads decision making on selection of IT providers?

% of respondents

CIO leads 41
Business leads 26
Joint decision 33
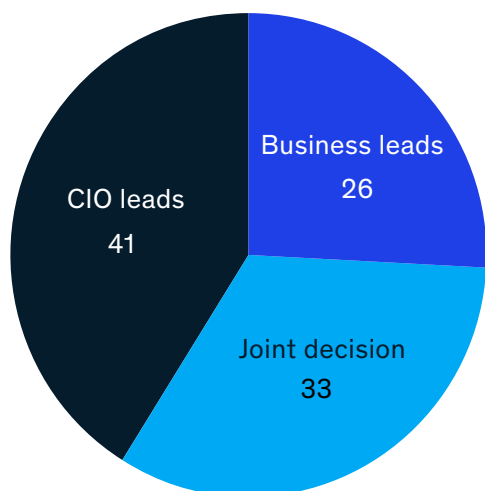
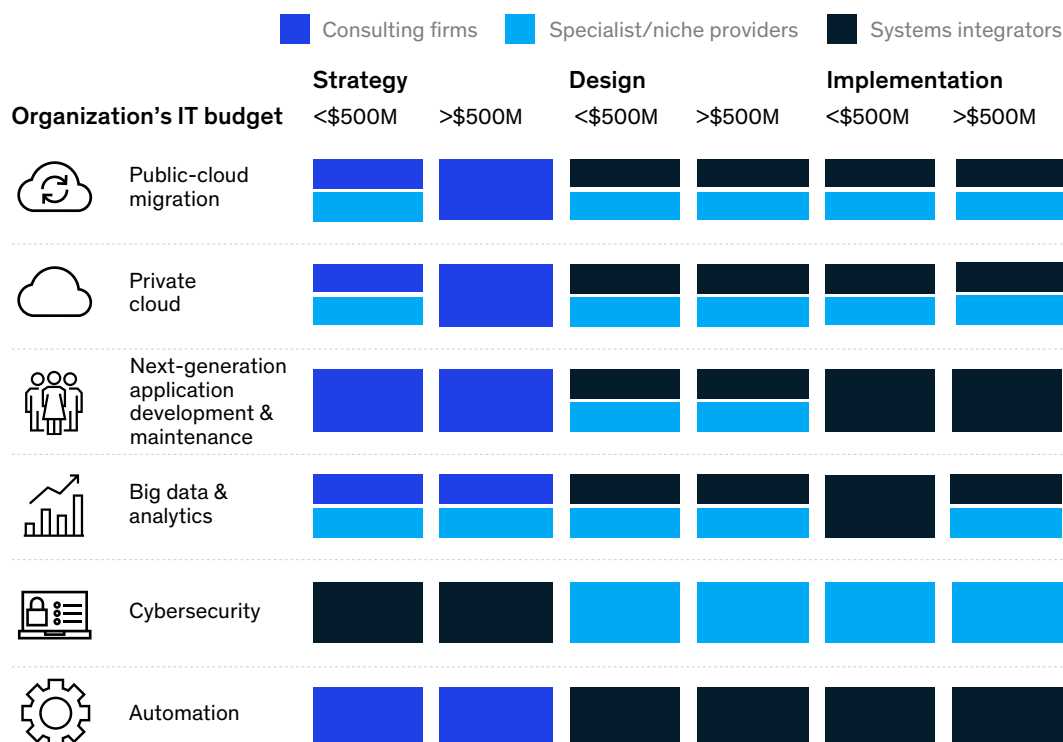IT providers have a good starting point. When we asked CIOs about where IT providers deliver value, designing and executing digital transformations came out on top (above 4.0 on a 5.0 satisfaction scale). To succeed going forward, IT providers need to ensure these transformations align with and deliver business outcomes.

With greater choice, organizations are rethinking their provider portfolio

Traditional players, such as large systems integrators (SIs), have enjoyed market dominance over other IT providers for a while. However, as CIOs look for more specialized talent and capabilities, niche providers, in particular, have the potential to plug gaps in talent and innovation where traditional large-scale providers fall short (Exhibit 5). Said one of the surveyed CIOs: "For analytics, traditional SIs play the role of flex capacity; if we need data scientists, we go to specialists."

Exhibit 5

Who is your preferred provider?

Legend: ■ Consulting firms ■ Specialist/niche providers ■ Systems integrators

Organization's IT budget	Strategy <$500M	Strategy >$500M	Design <$500M	Design >$500M	Implementation <$500M	Implementation >$500M
Public-cloud migration	Consulting firms, Specialist/niche providers	Consulting firms	Systems integrators, Specialist/niche providers	Systems integrators, Specialist/niche providers	Systems integrators, Specialist/niche providers	Systems integrators, Specialist/niche providers
Private cloud	Consulting firms, Specialist/niche providers	Consulting firms	Systems integrators, Specialist/niche providers	Systems integrators, Specialist/niche providers	Systems integrators, Specialist/niche providers	Systems integrators, Specialist/niche providers
Next-generation application development & maintenance	Consulting firms	Consulting firms	Systems integrators, Specialist/niche providers	Systems integrators, Specialist/niche providers	Systems integrators	Systems integrators
Big data & analytics	Consulting firms, Specialist/niche providers	Consulting firms, Specialist/niche providers	Systems integrators, Specialist/niche providers	Systems integrators, Specialist/niche providers	Systems integrators	Systems integrators, Specialist/niche providers
Cybersecurity	Systems integrators	Systems integrators	Specialist/niche providers	Specialist/niche providers	Specialist/niche providers	Specialist/niche providers
Automation	Consulting firms	Consulting firms	Systems integrators	Systems integrators	Systems integrators	Systems integrators

Specialist/niche providers are making significant inroads and establishing themselves as serious contenders. While working with niche providers requires more trial and error than working with traditional SIs, CIOs said the outcomes often justify it. CIOs would do well, therefore, to seriously consider the new players on the chessboard as they redesign their partnerships portfolio for the long game.

The relationship between IT organizations and service providers is profoundly changing. Leaders are looking to IT providers to bring to the table talent and innovation while continuing to deliver on cost. More than ever, leaders have at their disposal a diverse bench of partners, including niche and specialist providers, that are hungry to distinguish themselves from their peers.

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