

10 IT Due Diligence Trends from 2024



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INTRODUCTION

PIP conducts technology diligence for hundreds of clients each year, giving us unique insights into trends relevant to middle-market and private equity-owned companies. We've compiled and ranked those insights to show you what's moving in your world. We identified 10 trends that you need to recognize and address in 2025:

1. Improving Cybersecurity Posture
2. MDM - Data Usability + Digital Enablement
3. Overreliance on Manual Processes & Systems
4. End-of-life (EOL) Systems Restricting Scalability & Security
5. Reporting Gaps
6. Scalability via Modernized Systems
7. Scaling Without IT Leadership
8. IT Personnel & Vendors
9. Impact of Misaligned IT Infrastructure & Benefits of Rightsizing
10. Lack of Scalable IT Operating Model

Improving Cybersecurity Posture

As cyber threats grow in sophistication and frequency, enhancing cybersecurity posture is no longer optional—it's a strategic imperative. For middle-market and private equity-owned companies, where digital transformation is accelerating and data is increasingly critical to

operations, even a short-lived breach can have long-lasting impacts on valuation, operations, and reputation.

Despite the heightened risk, many companies still underestimate foundational aspects of cyber preparedness. Whether due to limited internal resources, blind reliance on third-party providers, or the absence of strategic oversight, these gaps can leave businesses vulnerable to costly and avoidable disruptions.

Top 3 most common gaps:

1. Lack of a data recovery & resilience plan to recover from an attack
2. Overreliance on MSPs without validating whether there are gaps in their deployed security protections
3. Lack of strategic oversight or leadership of the cybersecurity plan

What does it mean for you?

- The average cost of a data breach in companies with 500 employees or less increased from \$2.9m in 2022 to **over \$3.4m** in 2023, with an average of **\$700K in lost business**
- The average time to identify a breach is **194 days**, while the average lifecycle of a breach is **292 days**
- In 2023, security breaches saw a **72% increase** from 2021, which held the previous all-time high
- US cyber insurance premiums surged **50%** since 2022 for premiums collected from policies written by insurers

MDM - Data Usability + Digital Enablement

Effective Master Data Management (MDM) is critical for accurate operational and financial insights and to ensure readiness for significant business changes. For example, underestimating the importance of clean and accurate master data is the leading cause of ERP implementation delays or failures.

What Master Data Management Can Do:

1. **Boost Revenue:** Align data to support organic growth strategies – like optimizing logistics, accurately predicting market trends, and enhancing customer targeting
2. **Enhance Operational Efficiency:** MDM can reduce operational costs and accelerate time-to-market by up to 20%.
3. **Improve Customer Experience:** Meet increasing demand with accurate data and insights.
4. **Foundation for AI:** MDM is a foundational building block for supporting an AI use case

What does it mean for you?

- By prioritizing MDM, companies can enhance valuation, meet compliance requirements, and enable consistent insights across departments. Waiting to address data quality often leads to missed opportunities and hidden value leaks.

Overreliance on Manual Processes & Systems

Despite advancements in automation and digital tools, many middle-market and private equity-backed companies still rely heavily on manual processes that introduce inefficiency, inconsistency, and risk. These outdated workflows often act as hidden anchors, slowing growth and scaling efforts, while making businesses more vulnerable to errors, attrition, and operational blind spots.

As companies look to increase profitability and maximize enterprise value, reducing manual effort through strategic automation can unlock significant performance gains across the organization—from finance to operations to customer service.

Most Common Gaps:

Manual processes create inefficiencies, including:

1. **Time-consuming tasks that prevent focus on value-add initiatives:** A recent survey of 280 U.S. companies found that 62% of business owners identified three or more major inefficiencies in their manual processes that could be resolved with automation.
2. **Overreliance on employee knowledge, creating risks if they leave:** Inaccurate data costs U.S. businesses \$3 trillion annually, highlighting the risks associated with dependence on individual employee knowledge.
3. **Higher costs and lower productivity:** Task switching leads to a 40% productivity loss, which can be mitigated by automating routine processes.
4. **Limited scalability as companies grow:** 57% of employers intend to use automation to increase employee productivity and performance, addressing scalability challenges.

What does it mean for you?

- **Optimized Inventory:** Reduces capital investment while preventing stockouts and surpluses
- **Cost Savings:** Lowers direct costs and increases operating margins
- **Increased Efficiency:** Runs longer and faster without fatigue, boosting output
- **Consistent Quality:** Reduces human error for reliable product standards
- **ROI on Investment:** Initial costs are offset by EBITDA benefits within a few years
- **Minimized Errors & Rework:** Saves material costs and time. Automating financial processes

End-of-life (EOL) Systems Restricting Scalability & Security

When a system within a company's IT environment reaches "end of life" (EOL), it means the manufacturer no longer provides updates or support. This can lead to significant risks and vulnerabilities, expose the company to cyber threats, and potentially impact business continuity.

Key impacts of using end-of-life systems:

- Security risks:
 - The most critical impact is the heightened vulnerability to cyberattacks as outdated systems lack the latest security patches, making them easy targets for hackers.
- Compliance concerns:
 - Depending on industry regulations, using EOL systems can lead to non-compliance, potentially resulting in fines and legal repercussions.
- Operational disruptions:
 - Without updates and support, EOL systems can experience malfunctions and unexpected failures, causing downtime and hindering business operations. This problem can compound as the company inorganically scales.
- Maintenance costs:
 - Even if a system still functions, maintaining EOL technology can become increasingly costly as finding compatible parts or expertise may become difficult. Some mid-market companies report spending 75% of their IT budget on maintenance alone.
- Performance issues:
 - Older technology may be unable to handle modern workloads, leading to slow performance and operational inefficiencies. This can cause serious delays in executing a growth plan, especially one involving value creation from digital assets.

What to do about EOL systems:

- Assess current state & develop an upgrade roadmap
 - Conduct a thorough analysis of the potential risks associated with using EOL systems within your IT environment. The best practice is to proactively plan for system upgrades before reaching EOL, migrating to newer versions with better security and functionality.
- Evaluate migration options:
 - Consider cloud-based services that could replace the outdated system and make future updates & patches automatically. However, any migration should be supported by a strong business case and implementing proper cloud spending (FinOps) controls.
- Vendor communication:
 - Stay informed about upcoming EOL dates from your technology vendors and plan accordingly.

Reporting Gaps

These businesses often lack the resources to implement robust reporting systems, leading to incomplete or delayed financial data, and impacting the month-end close period. This deficiency hinders effective decision-making and strategic planning.

A study revealed that middle-market firms facing significant uncertainty due to inadequate reporting and data analysis lost an average 7% of their annual revenue. Factors contributing to the cost include missed opportunities, reduced profit margin, excess inventory costs, and inability to forecast accurately. This financial strain can impede growth and competitiveness.

Effective ways to minimize reporting gaps through systems and technology:

- Cloud-Based Accounting and ERP Systems:
 - Automate data collection, analysis, and reporting processes
 - Ensure real-time access to financial information
 - Reducing human error with key systems
- Business Intelligence (BI) Tools:
 - Aggregate data from multiple sources
 - Visualize key performance indicators (KPIs) through interactive dashboards
 - Improve decision-making with real-time insights and data-driven forecasts
- AI-Powered Analytics and Machine Learning:
 - Identify patterns and generate predictive financial models
 - Streamline tasks such as data entry and reconciliation
 - Gain proactive insights into potential financial issues, improving forecasting and strategic planning

Scalability via Modernized Systems

Scalability is a critical value driver for private equity-backed businesses—but legacy systems often stand in the way. As companies grow through organic expansion or acquisition, outdated technology can quickly become a liability, creating bottlenecks, driving up costs, and limiting the ability to respond to changing market conditions.

Modernizing core systems isn't just an IT upgrade—it's a strategic enabler of growth. Scalable, integrated platforms allow businesses to operate more efficiently, make faster decisions, and adapt with agility—ultimately driving higher margins, improved performance, and increased enterprise value.

Most Common Gaps

Failing to modernize systems creates significant challenges, including:

- **Operational Bottlenecks:** Legacy systems lack the agility needed to support business growth. A recent study found that 55% of IT leaders cite outdated technology as the biggest obstacle to scaling operations efficiently.
- **Rising Costs & Maintenance Issues:** Companies using outdated software spend up to 80% of their IT budgets on maintenance alone, diverting resources from innovation and growth.
- **Data Silos & Inefficiencies:** Businesses with fragmented systems see 30% slower decision-making due to poor data accessibility, limiting responsiveness to market changes.
- **Security & Compliance Risks:** Older systems are three times more likely to experience security breaches, increasing the risk of operational disruptions and reputational damage.

What Does It Mean for You?

Investing in modern, scalable systems provides:

- **Increased Agility:** Easily adapt to market changes and expansion without system constraints.
- **Cost Efficiency:** Reduce IT overhead and free up capital for strategic initiatives.
- **Enhanced Productivity:** Streamline operations, reducing time spent on redundant tasks by up to 50%.
- **Stronger Security:** Minimize vulnerabilities and ensure compliance with evolving regulations.
- **Improved Data-Driven Decisions:** Centralized systems provide real-time insights, boosting operational effectiveness.

Scaling Without IT Leadership

Many SMBs we reviewed operate without dedicated IT leadership, which can create risks and limit growth potential as companies scale.

Portfolio company founders and management teams wear many hats, from overseeing operations to managing marketing strategies. One critical area that often gets overlooked is technology. In today's digital age, having a solid IT strategy isn't just a luxury—it's a necessity for growth. However, many small businesses face the challenge of scaling without a dedicated IT leader.

- Security Risks and Data Breaches
 - Small businesses are prime targets for hackers because they often lack the sophisticated security infrastructure larger companies have. An IT leader can prioritize and enable cybersecurity protocols to protect sensitive customer data, implement secure systems, and ensure compliance with ever-evolving regulations.
- Inefficient Use of Technology
 - Many small businesses make the mistake of investing in technology without fully understanding how to leverage it. An IT leader can identify the right tools, streamline operations, and ensure your technology infrastructure aligns with your business needs.
- Scalability Challenges
 - As your business grows, so does your need for more robust IT systems. Whether it's managing increasing customer data, upgrading your network, or integrating new software, an IT leader ensures your technology infrastructure scales seamlessly.
- Lack of Strategic Vision
 - Technology plays a vital role in driving business growth, but it needs to be part of a broader strategic vision. An IT leader can guide your digital transformation efforts, from optimizing internal workflows to exploring new revenue streams through technology.

What does it mean for you?

For small businesses, hiring a full-time IT leader might not always be feasible. Fortunately, partnering with a fractional CTO can be an effective solution. They offer the expertise needed to manage your technology needs without the overhead costs of a full-time hire.

By addressing your IT challenges early on, you can position your business for sustainable growth and avoid costly setbacks. Don't let technology be a barrier—make it your competitive advantage.

IT Personnel & Vendors

Having the right IT personnel and an effective Managed Service Provider (MSP) offers several key benefits to a growing business. With skilled IT staff and the support of an MSP, the business can ensure that its technology infrastructure to support secure and scalable growth.

Limited technology personnel and not having the right vendors, such as a Managed Service Provider (MSP), can pose significant challenges to a growing business owned by private equity, including

- **Operational Inefficiencies:** Limited IT staff and/or the absence of an MSP can lead to delays in system maintenance, missed opportunities for technological improvements, and operational bottlenecks.
- **Security & Compliance Risks:** Without an MSP's support, businesses face increased vulnerability to data breaches, security threats, and compliance failures, especially as the company grows.
- **Inability to adapt to changing technologies:** A lack of dedicated personnel and proper vendor relationships hinders long-term technology planning, preventing the business from leveraging new tools or effectively automating processes.
- **Vendor Cost Challenges:** Without the right IT Organizational mix, businesses may struggle with managing multiple technology providers, resulting in inefficiencies, higher costs, and poor service quality.
- **Impact on Business Value:** As PE aims to optimize value, limited tech resources and ineffective vendor relationships may reduce the company's competitiveness and impact its valuation during an exit, potentially delaying or lowering the sale price

McKinsey & Company states that businesses investing in advanced IT infrastructure and technology partnerships see 20-30% higher profit margins and better scalability. With private equity owners often focused on optimizing value and preparing for exit opportunities, the risks of limited technology personnel are compounded by the pressure to improve performance quickly. Technology can become a key differentiator in achieving operational excellence and securing a competitive advantage.

Impact of Misaligned IT Infrastructure & Benefits of Right-Sizing

As companies scale and evolve, IT infrastructure must keep pace. Yet many middle-market and private equity-owned businesses operate with infrastructure that's either overbuilt and costly, or underpowered and limiting—both of which hinder performance, agility, and enterprise value.

Misaligned infrastructure quietly erodes ROI, drains budgets, and introduces operational and compliance risks. Right-sizing—aligning IT capacity with actual business needs—unlocks efficiency, enhances scalability, and ensures systems are built to support growth rather than restrain it.

Most Common Gaps

Failing to optimize IT infrastructure creates significant challenges, including:

- **Overprovisioning & Unnecessary Costs:** Many companies overspend on IT resources they don't fully utilize—research shows that up to 30% of cloud expenses are wasted.
Under provisioning & Performance Issues: Systems that lack sufficient capacity lead to slowdowns, downtime, and poor user experiences, hindering operational efficiency.
- **Scalability Constraints:** Rigid infrastructure makes it difficult to scale up or down based on business needs, leading to inefficiencies and missed opportunities.
- **Security & Compliance Risks:** Misaligned infrastructure can expose gaps in security and compliance, increasing vulnerability to cyber threats and regulatory penalties.

What Does It Mean for You?

Right-sizing your IT infrastructure provides:

- **Cost Optimization:** Reduce non-essential IT spend and reallocate budget toward growth initiatives.
- **Improved Performance:** Ensure systems are equipped to handle workloads efficiently, enhancing productivity. Studies have shown 79% have improved performance and agility with right sized infrastructure.
- **Scalability & Flexibility:** Adjust resources dynamically as your business evolves, avoiding costly overhauls.
- **Stronger Security & Compliance:** Align infrastructure with best practices to minimize risk and maintain regulatory standards.
- **Greater Operational Resilience:** Reduce downtime and ensure seamless business continuity.

Lack of Scalable IT Operating Model

In the world of middle market companies, growth often outpaces structure—especially when it comes to IT. While scrappy, reactive approaches can work in the early stages, they quickly become a liability as companies scale. Whether expanding organically or through acquisition, the absence of a scalable IT operating model becomes impossible to ignore.

This issue surfaces repeatedly in diligence: operational gaps, unsupported systems, and missed opportunities for value creation. It's not just a technology problem—it's a barrier to growth, integration, and long-term enterprise value.

Most companies in this segment have grown without formal IT leadership, relying on a single overextended resource, a single MSP, or a reactive help desk model. It works—until it doesn't.

As soon as the company starts scaling—organically or through M&A—the cracks start to show:

- No strategic IT roadmap aligned to business objectives
- Inconsistent service delivery and support
- Ad hoc security and compliance practices
- Fragmented vendor and spend management
- Inability to support systems integration or data-driven decision-making

Developing a clear IT operating model doesn't mean adding unnecessary complexity—it means establishing structure, leadership, and discipline that can flex with the business. For PE-backed companies, this can be a powerful enabler of EBITDA expansion, integration readiness, and valuation uplift.

WRAP UP

By addressing your IT challenges early on, you can position your business for sustainable growth and avoid costly setbacks. Don't let technology be a barrier—make it your competitive advantage.

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